



S.E.C. Number CS200811530

File Number \_\_\_\_\_

**NICKEL ASIA CORPORATION**

(Company's Full Name)

**28th Floor NAC Tower, 32nd Street,**

**Bonifacio Global City, Taguig City**

(Company's Address)

**+63 2 892 6669 / +63 2 798 7622**

(Telephone Numbers)

**December 31**

(Fiscal Year Ending)

(month & day)

**SEC FORM 17-A Annual Report**

Form Type

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Amendment Delegation (If applicable)

**December 31, 2017**

Period Ended Date

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(Secondary License Type and File Number)

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-A

ANNUAL REPORT PURSUANT TO SECTION 17 OF THE SECURITIES REGULATION CODE AND SECTION 141 OF THE CORPORATION CODE OF THE PHILIPPINES

1. For the fiscal year ended: DECEMBER 31, 2017
2. SEC Identification Number: CS200811530
3. BIR Tax Identification No.: 007-085-191-000
4. Exact name of issuer as specified in its charter: NICKEL ASIA CORPORATION
5. Province, Country or other jurisdiction of incorporation or organization: PHILIPPINES
6. Industry Classification Code:  (SEC Use Only)



7. Address of principal office: 28th Floor NAC Tower, 32nd Street, Bonifacio Global City, Taguig City Postal Code: 1634
8. Issuer's telephone number, including area code: +63 2 892 6669 / +63 2 798 7622
9. Former name, former address, and former fiscal year, if changed since last report: N/A
10. Securities registered pursuant to Sections 8 and 12 of the SRC, or Sec. 4 and 8 of the RSA

| Title of Each Class    | Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding |
|------------------------|---|
| <b>Common Stock</b>    | <b>7,602,928,954 shares</b>   |
| <b>Long-term Debts</b> | <b>₱2,984.4 Million</b>   |

11. Are any or all of these securities listed on a Stock Exchange.  
Yes [  ] No [  ]

If yes, state the name of such stock exchange and the classes of securities listed therein:  
PHILIPPINE STOCK EXCHANGE Common Stock

12. Check whether the issuer:
- (a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17.1 thereunder or Section 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of The Corporation Code of the Philippines during the preceding twelve (12) months (or for such shorter period that the registrant was required to file such reports);  
Yes [  ] No [  ]
- (b) has been subject to such filing requirements for the past ninety (90) days.  
Yes [  ] No [  ]

13. State the aggregate market value of the voting stock held by non-affiliates of the registrant.

As at December 31, 2017, 1,410,347,064 shares with a market price of ₱6.33 or an aggregate amount of ₱8,927,496,915 were held by non-affiliates.

April 3, 2018

**Mr. Jose Valeriano B. Zuño III**

OIC - Head, Disclosure Department  
The Philippine Stock Exchange, Inc.  
3/F Philippine Stock Exchange Plaza  
Ayala Triangle, Ayala Avenue  
Makati City

**Mr. Vicente Graciano P. Felizmenio, Jr.**

Director - Markets and Securities Regulation Department  
Securities and Exchange Commission  
Secretariat Building, PICC Complex  
Roxas Boulevard, Pasay City

RE : 2017 SEC Form 17-A Annual Report

x ===== x

Gentlemen:

In accordance with the Securities Regulation Code, we are submitting herewith a copy of our Company's SEC Form 17-A Annual Report as at and for the year ended December 31, 2017.

We trust everything is in order.

Very truly yours,

  
**Emmanuel L. Samson**  
SVP - Chief Financial Officer



**NICKEL ASIA CORPORATION  
17-A ANNUAL REPORT 2017**

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## PART I – BUSINESS AND GENERAL INFORMATION

### Item 1. BUSINESS

#### A. OVERVIEW

Nickel Asia Corporation (“the Company, Parent Company, NAC”) was incorporated on July 24, 2008 with the Philippine Securities and Exchange Commission (SEC) and was listed with the Philippine Stock Exchange on November 22, 2010.

We export saprolite and limonite ore to customers in Japan, China and Australia. Our customers use our ore for the production of ferronickel and nickel pig iron (NPI), both used to produce stainless steel, and for the production of pig iron used for carbon steel. We are also the exclusive supplier of limonite ore from our Rio Tuba mine to the country’s first hydrometallurgical nickel processing plant owned by Coral Bay Nickel Corporation (CBNC), where we have a 10% equity interest. CBNC became operational in 2005 and currently operates at a capacity of 24,000 tonnes of contained nickel and 1,500 tonnes of contained cobalt per year in the form of a mixed nickel-cobalt sulfide. It has proven to be the world’s most efficient facility using the high-pressure acid leach (HPAL) process.

In 2010, we made an investment of ₱4.4 billion for a 22.5% equity interest in the country’s second hydrometallurgical nickel processing plant under Taganito HPAL Nickel Corporation (THNC). The plant started its commercial operation in October 2013, and currently operates at a capacity of 30,000 tonnes of contained nickel and 1,500 tonnes of contained cobalt per year in the form of a mixed nickel-cobalt sulfide. Our Taganito mine supplies all of the limonite ore for the plant. At a total project cost of US\$1.7 billion, the plant represents the single largest investment in the Philippine minerals sector.

In 2016, the Parent Company made a strategic decision to reduce our ownership in the Taganito plant from 22.5% to 10.0%, the same equity level that we have in the Coral Bay plant. While the Taganito and Coral Bay plants are globally recognized to be of the highest quality and operating efficiency, as with most other nickel processing plants worldwide, profitable operations cannot be achieved at current low nickel prices, while the Taganito plant in particular requires further shareholder funding in order to complete a number of capital expenditure projects in the pipeline.

The reduction in our equity was achieved by a sale of shares to the majority owner of the plant and one of our major shareholders, Sumitomo Metal Mining Co., Ltd. (SMM). The sale, concluded on October 17, 2016, resulted in an inflow of ₱2,037.2 billion and a gain of ₱239.6 million.

Apart from our four operating mines, we have other properties in various stages of exploration for nickel, while continuing to seek opportunities in copper and gold. In November 2010, we concluded the purchase of Cordillera Exploration Co., Inc. (CExCI) from Anglo American Exploration (Philippines), Inc. (Anglo American), with four properties in the Central Cordillera of northern Luzon that are prospective for gold and copper. The purchase marks our first step in our vision to become a diversified mineral resource company. In November 2011, SMM acquired 25% equity in CExCI with an option to purchase additional shares to increase its total equity to 40%.

In 2015, CExCI identified a new property in the province of Zambales for exploration and development under Newminco Pacific Mining Corporation (Newminco), which is also prospective for gold and copper. In relation to this, SMM put an additional investment of US\$2.8 million to increase its ownership in CExCI from 25% to 40%. Newminco is the holder of exploration permit (EP) of areas located in Zambales.

In August 2015, we also concluded the purchase of 100% equity interest in Geogen Corporation (Geogen), which is the claim owner of the Isabela Nickel Project in Dinapigue, Isabela.



We also moved into the area of renewable energy and power generation. We are completing the construction of a 10 megawatts (MW) diesel power plant at a cost close to ₱900.0 million. Power will be sold to the Surigao del Norte Electric Cooperative, Inc. under a Power Supply Agreement. The plant is designed to alleviate the shortage of power particularly in Surigao City, and expected to be operational in 2018.

Our entry into the renewable power business was formalized in 2015 with the conversion of a ₱446.0 million loan to equity and an additional equity infusion of ₱474.0 million, which correspond to an equity ownership in Emerging Power, Inc. (EPI) of 66%. In 2016, the Parent Company subscribed to additional common shares of EPI for ₱660.0 million and this increased the Parent Company's equity interest in EPI to 70.92%. As at December 31, 2017, the Parent Company's equity interest in EPI stood at 86.29% as a result of fresh equity infusion of ₱1.5 billion in September 2017.

EPI's mission is to engage in power generation exclusively from renewable sources. EPI has a number of Renewable Energy Service Contracts, principally a 100 MW solar and 50 MW wind service contract under Jobin-SQM, Inc. (Jobin), located in the Subic Bay Freeport Zone; two geothermal service contracts under Biliran Geothermal, Inc. (BGI), in the province of Biliran, Leyte; and a geothermal service contract under Mindoro Geothermal Power Corp. (MGPC) in Naujan, Oriental Mindoro.

Jobin completed 32 MW of solar power early in 2017. In the absence of a new feed-in-tariff by government, a decision has been made to suspend any further development work until power sales contracts are obtained.

With respect to Biliran geothermal project, where five (5) wells have been drilled by EPI's 40% partner, Biliran Geothermal Holdings, Inc., fluid management studies have been completed on one particular well, with positive results with respect to acid control. Given this outcome, a decision has been made to proceed with the first 5 MW plant once Power Sales Agreements have been obtained. It is expected that this first plant will be operational in 2018.

In the Montelago project, the two (2) geothermal wells drilled in 2016 have not reached sufficiently high temperatures to warrant moving ahead to development. Various options are currently being considered in order to drill the northern portion of the geothermal field.

In 2017, we saw continued developments in the following areas:

Jobin has fine-tuned its Operations & Maintenance, keeping a lean team that is performing at and above solar energy industry standards. With its existing 32 MW solar energy facility running smoothly for over a year, and its infrastructure (i.e. transmission, substations, roads, warehouse, site office, etc) is in place. Jobin has no interconnection congestion issues, as it is the only renewable energy facility that is connected to the main Philippine Grid via a 230 kV transmission line. Jobin has been selling its electricity output via the Wholesale Electricity Spot Market (WESM) since its commercial operations date, and the actual average for 2017 was higher than solar off-take agreements being closed at this same time period. Once higher than spot market off-take agreements are in place, Jobin is primed to continue solar/wind equipment installation and scale up fast

MGPC's northern portion of its exclusive service contract area has undergone a more detailed assessment in 2017 by GeothermEx – a leading American geothermal advisory firm. They have also confirmed that the existing wells in the southern portion can net out at least 3.5 MW of power. Combined with their assessment for the northern portion of net capacity of at least 18 MW, MGPC may be commercially operational within 3 years' time. EPI has been in discussions with a few rare groups familiar with geothermal investments to strategize how to further minimize drilling risk. Once firm, this wholly owned EPI subsidiary is poised to deliver much needed power to the island grid of Mindoro.

BGI successfully split its existing Geothermal Renewable Energy Service Contract (GRES) into two in 2017. Where GRES previously almost covered the entire island province of Biliran, the new setup delineates the southern portion as Biliran 1 and the northern portion as Biliran 2. Biliran 1 covers the existing developed infrastructure (i.e., 4 well pads, 8 standard deep wells, roads, etc) and has a Probability-90 Assessment that confirms a 100 MW capacity. Biliran 2 is the yet-to-be-developed area save for surface studies and a Probability-50 Assessment of some 170 MW capacity. This delineation allows BGI to focus on the more immediately executable Biliran 1 and gives BGI more time to develop Biliran 2. For the rest of 2017, Biliran 1 continued its facility maintenance and Biliran 2 has begun its Information Education and Communication Campaign with its local communities and the local government unit (LGU), reconnaissance surveys, and acquisition of permits.

With our foray into the area of renewable energy, we are slowly becoming a group more focused on harnessing the potential of our natural resources to benefit our communities and the country in general.

Fundamental to the way we do business as a responsible corporate citizen is our commitment to operate in a sustainable manner, protecting the environment, nurturing active communities and ensuring the safety and well-being of everyone involved in our operations. For this we have been recognized time and again, by the Government, the industry and by other award-giving bodies.

As an evolving natural resources company, we are committed to responsible mining and to the highest standards in everything that we do.

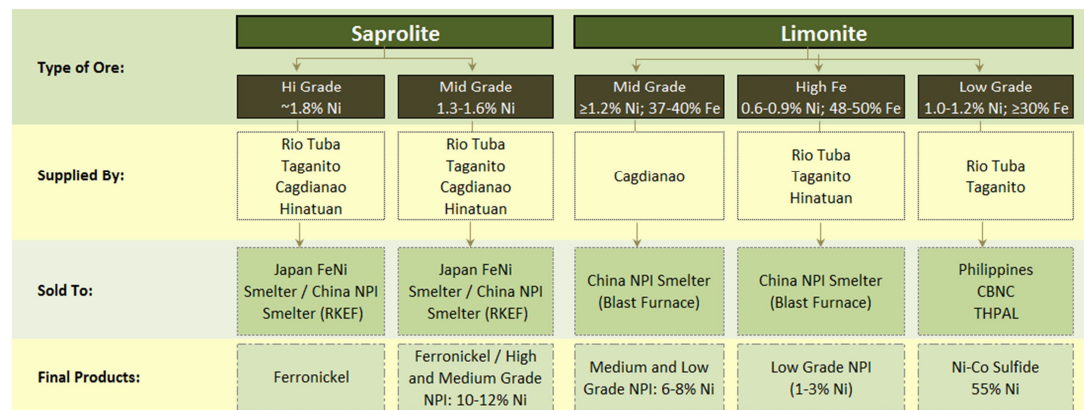
**B. CORPORATE OBJECTIVE**

We are focused on growth. At the same time, we take our responsibilities toward safety, environmental protection, community relations and development seriously. We believe that sustainable development is the only way forward for any mining operation and we exert great effort to achieve its principles. We are committed to responsible mining and to running every facet of our operations in a world-class manner.

We are also committed to provide the present and future generations a better life with clean and renewable energy which is cost effective, reliable, sustainable, and environmentally friendly.

**C. PRODUCT MIX**

We produce two types of nickel ore, namely saprolite and limonite. We define saprolite as nickel ore with iron content of less than 20% and limonite as nickel ore with iron content of 20% or higher.



We ship out two types of saprolite ore: high-grade and midgrade. High-grade saprolite has a nickel content of about 1.8% and above while mid-grade saprolite ore has a nickel content of between 1.3% to 1.6%.

Most of our high-grade saprolite ore were sold to Pacific Metals Co., Ltd. (PAMCO), who use the material as feed for its ferronickel smelters. Our mid-grade saprolite ore were sold to Japanese and Chinese clients. Our Chinese clients use the material as feed for electric furnaces for the production of high and medium-grade NPI.

We sell three types of limonite: mid-grade, high-iron, and low-grade. Mid-grade limonite ore has a nickel content of between 1.2% to 1.25% and an iron content of 37% to 40%. High iron limonite ore has a nickel content of less than 1% and an iron content of 48% to 50%. Low-grade limonite ore has a nickel content of 1.0% to 1.2% and an iron content of at least 30%.

Our mid-grade limonite ore were sold to Chinese customers who use the material as feed for blast furnaces for the production of medium-grade NPI. We also sold this material to an Australian customer, Queensland Nickel Pty. Ltd., which uses the material as feed for its nickel and cobalt refinery. Our high-iron limonite ore was sold to Chinese customers who use the material as feed for blast furnaces for the production of low-grade NPI. Finally, low-grade limonite ore from Taganito and Rio Tuba were utilized as feed for the Taganito and Coral Bay HPAL plants, respectively.

#### D. SUBSIDIARIES

The Parent Company and its subsidiaries were separately incorporated and registered with the SEC. Below are the Parent Company's ownership interests in its subsidiaries:

|   | Effective Ownership |         |
|---|---------------------|---------|
|   | 2017                | 2016    |
| <i>Subsidiaries</i>   |                     |         |
| Hinatuan Mining Corporation                                 | <b>100.00%</b>      | 100.00% |
| Cagdianao Mining Corporation                                | <b>100.00%</b>      | 100.00% |
| Samar Nickel Mining Resources Corporation                   | <b>100.00%</b>      | 100.00% |
| La Costa Shipping and Lighterage Corporation <sup>(a)</sup> | <b>100.00%</b>      | 100.00% |
| (Forward)   |                     |         |
| Geogen Corporation  | <b>100.00%</b>      | 100.00% |
| Falck Exp Inc. <sup>(b)</sup>                               | <b>88.00%</b>       | 88.00%  |
| Cordillera Exploration Co., Inc.                            | <b>71.25%</b>       | 71.25%  |
| Newminco Pacific Mining Corporation <sup>(c)</sup>          | <b>71.25%</b>       | 71.25%  |
| Taganito Mining Corporation                                 | <b>65.00%</b>       | 65.00%  |
| Rio Tuba Nickel Mining Corporation                          | <b>60.00%</b>       | 60.00%  |
| Emerging Power Inc.   | <b>86.29%</b>       | 70.92%  |
| Mindoro Geothermal Power Corporation <sup>(d)</sup>         | <b>86.29%</b>       | 70.92%  |
| Manta Energy, Inc. <sup>(d)</sup>                           | <b>86.29%</b>       | 70.92%  |
| Biliran Holdings Inc. <sup>(d)</sup>                        | <b>86.29%</b>       | 70.92%  |
| Jobin-SQM, Inc. <sup>(d)</sup>                              | <b>86.29%</b>       | 70.92%  |
| Biliran Geothermal Inc. <sup>(d)</sup>                      | <b>51.77%</b>       | 42.55%  |
| Mantex Services, Inc. <sup>(d)</sup>                        | <b>43.15%</b>       | 35.46%  |

(a) Indirect ownership through HMC

(b) Indirect ownership through HMC, CMC and TMC

(c) Indirect ownership through CExCI

(d) Indirect ownership through EPI

#### Hinatuan Mining Corporation

HMC was incorporated on October 9, 1979 and was granted rights over the Taganaan property in 1980. Development of the property commenced in 1981 and the first commercial shipment from the Taganaan mine was made in 1982. The size of the property was expanded in 1983 with the acquisition of additional claims on adjacent properties.

#### Cagdianao Mining Corporation

CMC was incorporated on July 25, 1997 and acquired the right to operate the Cagdianao mine in 1998.

#### Samar Nickel Mining Resources Corporation (SNMRC)

SNMRC was incorporated on March 11, 2010, and is primarily engaged in the exploration, mining and exporting of mineral ores. SNMRC has not yet started commercial operations.

#### La Costa Shipping and Lighterage Corporation (LCSLC)

LCSLC was incorporated on October 23, 1992, and is primarily engaged in the chartering out of Landing Craft Transport (LCT) and providing complete marine services. LCSLC was acquired by HMC in April 2010. In May 2014, LCSLC sold all of its LCTs to HMC for a consideration.

#### Geogen Corporation

Geogen was incorporated on October 9, 1998, and is primarily engaged in the exploration, exploitation and mining of metallic and non-metallic minerals, including, but not limited to, nickel, iron, cobalt, chromite and other associated mineral deposits. Geogen was acquired by the Parent Company in August 2015. Geogen has not yet started commercial operations.

On March 5, 2018, the SEC approved Geogen's application to change its corporate name to Dinapigue Mining Corporation.

#### Falck Exp Inc. (FEI)

FEI was incorporated on November 22, 2005, and is primarily engaged in the business of exploring, prospecting and operating mines and quarries of all kinds of ores and minerals, metallic and non-metallic. FEI is currently on a dissolution phase.

#### Cordillera Exploration Co., Inc.

CExCI was incorporated on October 19, 1994 primarily to engage in the business of large-scale exploration, development and utilization of mineral resources. CExCI has a number of mining properties at various stages of exploration. It is currently not engaged in any development or commercial production activities.

#### Newminco Pacific Mining Corporation

Newminco was incorporated on October 9, 2006 and is primarily engaged in the exploration, mining, development, utilization, extraction, beneficiation and marketing of minerals and mineral resources. Newminco was acquired by CExCI in December 2015.

#### Taganito Mining Corporation

TMC was incorporated on March 4, 1987, and is primarily engaged in the mining and exporting of nickel saprolite and limonite ore, and exploration activities. The first commercial shipment from the Taganito mine was made in 1989. TMC also provides services to THNC which involves the handling, hauling and transportation of materials required in the processing operations of THNC.

#### Rio Tuba Nickel Mining Corporation

RTN was incorporated on July 15, 1969 to develop the nickel ore deposits discovered at the Rio Tuba mine site in 1967. It was granted rights over the Rio Tuba property in 1970 and commenced mining in 1975. RTN made its first commercial shipment in 1977. RTN also provides non-mining services required in the processing operations of CBNC.

#### Emerging Power Inc.

EPI was incorporated on October 16, 2007, and is primarily engaged in the renewable energy business. EPI was acquired by the Parent Company by way of loan conversion into equity in July 2015. EPI is the holder of GRESC No. 2014-02-054. On February 16, 2016, the Department of Energy (DOE) approved EPI's application to assign its rights and obligations under the GRESC to MGPC under Certificate of Registration No. 2016-02-060.

#### Mindoro Geothermal Power Corporation

MGPC was incorporated on May 7, 2014, and is primarily engaged in the renewable energy business. MGPC project is estimated to supply 40 MW of power over twenty five (25) years.

#### Manta Energy Inc. (MEI)

MEI was incorporated on May 21, 2007, and is primarily engaged in power business, including but not limited to power generation, power trading and supply to retail customers and end users. On July 5, 2016, the Energy Regulatory Commission (ERC) approved MEI's registration as Registered Electric Supplier for a period of five (5) years, and renewable thereafter.

#### Biliran Holdings Inc. (BHI)

BHI was incorporated on July 31, 2015, and is primarily engaged in investing in and holding of assets of every kind and description, as and to the extent permitted by law. It is also registered, within the limits prescribed by law, to engage in the business of infrastructure, power generation, real estate, manufacturing, trading and agribusiness and to pay other evidences of indebtedness or securities of this or any other corporation.

#### Jobin-SQM, Inc.

Jobin was incorporated on January 6, 2010, and is primarily engaged in power business, including but not limited to power generation, power trading and supply to retail customers and end users. Jobin is the holder of Solar Energy Service Contract (SESC) No. 2013-10-039 and Wind Energy Service Contract (WESC) No. 2013-10-062 which both covers an area in the municipalities of Morong and Hermosa, Bataan. Jobin was acquired by EPI in July 2015.

#### Biliran Geothermal Inc.

BGI was incorporated on October 31, 2007. The principal activities of BGI are to explore, exploit, discover, develop, extract, dig and drill for, produce, utilize, refine, treat, process, transport, store, market, sell, use, supply, experiment with, distribute, manufacture, or otherwise deal in, any substance, minerals or otherwise, which by itself or in contribution with other substances generate or emanate heat or power and to enter into and perform service contracts including geothermal services. BGI's project, the Biliran Geothermal twenty-five (25) year concession, was estimated to supply 50 MW of power to the grid but according to research conducted by BGI, it can further produce up to 60 MW. BGI was acquired by BHI in December 2015. In 2014, BGI received the Confirmation of Commerciality for the Biliran Geothermal Project from the Philippine Government through the DOE.

#### Mantex Services Inc. (Mantex)

Mantex was incorporated on March 26, 2012. Mantex is established primarily to provide technical, financial and public relations advisory, management and investments services for infrastructure projects.

### **E. RECENT DEVELOPMENTS**

#### Additional Investment in EPI and Conversion of Loan into Equity

On August 4, 2017, the Board of Directors (BOD) of the Parent Company approved the following:

- a. Subscription to EPI's 1,190,476,190 shares at ₱1.26/share or a total of ₱1,500.0 million. The additional subscription increased the Parent Company's equity ownership in EPI from 70.92% to 86.29%.

- b. Conversion into equity of the existing loan granted by the Parent Company to EPI amounting to ₱1,500.0 million, subject to the SEC's approval of the increase in authorized capital stock of EPI.
- c. Grant of new loan facilities to EPI amounting to a total of ₱450.0 million.

Commercial Operations of Jobin's Sta. Rita Solar Power Project

Jobin completed an additional 25.19 MW last March 8, 2017. This was done using a more efficient mono crystalline solar module and at a lower cost per kilowatt hour. For the rest of the year, Jobin continuously fine-tuned its operations, security, and infrastructure. With this, the total installed capacity of Jobin's Sta Rita Solar Power Project stands at 32.33 MW.

**F. OUR STRATEGY**

Our strategy is designed to maximize the profitability of our existing base of operations while driving growth through our continuing involvement in downstream processing, exploration of our portfolio of properties, acquiring new properties and grow our renewable business. The key elements of our strategy are to:

- 1) Pursue our brownfield and greenfield exploration programs to upgrade our existing resources, and develop new reserves and resources - We have an extensive exploration program involving both brownfield exploration, which consists of work at our existing operations to extend resources and to upgrade resources to reserves; and greenfield exploration, which involves exploring and delineating nickel lateritic deposits in our existing exploration properties. We own approximately 100 man-portable drilling rigs that are suitable for drilling lateritic deposits in an economic manner.
- 2) Acquire new properties or enter into operating agreements or joint ventures - We believe that there is significant exploration potential in the Philippines for lateritic nickel deposits and we intend to seek opportunities to increase our reserves of saprolite and limonite ore. Most prospective areas in the country are already subject to registered mineral claims, so we intend to access new exploration properties by acquiring rights from, or entering into joint ventures with, the applicable claim owners. In doing so, we will carefully evaluate such properties to ensure that the terms we enter into will commensurate with the potential of the properties we seek to acquire. In 2015, the Parent Company acquired the 100% equity interest of Geogen, the claimowner of Isabela Nickel Project.
- 3) Continue with gold and copper prospects - The Philippines is well-endowed not only with lateritic nickel but also with gold and copper. World-class deposits have been discovered and substantial quantities of these metals have been mined in the past. We believe that the exploration potential nevertheless remains significant. In order to take advantage of this potential, we entered into an agreement to purchase CExCI from a subsidiary of Anglo American. CExCI has four groups of mineral claim in northern Luzon that are prospective for gold and copper mineralization. Two of these four claims are located at Mankayan and the remaining two claims are located at Manmanok property and Kutop. CExCI remains active in evaluating properties for possible acquisition. We believe that our extensive local knowledge, the experience of a number of our managers and technical staff in these metals and the quality of these properties make this acquisition an important step in our strategy to evolve into a diversified mining group. In 2015, the Parent Company acquired Newminco, which is also prospective for gold and copper, through CExCI. Newminco is the holder of an EP in the municipalities of Cabangon, San Felipe, and San Marcelino, Zambales.
- 4) Grow our renewable business - Our goal is to develop, own, and manage a portfolio of renewable power assets in the Philippines that is diversified as to market, technology and location. We believe that our entry into the power business through EPI, which will concentrate exclusively on renewable energy sources, will provide significant opportunities

to grow our revenues and sustain financial returns. At the same time, this activity will help alleviate the shortage of power in the country and contribute to economic growth in an environmentally friendly manner.

## G. KEY STRENGTH

Our company believes in its key strength, which is:

### ***Profitability underpinned by low cost production.***

The foundation of our business is our ability to operate profitably through the commodity price cycle because of our low costs. We rank favorably in terms of mining costs when compared to other nickel mining companies. There are a number of factors that account for our low cost position:

- We benefit from favorable geologic conditions at all of our four mines. Our lateritic nickel deposits are near-surface, blanket-like layered deposits with minimal overburden and generally five (5) to thirty (30) meters thick, enabling us to conduct simple contour mining using trucks and loaders without blasting, the use of chemicals or complex waste handling.
- Historically, there was generally no market for our limonite ore, which needs to first be extracted in order to mine the more valuable saprolite ore. There was also no market for lower grades of saprolite ore. Limonite ore was then regarded as overburden and placed in stockpiles, while we undertook selective mining of high-grade saprolite ore, leading to relatively high mining costs. Since 2005, we have found customers for our limonite ore with the development of the China NPI market and the commissioning of the Coral Bay HPAL facility. In 2008, we have also experienced increasing demand from our customers for our low-grade saprolite ore and in 2010, we saw an emerging demand for the use of low-nickel, high iron limonite ore for blending with iron ore in the production of carbon steel. Our ability to sell limonite ore rather than place it in stockpiles as waste, and our ability to sell lower grades of saprolite ore allows us to mine in a more efficient manner and reduces the unit cost per wet metric tonnes (WMT) of nickel ore that we mine, thus improving our profitability. The commencement of commercial operations of the Taganito HPAL facility in 2013 adds an additional outlet for our limonite ore.
- On average, the nickel deposits at our four operating mines are located within three (3) to seven (7) kilometers from the applicable tidewater loading area, enabling easy hauling and transportation by barges and LCTs to our customers' ships. We own nine (9) LCTs and eleven (11) barges and lease additional barges and LCTs as needed. The short hauling distance from our mining operations to our loading facilities substantially contributes to our favorable cost position.
- Because our lateritic nickel deposits are near surface and relatively shallow, the rehabilitation of our mining areas is a straightforward process. The process generally involves re-contouring of the mined areas, replacing the overburden and planting foliage. We undertake progressive rehabilitation of our mined areas in order to spread costs, and the nature of our deposits results in a relatively manageable level of rehabilitation costs.

## H. PERCENTAGES OF REVENUES FOR 3 YEARS

The following table summarizes percentages of our revenues by year and region for the past three fiscal years:

| Year | Japan      |           |       | China      |           |       | Philippines (CBNC and THNC) |           |       | Australia  |           |       | Total      |           |       |
|------|------------|-----------|-------|------------|-----------|-------|-----------------------------|-----------|-------|------------|-----------|-------|------------|-----------|-------|
|      | Sapro-lite | Limo-nite | Total | Sapro-lite | Limo-nite | Total | Sapro-lite                  | Limo-nite | Total | Sapro-lite | Limo-nite | Total | Sapro-lite | Limo-nite | Total |
| 2017 | 17%        | -         | 17%   | 62%        | 3%        | 65%   | -                           | 18%       | 18%   | -          | -         | -     | 79%        | 21%       | 100%  |
| 2016 | 18%        | -         | 18%   | 50%        | 18%       | 68%   | -                           | 13%       | 13%   | -          | 1%        | 1%    | 68%        | 32%       | 100%  |
| 2015 | 23%        | -         | 23%   | 39%        | 21%       | 60%   | -                           | 15%       | 15%   | 1%         | 1%        | 2%    | 63%        | 37%       | 100%  |

## I. SOURCES OF RAW MATERIALS AND SUPPLIES

The main supplies that we require to operate our business include diesel fuel, tires and spare parts for our mining equipment. We buy diesel and aviation fuel and lubricants from Petron Corporation (Petron) and/or Phoenix Petroleum Philippines, Inc. (Phoenix) and heavy mining equipment, such as trucks and excavators, from four manufacturers, Volvo, Isuzu, Caterpillar and Komatsu, through their Philippine distributors. In addition, we lease LCTs for use at our mine sites during the shipping season. We believe that there are a number of alternative suppliers for all of our requirements.

Our existing supply contract with Petron and/or Phoenix provides that they will supply the entire actual requirement of the operating companies of the group for diesel and lubricants of highest quality and based on the typical properties agreed in the contract.

Jobin has also entered into Engineering, Procurement, and Construction Management (EPC) contract with SunSource Energy Private Limited (SSEPL) for the implementation of the entire 92.86 MW phase of the Sta. Rita Solar Power Project. The scope of the service agreement between Jobin and SSEPL covers the designing, planning, engineering, procurement (manufacturing/supply), construction/erection management, testing and commissioning of the utility scale solar photovoltaic plant under Phase II.

## J. GOVERNMENT REGULATIONS AND APPROVALS

In our mining operations, we are guided by clear and stringent parameters set forth by the country's national and local laws accordingly implemented by national, regional and local agencies, namely: the DENR, the Mines and Geosciences Bureau (MGB), the Environment Management Bureau (EMB), the Protected Areas and Wildlife Bureau, and the LGU. The more significant regulations affecting our operations include the following:

### Republic Act (RA) No. 7942 (Philippine Mining Act of 1995)

- Section 69 - requires an annual Environmental Protection and Enhancement Plan (EPEP) for the rehabilitation, regeneration, revegetation, and reforestation of mineralized areas, slope stabilization of mined-out areas, aquaculture, watershed development and water conservation, and socioeconomic development
- Section 71 - requires mine rehabilitation for mined-out areas to the condition of environmental safety, and the creation of a Mine Rehabilitation Fund

### Consolidated DENR Administrative Order (CDAO) 2010-21 (CDAO for Implementing Rules and Regulation of RA No. 7942)

- Section 171 - requires an Annual EPEP (based on the approved EPEP)
- Section 173 - requires the organization of a Mine Environmental Protection and Enhancement Officer to be incorporated into the organization structure
- Section 185 - deputizes the Multipartite Monitoring Team to serve as monitoring arm, with the team composed of representatives from DENR Regional Office, Department Regional



Office, EMB Regional Office, Contractor/Permit Holder, affected community/ies, affected Indigenous Cultural Community/ies and environmental non-governmental organization (NGO)

- Section 187 - requires a Final Mine Rehabilitation/Decommissioning Plan, including financial requirements up to post-decommissioning

Executive Order (EO) No. 26 (National Greening Program) - mandatory reforestation activities outside of mining contract/permit/lease/tenement areas

RA 9003 (Ecological Solid Waste Management Program) - requires waste segregation, promotes recycling and sets guidelines for Materials Recovery Facility

RA 6969 and DAO 2013-22 - guidelines on proper handling and monitoring of toxic and hazardous waste material

RA 8749 (Philippine Clean Air Act of 1999) - framework for air quality management program

RA 9275 (Philippine Clean Water Act of 2004) - framework for comprehensive water quality management

RA 9371 (Indigenous Peoples' Rights Act) - recognition, protection and promotion of the rights of the Indigenous Cultural Communities/Indigenous Peoples

RA 9729 (Climate Change Act of 2009) - comprehensive framework for systematically integrating the concept of climate change, in synergy with disaster risk reduction, in various phases of policy formulation, development plans, poverty reduction strategies and other development tools and techniques

DAO 2004-52 - Tree cutting permit

DAO 2015-07 - mandating Mining Contractors to Secure ISO 14001 Certification  
Pursuant to the Administrative Order, NAC's operating subsidiaries, TMC, RTN, CMC, and HMC, underwent a yearlong process to identify all environmental impacts, address such impacts, document an EMS that complies with the standards, and cascade down the EMS to all employees for their full appreciation and compliance. Following two (2) audits conducted by the certifying body, TÜV Rheinland, the operating subsidiaries all received their ISO 14001 Certification in 2016.

DAO 2016-1 - prescribing for an audit of metallic mining companies by the DENR  
All our mining companies also abide by commitments stipulated in their Environmental Compliance Certificate (ECC) and specified in their approved Contractor's Plan of Mining Operation.

Electric Power Industry Reform Act (EPIRA)

This EPIRA of 2001 brought about the "Unbundling of the System". Whereas previously, all aspects of the power industry were owned by the Philippine government under the National Power Corporation (NPC), the EPIRA brought about privatization of the generation, transmission, and distribution of electricity. NPC's mandate was significantly reduced to providing electricity to more difficult to reach and off-grid areas of the country.

- The EPIRA sought to bring about:
  - Competitive Generation
  - Regulated Transmission and Distribution
  - Competitive Retail Electricity Providers
- The EPIRA established the WESM, unbundled the electricity tariff for greater transparency, and seeks to provide open access to transmission and distribution lines for all industry players.

- The EPIRA created the ERC as a purely independent regulatory body performing the combined quasi-judicial, quasi-legislative and administrative functions in the power industry. ERC is tasked to promote competition, encourage market development, ensure customer choice and penalize abuse of market power in the power industry. In addition to its traditional rate and service regulation functions, ERC focuses on consumer education and protection, and promotion of the competitive operations in the power market.

#### Renewable Energy (RE) Law

The RE Act of 2008 encompass policies that relate to renewable energy and legislative instruments that further encourage its growth - i.e. economic incentives.

- Section 13 states the government share in all renewable energy revenues: 1.5% for geothermal energy and 1% for the rest.
- Section 15 outlines the general incentives: Income Tax Holiday (7 years), Duty-free importation, Special Realty Tax Rates (1.5%), Corporate Tax Rate (10%), Accelerated Depreciation, Zero Percent VAT Rate, Additional Cash Incentive for Off-grid Generation Facilities, etc.

#### Pending Approval

TMC's application for Mineral Production Sharing Agreements (MPSA) denominated as APSA No. 73-XIII for its La Salle Exploration project is pending reconsideration.

RTN's applications for MPSA denominated as AMA IVB-144A and AMA IVB-144B for its Bulanjao project are still pending approval before the DENR-EMB.

HMC's application for renewal of MPSA No. 012-92-VIII for its Manicani Nickel Project in Guiuan, Eastern Samar is pending approval before the DENR.

### **K. COMPETITION**

We compete with both domestic Philippine nickel ore suppliers and foreign nickel ore suppliers (primarily from Indonesia) in world nickel ore markets. Domestic competitors are CTP Construction & Mining, Toledo Mining, and Platinum Group Metals Corp (PGMC), while foreign competitors mainly include PT Aneka Tambang.

On our power business, the implementation of the EPIRA has paved the way for a more independent and market-driven Philippine power industry. This has allowed for competition, not limited by location, and driven by market forces. The sale of power and the dispatch of power plants depend on the ability to offer competitively priced power supply to the market. The Group's power projects which are still either in the exploration or development stage will face competition in the development of new power generation facilities as well as in the financing for these activities.

### **L. NICKEL ORE TRADE AND OUTLOOK**

#### Nickel Ore Trade

Nickel ore in the country is mainly exported to China and Japan. Primary nickel consumption in China was estimated at 1,143 thousand tonnes in 2017, which accounted for 53% of global nickel consumption, while 7% of the global nickel consumption can be attributed to Japan.

Chinese nickel production in 2017 was estimated at 588 thousand tonnes, of which 390 thousand tonnes came from NPI. As per our research, nickel ore exported to China is estimated at 42 million WMT in 2017, which is almost same volume in 2016.

The nickel ore market recovered slowly as London Metal Exchange (LME) nickel price picked up from the second half of 2017. Chinese demand for nickel ore became strong due to the strong growth in Chinese stainless steel production.

### **Outlook for Nickel**

Global nickel supply in 2017 was estimated at 2.040 million tonnes, while consumption was at 2.139 million tonnes, resulting to 99 thousand tonnes of shortage. The shortage continued since 2016, however, it is hard to offset 530 tonnes of oversupply from 2012 to 2015, resulting to low level of LME nickel price in 2017.

The global nickel consumption increased by 5.9% on a year-on-year basis driven by the strong growth in the Chinese stainless steel industry.

Around 60% of nickel supply is used for stainless steel production. Therefore, the growth in stainless steel production is a key factor in the outlook for nickel. Global stainless steel production in 2017 was estimated at 48 million tonnes, increased by 5.8% from the previous year, of which, Chinese stainless steel production accounted for 25.7 million tonnes, which is 6.1% increase on a year-on-year basis.

The strong demand for nickel following the strong growth in the stainless steel production in 2017 contributed to the nickel supply shortage, thus the decrease in global nickel inventory. However, a new decision by the Indonesian government, issued in January 2017, relaxing their ban on the export of nickel ore, provides the basis for uncertainty in the nickel market. As of February 2018, Indonesian government issued nickel ore export quota amounting to 28.5 million WMT.

## **M. EXPLORATION AND DEVELOPMENT**

### **Nickel Resources**

NAC covers a wide area of exploration properties and an exploration program encompassing:

1. Brownfield exploration - consisting of work at our existing operations to extend resources and to upgrade resources to reserves; and
2. Greenfield exploration - which involves exploring and delineating nickel lateritic deposits in our existing properties.

We own more than one hundred (100) drilling units that have been designed specifically for drilling near surface lateritic deposits in a quick and economical manner. We also have a pool of experienced geologists and laboratories at each of our mine site to assess samples as required.

Summary of our exploration and development properties:

|   |  |
|---|--|
| <b>Bulanjao:</b> <ul style="list-style-type: none"><li>• Total area of 3,604.5 hectares</li><li>• Conducted step-out drilling throughout the length of the Central Bulanjao deposit</li></ul> | Location:<br><b>Palawan Island</b><br><br>Ownership:<br><b>RTN</b>     |
| <b>Manicani:</b> <ul style="list-style-type: none"><li>• MPSA covers 1,165 hectares and expires in 2017. Approval for the renewal of the MPSA is pending before the DENR.</li></ul>           | Location:<br><b>Island of Manicani</b><br><br>Ownership:<br><b>HMC</b> |

|  |  |
|--|--|
| <p><b>Kepha Mining Exploration Corp. (Kepha):</b></p> <ul style="list-style-type: none"> <li>• Operating Agreement covers 6,980.75 hectares and expires in 2032</li> <li>• Rights to the property are governed by an Operating Agreement entered into in February 2007 with Kepha</li> <li>• Application for renewal of the EP for the Kepha Property is ongoing</li> <li>• Follow-up exploration work and drilling was conducted in early 2013</li> </ul>   | <p>Location:<br/><b>Surigao del Norte</b></p> <p>Operating Rights:<br/><b>TMC</b></p>  |
| <p><b>La Salle Mining Exploration Company (La Salle):</b></p> <ul style="list-style-type: none"> <li>• Operating Agreement covers 6,824 hectares and expires in 2034. However, the MPSA area applied for has been reduced to 2,234.958 hectares</li> <li>• Rights to the property are governed by an Operating Agreement entered into with La Salle in December 2006</li> <li>• Found a nickel lateritic deposit on the southwestern portion of the property and intend to conduct further exploration work on this deposit</li> </ul> | <p>Location:<br/><b>Surigao del Norte</b></p> <p>Operating Rights:<br/><b>TMC</b></p>  |
| <p><b>Dinapigue:</b></p> <ul style="list-style-type: none"> <li>• Covered by MPSA No. 258-2007-II</li> </ul>   | <p>Location:<br/><b>Dinapigue,<br/>Isabela</b></p> <p>Ownership:<br/><b>Geogen</b></p> |

*Description of our Exploration and Development Projects*

**Bulanjao** - The Bulanjao property is held by RTN. It has a total area of 3,604.5 hectares and is situated immediately west of RTN's mining operations. Our rights to the property are governed by a mining lease contract.

RTN is in the process of converting its mining lease contracts on the Bulanjao Range, which is adjacent to the current existing mining claim, into a MPSA with application code AMA-IVB-144A. The Strategic Environmental Plan (SEP) clearance was issued by the Palawan Council for Sustainable Development (PCSD) on September 1, 2015. An Environmental Impact Assessment was already submitted to the EMB in order to secure the ECC. It is expected to undergo the second round of technical screening in the near future. Partial drilling conducted in the past has resulted in measured and indicated mineral resources of 24 million WMT of limonite ore with average grades of 1.20% Ni and 34% Fe and 10 million WMT of saprolite ore with an average grade of 1.81% Ni. Further drilling will be undertaken upon the conversion of the mining lease contracts.

**Manicani** - The Manicani property is held by our subsidiary HMC. It has a total area of 1,165 hectares and is situated in Eastern Samar. Our rights to the property are governed by a MPSA that was entered into by HMC in 1992 and which was subsequently assigned to SNMRC. The application for the Deed of Assignment from HMC to SNMRC was endorsed to the MGB Central Office for further evaluation and final approval. However, on June 1, 2014, a mutual rescission of the said Deed of Assignment was executed by and between HMC and SNMRC and a copy of the said rescission was received by the MGB on July 14, 2014.

We conducted mining at the Manicani site between 1992 and 1994 and extracted and sold a total of 63,176 WMT of saprolite ore with an average grade of 2.45% nickel from the site. We suspended mining at the site in December 1994 because low prevailing nickel prices made mining the site uneconomical. We made shipments from stockpiles in 2001 and 2004. In 2004, a regional Panel of Arbitrators rendered a decision recommending the cancellation of the MPSA on the grounds that we had violated certain applicable environmental regulations. We disputed such allegations and our MPSA was upheld by the Mines Adjudication Board of the DENR in September 2009.

To date, there is work to be done before mining operations can be resumed. Currently, we have applied the renewal of the MPSA. In support of our application, we have received the necessary endorsements from the host communities in the form of resolutions issued by the four (4) barangays comprising Manicani Island, the Municipality of Guiuan, and the Province of Eastern Samar. These endorsements, along with various presentations to be made to the MGB of Region VIII and to the community, shall be part of our compliance with the government regulations pertinent to the MPSA renewal.

Once the MPSA renewal is granted and the exploration period has been extended, we shall begin our confirmatory drilling activities subsequently. We will commence mining once the suspension order is lifted. Incidentally, a Letter of Authority to Dispose Nickel Stockpile was issued by MGB on July 1, 2014. From May to August of 2016, five (5) shipments were realized for the disposal of said stockpiles, after which, shipments were suspended by MGB. This left behind almost 900,000 WMT of stockpiles which were already approved for disposal.

**Kepha** - The property has a total area of 6,980.75 hectares and is situated in the province of Surigao del Norte, immediately southwest of our Taganito mine's northern boundary. Our rights to the property are governed by an Operating Agreement that we entered into in February 2007 with Kepha. Kepha entered into a MPSA in June 2009, giving it the right to explore, develop and mine the property for an initial period of twenty-five (25) years.

Under the terms of our Operating Agreement, TMC has the right to explore, develop and operate the property during the period of the MPSA in return for the payment of a royalty of 5% of gross revenues from all metallic minerals sold from the property.

Exploration activities at the Kepha exploration project are still under negotiations with the Mamanwa indigenous people group. The claim owner of the Kepha mining claim is also helping in the negotiations with the Mamanwa indigenous people group. Exploration activities in the said area can only resume after the favorable outcome of the said negotiations.

Despite the problem with the indigenous people's community of barangay Camam-onan, TMC continued to bring development projects to the barangay. Most notably is the renovation of the barangay Camam-onan gymnasium to a suitable evacuation center. This move by TMC was warmly welcomed by the LGU and constituents of Camam-onan.

Other activities are the proposal to donate one (1) fire truck to the LGU of Gigaquit. The proposal is to condition the old fire truck of TMC and donate it to the LGU of Gigaquit. This is also supported by a resolution from the LGU. The fire truck was donated to the LGU in the second quarter of 2016.

On February 13, 2017, the DENR issued a show cause order directing Kepha to explain why its MPSA should not be cancelled for being allegedly within a watershed, which is protected under the Philippine Mining Act of 1995 and other existing applicable laws, rules and regulations. On February 24, 2017, Kepha replied to the letter stating that based on the MGB Region XIII's downloadable tenement map, the MPSA area is outside of any existing legally proclaimed watershed.

**La Salle** - The La Salle property is held by TMC. The property previously had a total area of 6,824 hectares but the application had been reduced to 2,234 hectares and further reduced to 972 hectares and is situated in the province of Surigao del Norte. It shares a common boundary with the Kepha property on the southwest side of the property. Our rights to the property are governed by an Operating Agreement that we entered into with La Salle in December 2006. La Salle's application for a MPSA is pending and TMC is responsible for completing the requirements for approval of the MPSA.

Under the terms of the Operating Agreement, TMC will have the right to explore, develop and operate the property once the MPSA is approved, in return for the payment of a royalty of 5% on gross revenues from all metallic minerals sold from the property.

We have identified a nickel lateritic deposit on the southwestern portion of the property near the boundary with the Kepha property and intend to conduct further exploration work on this deposit.

**Dinapigue** - In 2015, the Parent Company acquired Geogen which holds the mineral property within the area subject of MPSA No. 258-2007-II on August 4, 2015. The property is located in the northeastern portion of Luzon, at the eastern foothills of the Sierra Madre mountains near the coast in Brgy. Dimaluade, municipality of Dinapigue, province of Isabela. The project is known as the Isabela Nickel Project which covers an area of 2,392 hectares. It is approximately 425 kilometers from Manila and accessible through 10 hours land travel.

While the construction of a permanent causeway was deferred pending the necessary permits and additional engineering and design considerations, other development works within the tenement was undertaken. These include repair & maintenance of access roads, construction of offices and staff accommodation, topographic surveys of priority areas for development, and establishment of environmental control measures and nursery facilities.

#### **Gold and Copper Resources**

The Philippines is located in a very complex tectonic and geological terrain. It is bounded on the west by the east-dipping Manila Trench and on the east by the west-dipping Philippine Trench. Because of the interaction of both these geological features, a resulting northwest-trending Philippine fault, with its numerous major and associated branches, has rendered a distinct archipelagic character to the ground. On a more global scale, the Philippines lie within the "Pacific Rim of Fire", also known as the circum-Pacific belt, an area with a nearly continuous series of oceanic trenches, volcanic arcs and/or plate movements.

But while the Philippine inhabitants have to suffer the devastating effects of earthquakes and volcanic eruptions, these same geological processes have provided the favorable geological settings for the deposition and/or emplacement of rich gold, copper, chromite, nickel and other mineral deposits. The Philippines has long been acknowledged as one of the most richly endowed in mineral resources. This claim is validated by the country's long mining history which can be traced back to the 15th century. In the 50's to 70's, particularly, the Philippines maintained its position as one of the world's top ten producers in gold, copper, chromite and nickel.

Given this potential, our local knowledge, and the experience of a number of our engineers and managers previously employed in gold and copper mining firms, a strategic decision was made to diversify into these metals as the opportunities arise. Based on this strategy, we entered into an agreement in August 2010 to purchase 100% of the outstanding shares of CExCI from Anglo American, a subsidiary of Anglo American Plc. The sale pushed through on November 15, 2010.

In May 2011, we entered into a Participation and Shareholders' Agreement with SMM outlining the terms of SMM's equity participation in CExCI. In November 2011, based on the terms of the said Agreement, SMM invested \$1.5 million in CExCI in return for a 25% equity interest. In 2015, SMM exercised its option to invest \$2.8 million for an additional 15% equity, which, after the approval of the increase in the authorized capital stock of CExCI would bring SMM's total equity in CExCI to 40%.

### ***Zambales***

In December 2015, CExCI acquired the 100% equity interest of Newminco, which holds an EP for copper, gold, and related base and precious metals over an area located in Cabangan, San Felipe, and San Marcelino in the province of Zambales. The decision to acquire Newminco was made following the discovery of outcropping gold veins, the sampling of which in part returned good assays for gold.

Exploration activities being conducted in the properties area include geologic mapping, sampling and trenching. In 2016, Newminco proceeded to implement its exploration program in the tenement designated as EP-001-2015-III which is located in the Municipalities of Cabangan, San Felipe and San Marcelino in the Province of Zambales. Roughly twenty-five (25) kilometers of old farm to market and logging roads were rehabilitated and maintained to gain access to the property. Six hundred and sixty meters (660m) of exploratory trenches were dug, logged, sampled and rehabilitated. Diamond core drilling was conducted with a total meterage of 3,799.5 meters. A total of 401 samples were sent to the laboratory for multi-element geochemical analysis.

Results of the 2016 exploration campaign verified gold mineralization in a portion of the area drilled. However, the work so far conducted precludes Newminco from defining any commercial viability to the project. Rehabilitation works on disturbed areas were completed in early 2017.

In 2017, a tenement wide ridge and spur soil sampling program was implemented in order to define targets for more detailed work. However, due to the expiration of the EP in July 2017, the sampling was not completed. This program will resume once the first renewal of the EP is granted.

### ***Mankayan***

The original Mankayan property is designated as AFTA-008, and is located within two regions, the Cordillera Administrative Region (CAR) and Region I. The original area applied for within CAR is 57,559.5121 hectares while the original area applied for within Region 1 is 19,989.4879 hectares. In early 2013, following exclusions/excisions from the application because of conflicts with national park (Bessang Pass Buffer Zone) and a strong opposition from a municipality in Ilocos Sur, the total area cleared by the MGB is approximately 54,940 hectares.

In July 2013, a board decision was made to partially convert the AFTA to an application for EP. Since the area to be converted to EP straddles two regions and involves ancestral lands belonging to separate tribes, two applications for EP were filed, namely: ExPA 116-Mankayan, covering an area of approximately 5,157 hectares; and ExPA 116-Cervantes, covering an area of approximately 6,012 hectares.

Following the conversion, AFTA-008, now consists of approximately 43,320 hectares and covers portions of the provinces of Benguet and Mt. Province. The future plan for this remaining portion is to further convert other parts into EP, hence eventually dropping the remaining AFTA altogether.

All documents pertinent to the retained AFTA-008 have been submitted to the office of the Regional Director MGB-CAR as of July 11, 2016. The application (AFTA-008) is now favorably pending with the said office.

### ***Mankayan/Cervantes***

An application to convert a portion of AFTA-008 into an EP was filed with MGB-CAR in November 2013. Since the area to be converted straddles two regions and involves ancestral lands belonging to separate tribes, the original application was split in two applications, namely ExPA 116 Mankayan, covering an area of approximately 5,157 hectares, and ExPA 116 Cervantes, covering an area of approximately 6,012 hectares. The split has been necessary in order to facilitate and simplify the required "Free and Prior Informed Consent" (FPIC) process for each region covered. The process of the application for conversion took from November 2013 up to December 2015.

The FPIC over the Mankayan area was immediately started in December 2015, and had progressed to "Field-based Investigation" stage up to May 2016 when the process was suspended to give way to the general elections. The FPIC process over Mankayan remained suspended throughout the rest of 2016 and the whole year of 2017. This was done in order for CExCI to be able to concentrate in advancing the FPIC process over Cervantes.

The 3rd General Assembly of the FPIC process is the final assembly to officially proclaim the acceptance of the exploration work of CExCI by the Indigenous Cultural Communities. This was conducted on March 13, 2017 and the results were 6 out of the 9 barangays voting for the approval of the exploration of CExCI within their ancestral domain. Following this, some protests and petitions to discredit the results of the general assembly were filed by some anti-mining group and locals.

A validation exercise to investigate the protests was called by the National Commission on Indigenous People (NCIP) Region 1 Director. The validation exercise was completed by end November 2017, with the results and consequent report being very favorable to CExCI. What remains to be done is for NCIP Regional Office to execute an order for the continuance of the FPIC process. When the process is resumed, CExCI will proceed with the discussion and negotiations for the "Memorandum of Agreement" (MOA) with the communities, plan out the Community Development Programs, hence signing of the MOA, and eventually issuance of the exploration permit by the MGB.

The Mankayan-Cervantes area is underlain by the same lithological units, and subjected to the same tectonic regimes that have rendered the district highly faulted and fractured. Three mineralization types can be found in the Mankayan sector: a) gold-rich porphyry copper mineralization, with the Far South East and Guinaoang deposits as examples; b) high-sulphidation copper and gold mineralization, as typified by the Lepanto Consolidated enargite ore body; and c) intermediate-sulphidation gold and base metals mineralization, examples of which are the Victoria and Suyoc ore bodies of Lepanto. Because of the similarities in lithological and structural controls, it could reasonably be expected that the same controls and styles of mineralization in the Mankayan sector are also present in the Cervantes sector.

### ***Manmanok***

The Manmanok property is located within the Municipality of Conner, Apayao Province. The property is covered by EP-004-2006-CAR, which was first granted in October 2006 and subsequently renewed twice with the corresponding reduction in area coverage. The final area covered by the permit is approximately 4,996 hectares.

Following geophysical and geochemical work in an area that was deemed prospective for gold mineralization, drilling activities were conducted from June 2012 to March 2013, with poor results. Given this outcome and the difficulties experienced in operating in such a remote area, a decision was made to terminate all work and relinquish the EP.



### ***Kutop***

The Kutop property is located within the municipalities of Malibcong and Daguioman in the Province of Abra, and the municipality of Balbalan in the Province of Kalinga. The property, with a total area of 13,268 hectares, is covered by an application for EP designated as EXPA-014-CAR.

As the area is ancestral land, CExCI is required to obtain a FPIC from the tribal group prior to the grant of the EP. Considerable delays have been experienced with the NCIP in moving this process forward. In the meantime, a deadline imposed by the MGB to complete this process has not been met. A letter requesting for the extension of the deadline remains pending.

## **N. ENVIRONMENT AND REHABILITATION**

### ***Environmental Responsibility***

We adhere to the principles and practices of sustainable development. We are committed to complying and following environmental regulations by implementing best practices in managing environmental impacts of our operations. Mining is a temporary land use and once mining operations in our sites have ended, we plan to restore these properties to at least as close as possible to their pre-mining condition or to develop alternative productive land uses for the benefit of the surrounding communities. We are also committed to investing in programs and technologies to mitigate the anticipated impacts of mining activities.

To manage environmental impacts, NAC's subsidiaries have an EPEP. This refers to the comprehensive and strategic environmental management plan for the life of mining projects to achieve the environmental management objectives, criteria and commitments including protection and rehabilitation of the affected environment.

It is the operational link between the environmental protection and enhancement commitments under CDAO 2010-21, consolidated implementing rules and regulations of RA No. 7942, as well as those stipulated in the ECC under Presidential Decree 1586 and the Contractor's plan of mining operation.

Activities undertaken through our Annual EPEP include, among others:

- Rehabilitation of mine disturbed areas
- Reforestation
- Construction and/or maintenance of environmental facilities
- Solid waste management
- Hazardous waste management
- Air quality monitoring and water quality monitoring
- Preservation of downstream water quality

NAC also complies with the ECC conditions and the performance of commitments through our Annual EPEP. This program is monitored and evaluated by the Multipartite Monitoring Team - a multi-sector group headed by a representative from the Regional MGB and representatives of LGUs, other government agencies, NGO, people's organization, the church sector and the Group. In 2017, we spent approximately ₱463.2 million on our EPEP.

### ***Rehabilitation***

In line with our commitment to maintain a sustainable environment in our areas of operation and abide by the Philippine Mining Act of 1995, NAC regularly conducts onsite environmental assessment to ensure that all its subsidiaries are strictly implementing progressive rehabilitation within standard set by regulatory agencies.

The process begins with re-contouring, backfilling and leveling the land. After this, the area is covered with top soil and other soil amelioration strategies to provide fertile ground for planting. We follow the "Sequential Planting Method", wherein we first plant fast growing species, then

they are provided with a vegetative cover within twelve (12) to eighteen (18) months to enable planting of other species. Another successful method used is by utilizing large planting materials which resulted to more than 90% survival and high growth rate.

Creating a biodiversity area with varied species of vegetation including native fruit bearings trees will eventually be a source of food for a variety of wildlife species that will aid in rehabilitating mine affected areas by way of succession and regeneration. The rehabilitation effort is managed by our expert foresters with the help from indigenous peoples from the locality, and we have demonstrated that a totally mined out area can be significantly re-vegetated in just twelve (12) to eighteen (18) months.

The end result is a sustainably managed forest far better than the stunted vegetation before, because of the mineralized nature of the soil.

As a means of restoring the disturbed areas from mining operations, NAC requires each mine site to create a decommissioning/closure plan. The closure plan includes the process in which mined-out areas will be rehabilitated and monitored, until the rehabilitation criteria set by MGB are successfully satisfied. The program for final rehabilitation and decommissioning includes social package which include livelihood components for the host communities and the affected employees of our companies. The four operating subsidiaries have already developed their respective plans for review and approval of the MGB.

Mine Rehabilitation is contained in the Philippine Mining Act of 1995. It's part of a Sustainable Development. It's part of our best practice at our subsidiary, RTN. Following the "Sequential Planting Method", we first plant fast growing species called Pioneer Species such as Batino, Acacia mangium, Acacia auriculiformis and others – all grown and nurtured in our nursery. These species provide vegetative cover within three (3) years to enable the planting of "Climax Species" like Apitong, Ipil, Narra, Almaciga, Agoho, Kamagong and others which we need tree shade to grow. They form the core of the new forest stands. Native fruit-bearing trees are also planted to provide a source of food for wild animals that will eventually populate the forest. To ensure the survival of all these trees we have a forestry team. Composed mostly of indigenous people from the surrounding areas, the team conducts a maintenance program like watering during summer, ringweeding cultivation around seedlings, application of compost and other related activities. The work of the team has achieved a survival rate of 80%-90% for the trees.

As of December 31, 2017, the Group recognized a provision for mine rehabilitation and decommissioning of ₱388.8 million. Funds for mine rehabilitation and other environmental guarantee funds are established and deposited in trust funds, as required by the Philippine Mining Act. We have ₱392.4 million maintained in such funds as of December 31, 2017. This amount complies with the minimum requirement under the law.

In 2017 and 2016, the Group has rehabilitated and reforested a total of 217 hectares and 219 hectares, respectively, with corresponding number of trees planted of about 429,360 and 452,412, respectively.

## **O. SOCIAL RESPONSIBILITY**

### Mining

We endeavor to be a valuable partner for economic and social progress. As a corporate citizen, we recognize the great privilege of sharing the opportunities and the responsibilities afforded by doing business in the country. The principles of sustainable development clearly identify for us our obligation to make every effort and ensure that the benefits of development reach every stakeholder.

Social development programs are created and implemented in all the mines. The focus areas of these programs are designed to address needs of communities around the mine sites. These programs are carried out through the Social Development Management Plans (SDMPs) and Corporate Social Responsibility (CSR) activities of the Group. The main difference between the two programs is that the SDMP is required by the government, while CSR is voluntary on the part of the Group.

We engage with residents, LGUs, government agencies, local NGOs, international agencies and other interested groups to understand concerns, identify needs and design projects that will facilitate long-term and beneficial resource development. Each of our operating mines manages their social expenditures through its respective SDMPs. These are five (5) year programs that contain a list of priority projects identified and approved for implementation, in consultation with the host communities. Each mine site has a community relations team that is in charge of identifying and implementing SDMPs, and maintaining strong relationships with communities. Annually, the Group sets aside a budget for SDMP projects that focus on health, education, livelihood, public utilities and socio-cultural preservation. The implementation of the programs are monitored, audited and evaluated by the MGB.

We also recognize the rights of the indigenous peoples and Indigenous Cultural Communities and in compliance with the Indigenous Peoples Rights Act, we entered into agreements for royalty payments and other assistance for their socio-economic well-being.

We respect and value each of our employees and observe the fundamental tenets of human rights, occupational safety and non-discrimination in the work place. We implement a Safety and Health Program in all our operating mines and we provide the equipment, training and resources necessary to enable our employees to perform their work safely and without risk to their health. We have committees and labor management groups that monitor our health and safety programs. We believe that security, goes hand in hand with safety in the workplace and we have security policies and systems founded on the protection of basic human rights and respect for people.

Beyond the mandatory SDMP programs, we carry out our own CSR programs. The NAC's CSR Program is anchored on 2 central elements:

1. Community Partnership and Relationship Building
  - a) Establishing and maintaining positive relationships with communities by having them as partners for community development and nation building
  - b) Partnership building with communities (both social and environmental) - community as essential partners and not as mere beneficiaries
  - c) Community serving as the primary protector of the Company through strong partnership and relationship
2. Leadership
  - a) Top management strongly supports the Group's CSR initiatives
  - b) Social Investment - going beyond compliance and considering CSR not as an additional cost but as an investment

#### Power

EPI and its subsidiaries are strongly committed to uplifting the lives of our host communities through programs and activities that build lasting relationships and long-term opportunities.

Each of our project companies' Community Relations team implements plans and strategies that are distinctive to the host community but ultimately support the overarching theme of sustainability. We engage through continuing dialogues to better understand and appreciate collective concerns and apprehensions and create programs based on this. As such, the campaigns are unique and dynamic that include stakeholder engagement, community services and environmental activities.

Our initiatives have led to the establishment of the 3M Women’s Organization (3MWO) which has empowered the housewives from our project company MGPC to start their own business to augment their respective household incomes. 3MWO has participated in trade fairs, the most recent of which was the Agri-Trade and Tourism Fair 2017. Likewise, Jobin, our project company for the Subic solar farm facility, was recognized for its CSR undertakings for 2017 by the Subic Bay Metropolitan Authority in the prestigious annual Mabuhay Awards. This was primarily to acknowledge Jobin’s enduring efforts with the Indigenous People from the Aeta community.

We take pride in upholding exemplary safety practices and security management in the power industry with the use of leading global technologies and strict implementation and compliance to procedures in RE development. We emphasize the safety and well-being of everyone onsite. We strive to maintain no lost time accidents in all of our active RE development locations. This commitment is manifested with the DOE and the Safety and Health Association of the Philippines Energy Sector, Inc.’s recognition of our project companies, BGI and Jobin, for the second consecutive year in 2017 for Corporate Safety and Health Excellence.

We believe in partnerships that provide opportunities for the Filipino. We create value by keeping families together through jobs generation or entrepreneurial initiatives that we spearhead, always mindful of our commitment to improving and uplifting the lives of the people in our host communities.

**P. EMPLOYEES**

As at December 31, 2017, we had 1,929 employees. Of these, 792 are employed in mining operations.

The tables below show the distribution of our workforce (full time regular employees only):

**Head Office**

|                   | NAC       | CMC       | HMC       | TMC       | RTN       | CEXCI    | Geogen   | EPI       | JSI      | BGI      | MGPC     | MEI      | Total      |
|-------------------|-----------|-----------|-----------|-----------|-----------|----------|----------|-----------|----------|----------|----------|----------|------------|
| Senior Management | 17        | 1         | 1         | 2         | 1         | -        | -        | 3         | -        | -        | -        | -        | 25         |
| Managers          | 12        | 1         | 1         | 3         | 2         | 2        | -        | 9         | -        | -        | -        | -        | 30         |
| Supervisors       | 14        | 7         | 5         | 5         | 6         | 3        | 1        | 0         | -        | -        | -        | -        | 41         |
| Rank & File       | 20        | 3         | 6         | 8         | 11        | 1        | 2        | 10        | 3        | 2        | 6        | 4        | 76         |
| <b>Total</b>      | <b>63</b> | <b>12</b> | <b>13</b> | <b>18</b> | <b>20</b> | <b>6</b> | <b>3</b> | <b>22</b> | <b>3</b> | <b>2</b> | <b>6</b> | <b>4</b> | <b>172</b> |

**Minesite/Project Field Office**

|                   | NAC       | CMC        | HMC        | TMC        | RTN        | CEXCI    | Geogen    | EPI      | JSI       | BGI      | MGPC     | MEI      | Total        |
|-------------------|-----------|------------|------------|------------|------------|----------|-----------|----------|-----------|----------|----------|----------|--------------|
| Senior Management | 1         | 1          | 1          | 1          | 1          | -        | -         | -        | -         | -        | -        | -        | 5            |
| Managers          | 1         | 9          | 14         | 38         | 36         | -        | 6         | -        | 1         | -        | -        | -        | 105          |
| Supervisors       | 4         | 81         | 55         | 196        | 125        | -        | 7         | -        | 2         | -        | -        | -        | 470          |
| Rank & File       | 8         | 134        | 91         | 425        | 484        | -        | 1         | -        | 30        | 3        | 1        | -        | 1,177        |
| <b>Total</b>      | <b>14</b> | <b>225</b> | <b>161</b> | <b>660</b> | <b>646</b> | <b>-</b> | <b>14</b> | <b>-</b> | <b>33</b> | <b>3</b> | <b>1</b> | <b>-</b> | <b>1,757</b> |

Each mine site and project field office also provides work opportunities for the communities. The tables below show a breakdown of the workforce (full time, contractual, probationary and casual) hired from the local communities in each area of operation:

| Minesite     | Manpower from local community | Indigenous People |
|--------------|-------------------------------|-------------------|
| Regular      | 1,165                         | 78                |
| Probationary | 43                            | -                 |
| Seasonal     | 509                           | 11                |
| <b>Total</b> | <b>1,717</b>                  | <b>89</b>         |

| Plantsite    | Manpower from local community | Indigenous People |
|--------------|-------------------------------|-------------------|
| Regular      | 27                            | 3                 |
| Probationary | 2                             | -                 |
| <b>Total</b> | <b>29</b>                     | <b>3</b>          |

NAC complies with the government standards on the wages and labor practices in the Philippine mining and renewable energy industries. Labor conditions, including wages and benefits, are governed by Collective Bargaining Agreements (CBA) negotiated at the mine level. Rank and file employees in each mine site are represented by their respective labor unions. Generally, CBAs have terms of 5 years (with a provision for wage renegotiation after 3 years).

HMC's CBA has been negotiated for a five (5) year period and subject for renegotiation in 2018. The five (5) year CBA of RTN took effect in January 2016. CMC's three (3) year CBA has been agreed upon in 2016 and subject for renegotiation in 2019 while TMC's five (5) year CBA has been negotiated and agreed upon in 2015, with a wage renegotiation after 3 years. We believe that our wages and conditions are among the best in the Philippine mining industry. We believe that our relations with employees and their unions are generally good. The last strike at any of our mines occurred in 1981.

#### ***Pension Costs***

The Company provides its regular employees with a retirement benefit as part of its employment benefits. The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method. This method reflects service rendered by employees to the date of valuation and incorporates assumptions concerning the employees' projected salaries. The assumptions include among others, discount rates and future salary increase rates.

Defined benefit costs comprise the following:

- Service cost
- Net interest on the net defined benefit liability or asset
- Re-measurements of net defined benefit liability or asset

These amounts are calculated periodically by independent qualified actuaries.

#### **Q. RISKS RELATED TO OUR BUSINESS AND INDUSTRY**

***Changes in, or more aggressive enforcement of, laws and regulations could adversely impact our business*** - Mining operations and exploration activities are subject to extensive laws and regulations. These relate to production, development, exploration, exports, imports, taxes and royalties, labor standards, occupational health, waste disposal, protection and remediation of the environment, mine decommissioning and rehabilitation, mine safety, toxic substances, transportation safety and emergency response and other matters. In 2016, we saw a regulatory environment that decidedly turned hostile against our industry. During the second half of 2016, our four mines underwent an audit by personnel of the DENR. This was mandated by the DENR, although in early 2016 all of our mines received their ISO 14001 Certification for Environmental Management Systems, which process already involves audits by accredited third parties. The audit team included representatives of civil society organizations, some of who do not look favorably on our industry, and covered a review of permitting requirements and all aspects of the mining operations with emphasis on environmental compliance and social acceptability.

Of a total of about 43 operating mines in the country, reportedly 13 passed the audit, including 3 of our mines - RTN, TMC and CMC. With respect to our Hinatuan mine, certain violations were noted, which we contested. A DENR Technical Committee tasked to review the audits recommended certain penalties. Regrettably, the Secretary ignored such recommendation and Hinatuan received a closure order. We have appealed this to the Office of the President, which stays the order.

Currently, the MICC is reviewing the results of the mine audits. It is our objective to vigorously contest the adverse findings and the closure order.

***Continued moratorium and delay in getting permits*** - The issuance of EO No. 79 put a moratorium on the issuance of new permits pending legislation rationalizing the existing revenue sharing schemes and mechanism have taken effect. We rely on permits, licenses, including MPSA, operating agreements with third-party claim owners and land access agreements to conduct our mining operations. The MPSAs and Operating Agreement with respect to our five operating mines expire at different times between 2017 and 2047 and require renewal upon expiration. We believe that we currently hold or have applied for all necessary licenses, permits, operating agreements and land access agreements to carry on the activities that we are currently conducting under applicable laws and regulations, licenses, permits, operating agreements and land access agreements. We may be required to prepare and present to government authorities data pertaining to the impact that any proposed exploration or production of ore may have on the environment, as well as efficient resource utilization and other factors our operations may influence. The process of obtaining environmental approvals, including the completion of any necessary environmental impact assessments, can be lengthy, subject to public input and expensive. Regulatory authorities can exercise considerable discretion in the terms and the timing of permit issuance or whether a permit may be issued at all. Accordingly, the approvals we need for our mining operations may not be issued or renewed or, if issued or renewed, may not be issued in a timely fashion, or may involve requirements that may be changed or interpreted in a manner which restricts our ability to conduct our mining operations profitably.

Furthermore, new laws or regulations, or changes in the enforcement or interpretation of existing laws or regulations, may require substantial increases in our equipment and operating costs in order to obtain approvals required by, or to otherwise comply with the conditions imposed by, such new or revised laws and regulations. The need to obtain such new or revised approvals or to comply with additional conditions may also cause material delays or interruptions of one or more of our current or planned operations or developments or, to the extent such approvals or conditions cannot be obtained or met on an economical basis, the curtailment or termination of such operations or developments.

In addition, the local governments where our mines or exploration properties are located may impose additional restrictions on our operations. For instance, the conversion of a mining lease to a MPSA for our Mt. Bulanjao exploration property has been pending for several years due to restrictions on mining above a certain elevation imposed by the PCSD. Recently, the Municipality of Bataraza where the property is located, reclassified the Bulanjao area as open to mineral development. A final endorsement from the PCSD is necessary before RTN can receive the MPSA on the property.

***Mine security*** - Our operations are prone to terrorist attacks and other insurgent atrocities due to the location of mine sites. NAC ensures the safety of its communities and employees by working with the government and tapping all available resources that may help prevent, or at the very least, reduce terror-related incidents.

Each mining operation also employs a safety team under an accredited safety officer to promulgate safety measures and procedures and to ensure that these are followed. Training programs are also being conducted regularly.

On October 3, 2011, around 200 armed men occupied the TMC mine site and destroyed, among others, equipment, building structures, materials and supplies by setting them on fire. Accounting, personnel, laboratory and administrative records were destroyed. Approximately ₱239.5 million worth of damages were sustained. Fortunately, no life or limb was lost. In response to the incident, security was increased, not just in TMC, but all our mine sites. This was done in close coordination with the Armed Forces of the Philippines tapping the services of the Special Citizen Armed Forces Geographical Unit Active Auxiliary Companies.

NAC expends significant financial and managerial resources to comply with a complex set of environmental, health and safety laws, regulations, guidelines and laws drawn from a number of different jurisdictions. Our facilities operate under various operating and environmental permits, licenses and approvals to satisfy these conditions. Failure to meet these conditions could result in interruption or closure of exploration, development or mining operations or material fines or penalties.

Aside from the above, we face a number of risks and the occurrence of any of these risks could have an adverse impact on our business, results of operations and financial condition.

***Volatility of LME nickel prices*** - Our revenue is largely dependent on the world market price of nickel. The sales price of nickel ore is correlated with the world market price of nickel. The nickel price is subject to volatile price movements over time and is affected by numerous factors that are beyond our control. These factors include global supply and demand; expectations for the future rate of inflation; the level of interest rates; the strength of, and confidence in, the U.S. dollar; market speculative activities; and global or regional political and economic events, including changes in the global economy. A growing world nickel market and increased demand for nickel worldwide have attracted new entrants to the nickel industry, spurred the development of new mines and expansion of existing mines in various regions, including Australia, Indonesia and New Caledonia, and resulted in added production capacity throughout the industry worldwide. An increasing trend in nickel prices since early 2003 have encouraged new or existing international nickel producers to expand their production capacity. An increased rate of expansion and an oversupply of nickel in world nickel markets in the future could reduce future nickel prices and the prices we receive under our nickel ore supply agreements. If the sales price of our nickel ore falls below our production costs, we will sustain losses and, if those losses continue, we may curtail or suspend some or all of our mining and exploration activities. We would also have to assess the economic impact of any sustained lower nickel prices on recoverability and, therefore, the cut-off grade and level of our nickel reserves and resources.

***Nickel mining is subject to a number of inherent risks that are beyond our control*** - Our mining operations are influenced by changing conditions that can affect production levels and costs for varying periods and as a result can diminish our revenues and profitability. Inclement or hazardous weather conditions, the inability to obtain equipment necessary to conduct our operations, increases in replacement or repair costs, prices for fuel and other supplies, unexpected geological conditions and prolonged disruption of production at our mines or transportation of our nickel ore to customers could have a significant impact on the productivity of our mines and our operating results.

Other factors affecting the production and sale of our nickel ore that could result in increases in our costs and decreases in our revenues and profitability include:

- equipment failures and unexpected maintenance problems;
- interruption of critical supplies, including spare parts and fuel;
- earthquakes or landslides;
- environmental hazards;
- industrial accidents;
- increased or unexpected rehabilitation costs;
- work stoppages or other labor difficulties; and
- changes in laws or regulations, including permitting requirements, the imposition of additional taxes and fees and changes in the manner of enforcement of existing laws and regulations.

The realization of any of these risks could result in damage to our mining properties, nickel ore production or transportation facilities, personal injury or death, environmental damage to our properties, the properties of others or the land or marine environments, delays in mining ore or in the transportation of ore, monetary losses and potential legal liability.

***Changes in Chinese demand may negatively impact world nickel demand and prices*** - Approximately, 60% of our revenue in 2017 was derived from sale of nickel ore into China. The Chinese market has become a significant source of global demand for commodities.

China's consumption of primary nickel has increased by more than 30% over the past years, according to CRU Strategies. While this increase represents a significant business opportunity, our exposure to China's economy and economic policies has increased. Our exposure to the Chinese market and our short-term supply agreements with Chinese customers have resulted in increased volatility in our business. In addition, increased Chinese demand for commodities has led to high volatility in the freight rates for shipping our nickel ore. High freight rates can discourage customers outside the Philippines from entering into long term supply agreements with us due to the unpredictability of future shipping costs and can also affect the price Chinese customers are willing to pay for our nickel ore.

China, in response to its increased demand for commodities, is increasingly seeking self-sufficiency in key commodities, including nickel, through investments in nickel mining operations in other countries. In addition, nickel ore is used in the production of stainless steel and a slowdown in the stainless steel industry in China, or China's economic growth in general, could result in lower Chinese demand for our products and therefore reduce our revenue.

***A prolonged decrease in production by the Coral Bay HPAL facility or the Taganito HPAL facility*** - Approximately, 18% of our revenue from sale of nickel ore in 2017 was derived from sale of limonite ore to the Coral Bay HPAL facility and Taganito HPAL facility. CBNC, the owner of the Coral Bay HPAL facility, is only required to pay for limonite ore that is actually delivered to the plant and there are no minimum take-or-pay provisions in the ore supply agreement governing our sales of ore to the facility. The ore supply agreement with Taganito HPAL facility is also subject to similar terms. In the event that the Coral Bay HPAL facility or the Taganito HPAL facility, decreases production or experiences an unexpected prolonged shutdown, we would reduce the volume of limonite ore that we deliver to the applicable facility or cease such deliveries altogether.

***Our reserves may not be replaced, and failure to identify, acquire and develop additional reserves could have an adverse impact on our business, results of operations and financial condition*** - Our sources of nickel ore are currently limited to the Rio Tuba, Taganito, Cagdianao and Taganaan mines. Our profitability depends substantially on our ability to mine, in a cost-effective manner, nickel ore that possesses the quality characteristics desired by our customers. Because our reserves decline as we mine our nickel ore, our future success and growth depend upon our ability to identify and acquire additional nickel ore resources that are economically recoverable. We currently have seven (7) mining exploration properties in the Philippines and if we fail to define additional reserves on any of our existing or future properties, our existing reserves will eventually be depleted. The acquisition of Geogen in 2015 will increase the current sources of nickel ore of the Group.

***We face competition in selling nickel ore*** - We compete with both domestic Philippine nickel ore suppliers and foreign nickel ore suppliers in world nickel ore markets. We compete with other nickel ore suppliers primarily on the basis of ore quality, price, transportation cost and reliability of supply.

***Continued compliance with safety, health and environmental laws and regulations*** - We expend significant financial and managerial resources to comply with a complex set of environmental, health and safety laws, regulations, guidelines and permitting requirements (for the purpose of this paragraph, collectively referred to as "laws") drawn from a number of different jurisdictions. We anticipate that we will be required to continue to do so in the future as the recent trend towards stricter environmental laws is likely to continue. The possibility of more stringent laws or more rigorous enforcement or new judicial interpretation of existing laws exists in the areas of worker health and safety, the disposition of waste, the decommissioning and rehabilitation of



mining sites and other environmental matters, each of which could have a material adverse effect on our exploration, operations or the cost or the viability of a particular project. Our facilities operate under various operating and environmental permits, licenses and approvals that contain conditions that must be met and our right to continue operating our facilities is, in a number of instances, dependent upon compliance with these conditions. Failure to meet certain of these conditions could result in interruption or closure of exploration, development or mining operations or material fines or penalties.

**Exposure to exchange rate fluctuations** - Our nickel ore sales are denominated in U.S. dollars while most of our costs are incurred in peso. The appreciation of the peso against the United States dollar reduces our revenue in peso terms. Accordingly, fluctuation in exchange rates can have an impact on our financial results. Additionally, in the past we have invested in derivative instruments that increased in value as the peso appreciated relative to the U.S. dollar, and vice versa. While our current policy is not to hedge our exposure to foreign currency exchange risk or invest in this type of derivative instrument, we do, and may continue to, invest in U.S. dollar denominated portfolio investments. Appreciation of the peso relative to the U.S. dollar could result in a translation loss on our U.S. dollar-denominated assets.

## **Item 2. PROPERTIES**

### **A. MINING PROPERTIES AND PERMITS**

Below is a summary of the Group's mineral agreements and permits, mineral resources and reserves and processing facilities with respect to its mining operations.

#### **RIO TUBA NICKEL MINING CORPORATION**

##### A. Rio Tuba mine

*MPSA No. 114-98-IV covering beneficiated nickel mine* - On June 4, 1998, RTN was issued a MPSA by the DENR covering an area of 990 hectares, situated at Barangay Rio Tuba, Bataraza, Palawan, valid for twenty-five (25) years, renewable for another twenty-five (25) years subject to mutually agreed upon terms and conditions. However, under the SEP for Palawan Act (RA No. 7611), operations are currently prohibited within an area of 144 hectares classified as "core zone" which are required to be fully and strictly protected and maintained free of human disruption. Included in the "core zone" are all types of natural forest, areas above 1,000 meters elevation, peaks of mountains or other areas with very steep gradients, and endangered habitats and habitats of endangered and rare species.

*MPSA No. 213-2005-IVB for Rio Tuba Nickel's Limestone Quarry* - On April 28, 2005, RTN was issued another MPSA for a total area of 84.5364 hectares in Bataraza, Palawan. This MPSA was also given a validity of twenty-five (25) years renewable for another twenty-five (25) years subject to mutually agreed upon terms and conditions. This MPSA covers the Sitio Gotok limestone pit, whereby limestones are being sold to CBNC and Unichamp Mineral Philippines, Inc. (UMPI). The terms and conditions of this MPSA mirror the terms of MPSA No. 114-98-IV granted to RTN, albeit covering mining of limestone rather than nickel products.

##### B. Bulanjao exploration

*MPSA Application for expiring mining lease contracts* - On June 17, 2003, RTN filed an application to renew and to convert into MPSAs 14 existing mining lease contracts which were due to expire from June 2003 to August 2004. The application included six small mining blocks of new areas located within the said existing mining lease contracts.

No operations are currently being conducted in these areas. The application remains pending.

## **HINATUAN MINING CORPORATION**

### A. Taganaan mine

*MPSA 246-2007-XIII* - On July 25, 2007, HMC was granted a MPSA covering 773.77 hectares of mineral land in Talavera, Taganaan, Surigao del Norte within Parcel II of the Surigao Mineral Reservation for a period of twenty-five (25) years renewable for another twenty-five (25) years subject to mutually agreed upon terms and conditions.

As discussed in the preceding section, we are contesting adverse findings and a closure order on our Taganaan mine as we believe there is no basis for such actions.

### B. Manicani mine

*MPSA No. 012-92-VIII* - The Manicani mine is subject to MPSA No. 012-92-VIII granted on August 13, 1992 for 1,165 hectares. It has a term of twenty-five (25) years and is renewable for another term not exceeding twenty-five (25) years subject to mutually agreed upon terms and conditions. An application for the renewal of MPSA No. 012-92-VIII is pending approval before the DENR.

On May 1, 2002, the DENR ordered the suspension of mining operations in Manicani pending a conduct of investigation in view of the complaints of the Roman Catholic Bishop. In a decision dated August 2, 2004, an arbitral panel of the Mines Adjudication Board, MGB, Region 8, the MPSA was ordered cancelled. The basis for the decision of the Board was a violation of the ECC with respect to dust pollution, reforestation and wastewater discharge. As a result of the decision, mining operations in Manicani remain suspended. The mining operations were found by the Board to be causing pollution of the seawater of Manicani Island. A Memorandum of Appeal dated December 23, 2004 was filed by HMC and our MPSA was upheld by the Mines Adjudication Board on September 4, 2009. Incidentally, a Letter of Authority to Dispose Nickel Stockpile was issued by MGB on July 1, 2014. From May to August of 2016, five (5) shipments were realized for the disposal of said stockpiles, afterwhich, shipments were suspended by MGB. This left behind almost 900,000 WMT of stockpiles which were already approved for disposal.

## **TAGANITO MINING CORPORATION**

### A. Taganito Mine

*MPSA No. 266-2008-XIII* - TMC was granted a MPSA on June 18, 2009 for a period of twenty-five (25) years subject to renewal as may be mutually agreed upon. The MPSA covers an area of 4,862.7116 hectares located at the Barangays of Hayanggabon, Urbiztondo, Taganito and Cagdianao, Municipality of Claver, Province of Surigao del Norte.

### B. Kepha Exploration

*MPSA No. 284-2009-XIII* - On June 19, 2009, Kepha was issued a MPSA covering 6,980.75 hectares of mineral land situated in the Municipality of Claver, Province of Surigao del Norte within Parcel I of the Surigao Mineral Reservation. The MPSA is for a period of twenty-five (25) years and renewable for another twenty-five (25) years as may be mutually agreed upon by the parties.

The terms and conditions of this MPSA mirror the terms of MPSA No. 266-2008-XIII granted to TMC.

An Operating Agreement dated February 14, 2007 was executed by and between TMC and Kepha for a term of twenty-five (25) years from February 14, 2007, whereby TMC shall maintain the mining rights covering the mineral property in good standing for and on behalf of Kepha.

### C. La Salle Exploration

La Salle filed an application for MPSA denominated as APSA No. 000073-XIII covering 6,824 hectares of mineral land situated at Brgy. Sicosico, Municipality of Gigaquit, Surigao del Norte, Mindanao for the development of limestone deposits as mine.

On December 18, 2006, La Salle entered into an Operating agreement with TMC for a term of twenty-five (25) years whereby TMC shall maintain the mining rights of La Salle covering the aforesaid properties and to keep the rights in current and good standing for and on behalf of La Salle. On August 12, 2010, La Salle submitted to the MGB an amended MPSA plan, reducing the area from 6,824 hectares to 2,234.96 hectares.

On January 11, 2016, TMC issued a Notice of Exclusion of the limestone deposit from the Operating Agreement to La Salle as TMC is no longer interested in the exploration and/or development of the limestone deposit inside the property.

### **CAGDIANAO MINING CORPORATION**

#### Cagdianao Mine

*MPSA No. 078- 97- XIII* - On November 19, 1997, East Coast Mineral Resources Co., Inc. (East Coast) was granted a MPSA for a period of twenty-five (25) years and renewable upon such terms and conditions as may be mutually agreed upon. The MPSA covers an area of 697.0481 hectares situated at Barangay Valencia, Municipality of Cagdianao, Province of Dinagat Islands, Surigao del Norte.

On the same date, a MOA was executed between CMC, as Operator, and East Coast for a period of ten (10) years from the effectivity of the MOA whereby East Coast grants CMC the exclusive right to explore, develop and utilize the mineral property covered by the MPSA. On November 19, 2007, the MOA was renewed for a period of fifteen (15) years, covering the remaining term of the MPSA. On December 18, 2015, a Supplemental Agreement was executed by CMC and East Coast, providing for, among others, an automatic renewal of the MOA for another twenty-five (25) years, or from 2022 to 2047.

### **GEOGEN CORPORATION**

On July 30, 2007, the PGMC and the Government entered into a MPSA, which allows PGMC to explore, develop and mine nickel ore within the contract area covering 2,392 hectares in the Municipality of Dinapigue, Province of Isabela.

On January 6, 2009, PGMC and Geogen executed a Deed of Assignment transferring to Geogen all the rights, title and interest in and into the MPSA over the contract area.

Under the MPSA, Geogen shall pay the Government a 2% excise tax. The MPSA is valid for twenty-five (25) years from issuance and renewable at the option of Geogen, with approval from the Government.

### **CORDILLERA EXPLORATION CO., INC.**

CExCI has an EP over the Manmanok Property in Apayao Province, an application for EP over the Kutop Property in the province of Abra, and an application for Financial or Technical Assistance Agreement over the Mankayan Property, within the adjoining provinces of Benguet, Ilocos Sur and Mountain Province. A portion of the AFTA, covering the grounds in Mankayan, Benguet and Cervantes, Ilocos Sur, were converted to applications for EP.

## NEWMINCO PACIFIC MINING CORPORATION

Newminco, which was acquired by CExCI in December 2015, holds an EP for copper, gold, and related base and precious metals over an area located in Cabangan, San Felipe, and San Marcelino in the province of Zambales. The decision to acquire Newminco was made following the discovery of outcropping quartz veins, the sampling of which in part returned good assays for gold. The EP 001-2015-III expired in July 2017 and is currently under the first renewal process.

### B. MINERAL RESOURCES AND RESERVES

As of December 31, 2017, the Company's Total Mineral Resources and Ore Reserves in accordance with Philippine Mineral Reporting Code (PMRC) are as follows:

| Ore                        | Class                | Tonnes (kWMT) | Tonnes (kDMT) | % Ni | % Fe  | Contained Ni (kt) |
|----------------------------|----------------------|---------------|---------------|------|-------|-------------------|
| <i>Ore Reserves*</i>       |                      |               |               |      |       |                   |
| Saprolite                  | Proved and Probable  | 105,409       | 71,836        | 1.50 | 12.89 | 1,078             |
| Limonite                   | Proved and Probable  | 254,637       | 170,947       | 1.13 | 40.69 | 1,927             |
| <i>Mineral Resources**</i> |                      |               |               |      |       |                   |
| Saprolite                  | Measured & Indicated | 159,292       | 105,700       | 1.46 | 12.15 | 1,547             |
| Limonite                   | Measured & Indicated | 264,829       | 177,045       | 1.12 | 42.10 | 1,979             |
| Saprolite                  | Inferred             | 61,300        | 39,597        | 1.33 | 13.14 | 525               |
| Limonite                   | Inferred             | 16,642        | 10,830        | 1.09 | 37.59 | 118               |

\* This ore reserves estimate was prepared by Engr. Rolando R. Cruz. (BSEM), Vice President for Project Development and Research of Nickel Asia Corporation. Engr. Cruz is a Competent Person under the definition of the PMRC and has sufficient experience as to the type of deposit and mineralization. He is a licensed mining engineer with PRC registration number 1803. He has given his consent to the attachment of this statement to the 17-A 2017 Annual Report concerning Ore Reserve Estimation.

\*\* This mineral resources estimate was prepared by Mr. Ramon Nieto Santos, Consultant of Nickel Asia Corporation. Mr. Santos is a Competent Person under the definition of the PMRC and has sufficient experience as to the type of deposit and mineralization. He is a licensed geologist with License number 0834. He has given his consent to the attachment of this statement to the 17-A 2017 Annual Report concerning Mineral Resources Estimation.

### C. PROCESSING FACILITIES

#### CBNC

|               |       |   |
|---------------|-------|---|
| Facility      | ..... | Coral Bay HPAL nickel processing plant  |
| Location      | ..... | In a Special Economic Zone adjacent to Rio Tuba mine  |
| Ownership     | ..... | NAC (10%)<br>Mitsui and Co., Ltd. (Mitsui; 18%)<br>Sojitz Corporation (18%)<br>SMM (54%)  |
| Operations    | ..... | Commissioned in 2005 with design capacity of 10,000 tonnes per year of contained nickel. Capacity doubled to 20,000 tonnes per year of contained nickel in June 2009 and attained annual capacity of 24,000 tonnes in 2010 due to facility expansion. |
| Technology    | ..... | HPAL process  |
| Source of ore | ..... | Rio Tuba mine   |
| Product       | ..... | Nickel-cobalt sulfide sold exclusively to SMM   |

The Company acquired its 10% equity interest in CBNC, the Philippine's first HPAL nickel processing plant, by way of property dividend distributed by RTN in March 2014. A consortium of Japanese companies led by SMM holds the remaining 90% equity interest. The plant was constructed adjacent to the Rio Tuba mine in an area designated as a Special Economic Zone by the Philippine Export Zone Authority (PEZA). As such, CBNC enjoys tax incentives, including a tax holiday. All of the limonite ore required for the plant is supplied by RTN from its extensive stockpile and from newly mined ore. RTN also supplies limestone and undertakes certain materials handling and transportation services. The plant produces a nickel sulfide precipitate containing approximately 57% nickel and 4% cobalt, which is sold exclusively to SMM for refining at its Nihama refinery. The facility uses proprietary SMM technology under a non-exclusive license.

THNC

|                                     |  |
|-------------------------------------|--|
| Facility . . . . .                  | Taganito HPAL nickel processing plant  |
| Location . . . . .                  | In a Special Economic Zone adjacent to the Taganito mine   |
| Ownership . . . . .                 | NAC (10.0%)<br>SMM (75.0%)<br>Mitsui (15.0%)   |
| Operations. . . . .                 | Commenced commercial operations at full capacity in October 2013 and expected to produce approximately 51,000 tonnes of mixed nickel-cobalt sulfide in 2014, the first full year of commercial operations at full capacity |
| Technology . . . . .                | HPAL process   |
| Investment cost/financing . . . . . | US\$1,420 million, which further increased to US\$1,590.0 million, to be majority debt-financed, with remaining balance to be equity-financed based on ownership   |
| Source of ore . . . . .             | Taganito Mine  |
| Product . . . . .                   | Nickel-cobalt sulfide to be sold exclusively to SMM  |

Following the success of the Coral Bay HPAL facility and taking into account the stockpile and reserves of limonite ore owned by our subsidiary, TMC, SMM conducted a feasibility study in September 2009 on a 30,000 tonnes-per-year HPAL plant to be located adjacent to our TMC mine site. The completion of the study led to the signing of a Memorandum of Understanding (MOU) in September 2009 between us, TMC, and SMM to proceed with the project. We expect that the plant will use technology similar to that used at the Coral Bay HPAL facility but will be triple the original size of the Coral Bay plant. TMC is expected to supply all the limonite ore required for the plant and the nickel-cobalt sulfide product will be sold exclusively to SMM for refining in Japan.

Pursuant to the Taganito HPAL Stockholders Agreement that we entered into on September 15, 2010, the project will be undertaken by THNC, a company that will be jointly owned by us (as to 22.5%), SMM (as to 62.5%) and Mitsui (as to 15.0%). The agreement contains a term sheet with principal terms of an offtake agreement to be entered into between THNC and TMC for the supply of limonite ore. Similar to the Coral Bay HPAL facility, the plant is located in a Special Economic Zone approved by the PEZA and should enjoy tax incentives. The operation of the facility provides an additional dedicated customer for limonite ore from our Taganito mine which allows us to benefit from the higher percentage of payable nickel available further downstream in the nickel value chain.

The estimated total cost is US\$1.7 billion, which includes capital expenditures of US\$1.6 billion for the plant, working capital and US\$100.0 million of interest accrued during the construction phase. An estimated of US\$1.1 billion of the project costs will be financed with debt financing that will be incurred by THNC. Under the terms of the Stockholders Agreement, we will be required to guarantee a portion of such debt financing equal to our 22.5% equity interest in THNC. On September 15, 2010, we entered into an agreement with SMM whereby SMM will

guarantee our pro-rata portion of THNC's loan obligation in exchange for the payment of an annual guarantee service fee to SMM of 1% of our pro-rata share of the outstanding loan obligation.

In 2016, we made a strategic decision to reduce our ownership in the Taganito plant from 22.5% to 10.0%, the same equity level that we have in the Coral Bay plant. The reduction in our equity was achieved by a sale of shares to the majority owner of the plant and one of our major shareholders, SMM.

In the absence of cost overruns or major expansion plan, THNC is expected to distribute all of its available cash as dividends to shareholders in any financial year, after payments have been made for operating expenses, applicable taxes, capital expenditure, working capital, scheduled loan principal and interest repayments, and after making provisions for upcoming installments of the loans and required working capital.

#### **D. REAL PROPERTIES**

TMC owns the following parcels of land located in Surigao City:

- 1) land with a total area of 43,237 square meters in Barangay Rizal and with Transfer Certificate of Title (TCT) No. 162-2011000392; and
- 2) another parcel of land with a total area of 88,640 square meters in Barangay Ipil and with TCT No. 162-2012000481, which is intended for leasing to THNC in the future

Likewise, HMC owns a land with a total area of 3,500 square meters located in Barangay Luna, Surigao del Norte under TCT No. 162-2013000096. HMC constructed a building on the said land which is currently being used as a liaison office of NAC's mining companies in Surigao.

RTN has parcels of land located in Manggahan, Pasig and Cainta, Rizal covering a total area of 3,324 square meters. These parcels of land are held for future use.

NAC owned a land with a total area of more or less 20,000 square meters which is located in Barangay Quezon, Surigao del Norte. NAC constructed its diesel power plant on the said land.

MGPC has purchased some 48 hectares of its geothermal project site in Naujan, Oriental Mindoro.

#### **E. SERVICE CONTRACTS**

Our power companies hold the following service contracts:

*Solar Energy Service Contract No. 2015-01-099*

On January 20, 2015, EPI entered into a SESC No. 2015-01-099 with the DOE which grant EPI the right to explore, develop and utilize the solar energy resources within the contract area of 324 hectares in the province of Pili, Camarines Sur.

Under the SESC, EPI assumes all the technical and financial risks without any guarantee from the Philippine Government and shall not be entitled to reimbursement for any expense incurred in connection with the SESC.

The SESC carries a non-extendible two (2) year period of pre-development stage, which involves the preliminary assessment and feasibility study. The SESC shall remain in force for the remainder of twenty-five (25) years from date of effectivity if the solar energy resources are discovered to be in commercial quantities. If EPI has not been in default of any material obligations under the SESC, the DOE may grant EPI an extension of the SESC for another twenty-five (25) years. The full recovery of the project development costs incurred in connection with

the SESC is dependent upon the discovery of solar energy resources in commercial quantities from the contract area and the success of future development thereof. EPI has not yet started the exploration and pre-development activities.

*Solar Energy Service Contract No. 2013-10-039*

On October 31, 2013, Jobin entered into a SESC with the DOE. The SESC covers an area of approximately 2,997 hectares in the municipalities of Morong and Hermosa, in the province of Bataan. The SESC is for a period of twenty-five (25) years, inclusive of a two (2) year pre-development stage, and renewable for another twenty-five (25) years. The government share under the SESC shall be 1% of the gross income from the sale of electricity generated from the solar energy operations.

On August 28, 2015, Jobin was granted a Certificate of Confirmation of Commerciality by the DOE for its 100.44 MW Sta. Rita Solar Power Project located in Mt. Sta Rita, Subic Bay Freeport Zone. The certificate converts the project's SESC from exploration/pre-development stage to the development/commercial stage.

On March 11, 2016, Jobin's Certificate of Confirmation of Commerciality originally rated for the 100.44 MW was amended by DOE to 7.14 MW and 92.86 MW Sta. Rita Solar Power Project Phase I and II, respectively.

*Wind Energy Service Contract No. 2013-10-062*

On October 31, 2013, Jobin entered into a WESC with the DOE. The WESC covers an area of approximately 2,997 hectares in the municipalities of Morong and Hermosa, in the province of Bataan. The WESC is for a period of twenty-five (25) years, inclusive of a three (3) year pre-development stage, and renewable for another twenty-five (25) years. The government share under the WESC shall be 1% of the gross income from the sale of electricity in the wind project.

*Geothermal Renewable Energy Service Contract No. 2014-02-054*

GRES No. 2010-02-013, which covers an approximate area of 3,914 hectares in the three barangays of Montelago, Montemayor and Melgar-B in Oriental Mindoro, involves the development of geothermal well clusters and a power plant. The steam extracted from the geothermal wells will power a geothermal power station with an output capacity of at least 20 MW. Once completed, the addition of geothermal power into the present mix of Mindoro's electricity sources will have a stabilizing effect on the grid where the entire island is located.

The Project is in the exploration stage as at December 31, 2017.

As RE Developer, EPI undertakes to provide financial, technical, or other forms of assistance with the DOE, and agrees to furnish the necessary services, technology, and financing for the geothermal operations. EPI shall assume all financial risks such that if no geothermal resources in commercial quantity is discovered and produced, EPI shall not be entitled to reimbursement for any expenses incurred in connection with the GRES.

Certificate of Registration No. 2014-02-054 shall remain in force for the remainder of twenty-five (25) years from date of effectivity if geothermal resources in commercial quantity are discovered during the pre-development stage, or any extension thereof. Moreover, if EPI has not been in default in its obligations under the GRES, the DOE may grant an additional extension of twenty-five (25) years, provided that the total term is not to exceed fifty (50) years from the date of effectivity.

On November 24, 2014, EPI and MGPC entered into a Deed of Assignment for the assignment of EPI's rights and obligations under the GRES to MGPC. On December 5, 2014, EPI applied with the DOE to transfer the GRES to MGPC. The DOE approved EPI's application on February 16, 2016 under Certificate of Registration No. 2016-02-060.

*Geothermal Renewable Energy Service Contract No. 2010-02-010*

By virtue of RA 9513 known as the RE Act of 2008, on February 1, 2010, the DOE issued to BGI GRESC No. 2010-02-010, converting its Geothermal Services Contract (GSC-09) issued on July 10, 2008 for the exploration, development and exploitation of geothermal resources covering the geothermal field in Biliran Province (previously a municipality of Leyte). By virtue of such agreement, BGI is entitled to enjoy an income tax holiday for a period of seven (7) years from the start of its commercial operation, duty free importation of machinery for ten (10) years, and 0% VAT, among others.

*Geothermal Renewable Energy Service Contract No. 2017-03-056*

This GRESC is a spin-off of the above BGI GRESC, issued by the DOE, and delineates the northern area of the island province of Biliran as a separate BGI exclusive development zone with a greenfield status.

**F. LIENS AND ENCUMBRANCES**

- a. SMM's mortgage over RTN's pier facilities
- b. Chattel mortgage over Jobin's solar assets in favor of the Land Bank of the Philippines

**Item 3. LEGAL PROCEEDINGS**

In the ordinary course of our business, we are a party to various legal actions that are mainly labor cases and that we believe are routine and incidental to the operation of our business. We do not believe that we are subject to any ongoing, pending or threatened legal proceeding that is likely to have a material effect on our business, financial condition or results of operations. However, there are a few cases that are now pending with the Courts.

*Asiacrest Marketing Corporation (ASC) - First Integrated Bonding and Insurance Co. (FIBIC) Case*

On May 30, 2016, Jobin filed a complaint against Asiacrest and FIBIC before the Construction Industry Arbitration Commission (CIAC), docketed as CIAC Case No. 23-2016, for Asiacrest's breach of its EPC Contract for the 100MW solar power plant in Subic. Jobin sought to hold Asiacrest liable for amounts not to exceed ₱1,458.0 million. Jobin sought to hold FIBIC, being the surety which secured Asiacrest's performance of its obligation, jointly and severally liable to the extent of the value of the performance bond of ₱727.5 million. On March 10, 2017, the Arbitral Tribunal rendered a final award in Jobin's favor. On March 29, 2017, Jobin moved for the issuance of a writ of execution with the CIAC.

On March 23, 2017, FIBIC filed a Petition for Review with application for the issuance of a Temporary Restraining Order (TRO) with the Court of Appeals which was granted on April 10, 2017 conditioned upon FIBIC posting a bond equivalent to the award adjudged against it in the Final Award of CIAC. On April 18, 2017 FIBIC moved to reduce the injunction bond to 1% of the amounts adjudged against it under the Final Award, which was opposed by Jobin on May 2, 2017.

In the meantime, the CIAC ordered the issuance of a writ of execution against Asiacrest on May 8, 2017 and against FIBIC on June 13, 2017. On July 10, 2017 the Court of Appeals granted the Motion of FIBIC to reduce the bond and thereafter, August 10, 2017, issued a TRO to enjoin the execution of the Final Award. The TRO expired on October 9, 2017. On November 29, 2017, the Court of Appeals denied FIBIC's application for a writ of preliminary injunction.

On December 29, 2017, Jobin received FIBIC's petition for certiorari with the Supreme Court. FIBIC contests the resolution of the Court of Appeals denying its application for a writ of preliminary injunction. To date, there is no TRO or writ of preliminary injunction which would serve to enjoin the execution of the Final Award, whether against Asiacrest or against FIBIC.



#### Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There were no matters covered under this item submitted in 2017 to the security holders for a vote.

### PART II – OPERATIONAL AND FINANCIAL INFORMATION

#### Item 5. MARKET FOR ISSUER'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

##### A. MARKET INFORMATION

The stock prices for the Parent Company's common equity for the last three (3) years, after the effect of stock dividends, are as follows:

|                         | High   | Low    |
|-------------------------|--------|--------|
| 2015                    |        |        |
| 1 <sup>st</sup> Quarter | ₱16.15 | ₱12.00 |
| 2 <sup>nd</sup> Quarter | ₱14.00 | ₱9.50  |
| 3 <sup>rd</sup> Quarter | ₱11.50 | ₱6.40  |
| 4 <sup>th</sup> Quarter | ₱8.80  | ₱6.16  |
| 2016                    |        |        |
| 1 <sup>st</sup> Quarter | ₱5.92  | ₱3.40  |
| 2 <sup>nd</sup> Quarter | ₱4.20  | ₱5.80  |
| 3 <sup>rd</sup> Quarter | ₱5.03  | ₱7.43  |
| 4 <sup>th</sup> Quarter | ₱6.77  | ₱8.75  |
| 2017                    |        |        |
| 1 <sup>st</sup> Quarter | ₱6.08  | ₱8.49  |
| 2 <sup>nd</sup> Quarter | ₱6.00  | ₱6.71  |
| 3 <sup>rd</sup> Quarter | ₱5.60  | ₱7.99  |
| 4 <sup>th</sup> Quarter | ₱5.98  | ₱7.40  |
| 2018                    |        |        |
| 1 <sup>st</sup> Quarter | ₱5.89  | ₱6.89  |

The Parent Company's stocks share price was at ₱6.11 per share as of April 2, 2018.

##### B. HOLDERS

The Company has 88 shareholders as of the end of 2017, with 7,602,928,954 common shares issued and outstanding. The top 20 stockholders of the Company as at December 31, 2017 are as follows:

| Name   | Citizenship | Shares        | % of Ownership |
|--|-------------|---------------|----------------|
| PCD Nominee Corporation (Filipino)                               | Filipino    | 4,680,302,918 | 61.56%         |
| Sumitomo Metal Mining Philippine Holdings Corporation            | Japanese    | 1,444,657,926 | 19.00%         |
| Nonillion Holding Corp.  | Filipino    | 720,000,00    | 09.47%         |
| PCD Nominee Corporation (Non-Filipino)                           | Foreign     | 507,688,030   | 06.68%         |
| Pacific Metals Co., Ltd.   | Japanese    | 210,726,340   | 02.77%         |
| Gerard H. Brimo  | Filipino    | 14,800,747    | 00.19%         |
| Manuel B. Zamora, Jr.  | Filipino    | 5,982,236     | 00.08%         |
| William T. Enrile &/or William R. Enrile II &/or Nelly R. Enrile | Filipino    | 4,800,000     | 00.06%         |
| Ricardo Sy Po or Angelita Tan Po or Leonardo Arthur Tan Po       | Filipino    | 4,726,876     | 00.06%         |

| Name                             | Citizenship | Shares    | % of Ownership |
|----------------------------------|-------------|-----------|----------------|
| Philip T. Ang                    | Filipino    | 1,616,724 | 00.02%         |
| Ronaldo B. Zamora                | Filipino    | 1,300,224 | 00.02%         |
| Megastar Real Estate Corporation | Filipino    | 1,300,000 | 00.02%         |
| Koh Teng Ong Chong               | Filipino    | 1,092,800 | 00.01%         |
| Rolando R. Cruz                  | Filipino    | 614,952   | 00.01%         |
| Eva Policar-Bautista             | Filipino    | 365,624   | 00.00%         |
| Jose B. Anievas                  | Filipino    | 318,750   | 00.00%         |
| Berck Y. Cheng                   | Filipino    | 300,000   | 00.00%         |
| Steven Ivan Lim Yu               | Filipino    | 290,850   | 00.00%         |
| Josephine Chua Lim               | Filipino    | 254,000   | 00.00%         |
| RMJ Development Corporation      | Filipino    | 225,000   | 00.00%         |

### C. DIVIDENDS

The following tables show the dividends declared and paid to common shareholders for the years ended December 31, 2017, 2016 and 2015:

#### Cash Dividends

| <u>Earnings</u> | <u>Date</u>     |                |                | <u>Amount</u>                                |                                     |
|-----------------|-----------------|----------------|----------------|--|-------------------------------------|
|                 | <u>Declared</u> | <u>Record</u>  | <u>Payable</u> | <u>Per Share (after the Stock Dividends)</u> | <u>Total Declared (in millions)</u> |
| 2017            | March 15, 2017  | March 29, 2017 | April 11, 2017 | ₱0.08  | ₱608.2                              |
| 2016            | March 15, 2016  | March 31, 2016 | April 12, 2016 | 0.08   | 607.8                               |
| 2015            | March 27, 2015  | April 15, 2015 | April 27, 2015 | 0.70   | 2,657.1                             |
| 2015            | March 27, 2015  | April 15, 2015 | April 27, 2015 | 0.30   | 1,138.8                             |

#### Stock Dividends

| <u>Earnings</u> | <u>Date</u>     |               |                 | <u>%</u> | <u>No. of Shares (in millions)</u> | <u>Total Declared (in millions)</u> |
|-----------------|-----------------|---------------|-----------------|----------|------------------------------------|-------------------------------------|
|                 | <u>Approved</u> | <u>Record</u> | <u>Issued</u>   |          |                                    |                                     |
| 2015            | June 5, 2015    | July 16, 2015 | August 11, 2015 | 100      | 3,798.5                            | ₱1,899.2                            |

We declare dividends to shareholders of record, which are paid from our unrestricted retained earnings. Our dividend policy entitles holders of shares to receive annual cash dividends of up to 30% of the prior year's recurring attributable net income based on the recommendation of our BOD. Such recommendation will take into consideration factors such as dividend income from subsidiaries, debt service requirements, the implementation of business plans, operating expenses, budgets, funding for new investments and acquisitions, appropriate reserves and working capital, among others. Although the cash dividend policy may be changed by our BOD at any time, our current intention is to pay holders of our shares annual cash dividends at this ratio. Additionally, in the event that new investments, acquisitions or other capital expenditure plans do not materialize, our BOD plans to review the dividend policy and consider increasing the dividend ratio above 30% of the prior year's recurring net income.

Our subsidiaries pay dividends subject to the requirements of applicable laws and regulations and availability of unrestricted retained earnings, without any restriction imposed by the terms of contractual agreements. Notwithstanding the foregoing, the declaration and payment of such dividends depends upon the respective subsidiary's results of operations and future projects, earnings, cash flow and financial condition, capital investment requirements and other factors.

Cash dividends are paid to all shareholders at the same time and within thirty (30) calendar days from declaration date. Stock dividends are also issued to all shareholders at the same time but subject to shareholder's approval.

**D. RECENT SALES OF UNREGISTERED OR EXEMPT SECURITIES**

No unregistered securities were sold in 2017.

**Item 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS**

The following discussion and analysis is based on the audited consolidated financial statements as at December 31, 2017 and 2016 and for the years ended December 31, 2017, 2016 and 2015, prepared in conformity with Philippine Financial Reporting Standards and accompanying Notes to the Consolidated Financial Statements and should be read in conjunction with the audited consolidated financial statements.

The Group has not, in the past five years and since its incorporation, revised its financial statements for reasons other than changes in accounting policies.

**Summary Financial Information**

The Consolidated Financial Statements as at December 31, 2017 and 2016 and for the years ended December 31, 2017, 2016 and 2015 are hereto attached.

The following tables set forth the summary financial information for the three years ended December 31, 2017, 2016 and 2015 and as at December 31, 2017, 2016 and 2015:

|   | <u>Summary Consolidated Statements of Income</u> |                  |                  | <u>Horizontal Analysis</u> |            |                            |             |
|---|--|------------------|------------------|----------------------------|------------|----------------------------|-------------|
|   | <u>For the Years Ended</u>                       |                  |                  | <u>Increase (Decrease)</u> |            | <u>Increase (Decrease)</u> |             |
|   | <u>Dec 31</u>                                    | <u>Dec 31</u>    | <u>Dec 31</u>    | <u>Increase (Decrease)</u> | <u>%</u>   | <u>Increase (Decrease)</u> | <u>%</u>    |
|   | <u>2017</u>                                      | <u>2016</u>      | <u>2015</u>      | <u>2017 vs. 2016</u>       | <u>%</u>   | <u>2016 vs. 2015</u>       | <u>%</u>    |
|   | <i>(In thousand pesos)</i>                       |                  |                  |                            |            |                            |             |
| Revenues                                    | 15,739,296                                       | 14,122,667       | 15,431,646       | 1,616,629                  | 11%        | (1,308,979)                | -8%         |
| Costs                                       | (6,641,856)                                      | (6,274,001)      | (6,637,165)      | 367,855                    | -6%        | (363,164)                  | 5%          |
| Operating expenses                          | (3,689,713)                                      | (3,776,381)      | (3,890,566)      | (86,668)                   | -2%        | (114,185)                  | -3%         |
| Finance income                              | 316,303  | 228,430          | 305,112          | 87,873                     | 38%        | (76,682)                   | -25%        |
| Finance expenses                            | (246,615)  | (219,933)        | (179,125)        | 26,682                     | 12%        | 40,808                     | 23%         |
| Equity in net income (losses) of associates | 197,972  | (413,702)        | (811,369)        | 611,674                    | 148%       | (397,667)                  | -49%        |
| Other income (charges) - net                | (84,387)   | 493,540          | 493,544          | (577,927)                  | -117%      | (4)                        | 0%          |
| Provision for income tax                    | (1,736,856)                                      | (1,449,478)      | (1,667,286)      | 287,378                    | 20%        | (217,808)                  | -13%        |
| Net income                                  | <u>3,854,144</u>                                 | <u>2,711,142</u> | <u>3,044,791</u> | <u>1,143,002</u>           | <u>42%</u> | <u>(333,649)</u>           | <u>11%</u>  |
| Net income attributable to:                 |  |                  |                  |                            |            |                            |             |
| Equity holders of the parent                | 2,770,768  | 1,966,107        | 2,035,143        | 804,661                    | 41%        | (69,036)                   | -3%         |
| Non-controlling interests                   | 1,083,376  | 745,035          | 1,009,648        | 338,341                    | 45%        | (264,613)                  | -26%        |
|   | <u>3,854,144</u>                                 | <u>2,711,142</u> | <u>3,044,791</u> | <u>1,143,002</u>           | <u>42%</u> | <u>(333,649)</u>           | <u>-11%</u> |

**Summary Consolidated Statements of Financial Position**

|                              | 2017                       | 2016       | 2015       | Horizontal Analysis |      |                     |     |
|------------------------------|----------------------------|------------|------------|---------------------|------|---------------------|-----|
|                              |                            |            |            | Increase (Decrease) |      | Increase (Decrease) |     |
|                              |                            |            |            | 2017 vs. 2016       | %    | 2016 vs. 2015       | %   |
|                              | <i>(In Thousand Pesos)</i> |            |            |                     |      |                     |     |
| Current assets               | 20,898,438                 | 20,522,768 | 16,677,942 | 375,670             | 2%   | 3,844,826           | 23% |
| Noncurrent assets            | 24,838,661                 | 24,828,748 | 25,052,413 | 9,913               | 0%   | (223,665)           | -1% |
| Total assets                 | 45,737,099                 | 45,351,516 | 41,730,355 | 385,583             | 1%   | 3,621,161           | 9%  |
| Current liabilities          | 9,614,431                  | 7,945,838  | 7,713,231  | 1,668,593           | 21%  | 232,607             | 3%  |
| Noncurrent liabilities       | 2,904,480                  | 6,206,025  | 4,603,936  | (3,301,545)         | -53% | 1,602,089           | 35% |
| Non-controlling interests    | 3,761,207                  | 4,179,162  | 3,901,315  | (417,955)           | -10% | 277,847             | 7%  |
| Equity attributable to       |                            |            |            |                     |      |                     |     |
| equity holders of the Parent | 29,456,981                 | 27,020,491 | 25,511,873 | 2,436,490           | 9%   | 1,508,618           | 6%  |
| Total liabilities and equity | 45,737,099                 | 45,351,516 | 41,730,355 | 385,583             | 1%   | 3,621,161           | 9%  |

**Summary Consolidated Statements of Cash Flows**

|  | For the Years Ended December 31 |             |             |
|--|---------------------------------|-------------|-------------|
|  | 2017                            | 2016        | 2015        |
|  | <i>(In Thousand Pesos)</i>      |             |             |
| Net cash flows from (used in):                               |                                 |             |             |
| Operating activities   | 5,296,256                       | 4,513,391   | 4,858,196   |
| Investing activities   | (1,468,106)                     | (1,840,227) | (9,285,465) |
| Financing activities   | (3,807,731)                     | (346,594)   | (2,195,157) |
| Net increase (decrease) in cash and cash equivalents         | 20,419                          | 2,326,570   | (6,622,426) |
| Cash and cash equivalents, beginning                         | 9,647,943                       | 7,073,171   | 13,561,803  |
| Effect of exchange rate changes in cash and cash equivalents | (22,430)                        | 248,202     | 133,794     |
| Cash and cash equivalents, end                               | 9,645,932                       | 9,647,943   | 7,073,171   |

**RESULTS OF OPERATIONS**

**Calendar year ended December 31, 2017 compared with calendar year ended December 31, 2016**

Revenues

Our total revenues were ₱15,739.3 million in 2017 compared to ₱14,122.7 million in 2016, an increase of ₱1,616.6 million, or 11%.

Sale of ore

The Group's value of shipments in 2017 rose by 9% to ₱14,434.8 million from ₱13,233.5 million in 2016. Although shipment volumes were lower compared to the prior year, the increase in revenues was due to higher average prices, in part the result of a change in the ore mix to higher value ore, and a more favorable Peso to US dollar exchange rate.

The realized price on 9,640.2 thousand WMT of ore sales to Japanese and Chinese customers in 2017 averaged \$24.46 per WMT compared to an average of \$20.77 per WMT on 11,691.7 thousand WMT of ore sales realized in 2016.

With respect to low-grade limonite ore sold to both the Coral Bay and Taganito processing plants, which are linked to LME prices, the Company realized an average of \$4.67 per pound of payable nickel on 8,062.4 thousand WMT sold in 2017. This compares to an average price of \$4.39 per pound of payable nickel on 7,562.4 thousand WMT sold in the prior year.

On a per mine basis, the Group's Taganito mine accounted for 43% of total shipments during the year. The mine shipped 3,054.8 thousand WMT of saprolite ore and delivered 4,590.0 thousand WMT of limonite ore to the Taganito HPAL plant, or a total combined shipment of 7,644.8 thousand WMT. The comparable figures for last year were 2,337.7 thousand WMT of saprolite ore and 5,659.0 thousand WMT of limonite ore, including 4,113.2 thousand WMT delivered to the Taganito HPAL plant, or a combined shipment of 7,996.7 thousand WMT.

The Rio Tuba mine accounted for 33% of total shipments, which consisted of 2,113.1 thousand WMT of saprolite ore and 3,643.5 thousand WMT of limonite ore, including 3,472.4 thousand WMT of ore delivered to the Coral Bay HPAL plant or a total of 5,756.6 thousand WMT. The comparable figures for last year were 2,273.5 thousand WMT, 3,884.0 thousand WMT and 3,449.2 thousand WMT, respectively, or a total of 6,157.5 thousand WMT.

Shipments from the Group's Hinatuan and Cagdianao mines were likewise lower during the year due to a late start of shipments as a result of prolonged heavy rains. Total shipments from Hinatuan consist of 2,450.7 thousand WMT compared to 3,034.3 thousand WMT in 2016, while the Cagdianao mine shipped 1,850.4 thousand WMT versus 2,065.6 thousand WMT in the prior year.

On an aggregate basis, the Group sold 17,702.5 thousand WMT of nickel ore from its four operating mines in 2017 at an average price of \$16.19 per WMT compared to 19,254.1 thousand WMT at an average price of \$14.51 per WMT in 2016.

The realized Peso / U.S. dollar exchange rate for ore sales was ₱50.42 in 2017 compared to ₱47.38 in 2016.

RTN's revenue from sale of limestone was ₱462.3 million in 2017 compared to ₱340.9 million in 2016, an increase of ₱121.4 million or 36%. The increase was attributable to the 46.6 thousand WMT or 10% increase in limestone sales in the current year compared to last year.

#### *Services and Others*

Our revenue from services and others was ₱630.1 million in 2017 compared to ₱530.3 million in 2016, an increase of ₱99.8 million, or 19%. Services revenue largely consists of payments made to us in consideration for hauling, manpower and other ancillary services that RTN and TMC provides to CBNC and THNC, respectively, and usage fee charged by TMC to THNC for the use of its pier facility. The increase in revenue from services and others was mainly attributable to the 18% increase in volume handled by TMC.

#### *Sale of Power*

In 2017, the Group generated revenue from its power generation activities, primarily from solar power, amounting to ₱212.2 million whereas there was only ₱18.0 million in last year since the operations started only in May 2016.

#### Costs

Our costs amounted to ₱6,641.9 million in 2017 compared to ₱6,274.0 million in 2016, an increase of ₱367.9 million, or 6%.

#### *Cost of Sale of Ore*

Our cost of sale of ore was ₱6,033.2 million in 2017 compared to ₱5,907.2 million in 2016, an increase of ₱126.0 million, or 2%. Personnel cost was higher by ₱143.5 million due to annual salary adjustment and new regularized employees; production overhead was higher by ₱330.2 million due to increase in fuel cost and equipment rental; and outside services was higher by ₱81.4 million due to higher materials handled by the contractors. However, the increase was partially offset by the decrease in depreciation, amortization and depletion and long-term stockpile inventory sold by ₱159.5 million and ₱38.2 million, respectively.

#### *Cost of Services*

Cost of services was ₱351.3 million in 2017 compared to ₱328.5 million in 2016, an increase of ₱22.8 million, or 7%. Costs of services largely consist of the cost of hauling, providing manpower and other ancillary services to CBNC and THNC, plus the costs of maintaining the pier facility used by THNC. The increase in cost of services was attributable mainly to the 18% increase in volume handled by TMC. Moreover, the fuel cost per liter was higher than last year by around 27%.

#### *Cost of Power Generation*

Cost of power generation amounted to ₱257.3 million in 2017 versus ₱38.3 million in 2016 since the power generation activities of the Group started only in May 2016.

#### Operating Expenses

Our operating expenses amounted to ₱3,689.7 million in 2017 compared to ₱3,776.4 million in 2016, a decrease of ₱86.7 million, or 2%.

#### *Shipping and Loading*

Shipping and loading costs were ₱1,626.4 million for the year 2017 compared to ₱1,823.5 million for the year 2016, a decrease of ₱197.1 million due to the 18% decline in the volume of direct ore export. There was also a decrease in contract fees by ₱254.5 million since most of the shipments were handled in-house and long-term LCT charter contracts expired at the end of the first quarter of 2016. The Group has since entered into short-term LCT charters on a per need basis.

#### *Excise Taxes and Royalties*

Our excise taxes and royalties were ₱1,103.7 million in 2017 compared to ₱1,006.7 million in 2016, an increase of ₱97.0 million, or 10%. The increase in excise taxes and royalties was attributable to higher revenue from sale of nickel ore and limestone during the year.

#### *General and Administrative*

General and administrative expenses were ₱863.2 million for the year 2017 compared to ₱850.3 million for the year 2016, an increase of ₱12.9 million, or 2%. The increase in personnel costs by ₱45.8 million, depreciation by ₱5.1 million, publicity and promotions by ₱5.0 and other general and administrative expenses, which are composed of numerous transactions with minimal amounts, by ₱19.4 million are the main factors for the increase in the account. However, this was partially offset by the decrease in taxes and licenses by ₱25.3 million, rentals, which is mostly equipment rental, by ₱24.9 million and donations by ₱15.7 million.

#### *Marketing*

Marketing costs were ₱96.5 million and ₱95.9 million in 2017 and 2016, respectively. The slight increase in marketing cost was also brought by the increase in our sales revenue in 2017 compared with 2016 since the commission paid by CMC to its claimowner and the marketing fees paid to Mitsubishi Corporation are based on certain percentage of sales revenue.

#### Finance Income

Our finance income was ₱316.3 million in 2017 compared to ₱228.4 million in 2016, an increase of ₱87.9 million, or 38%. The increase in finance income was attributable mainly to the increase in interest income from cash and cash equivalents by ₱61.6 million or 81%; and from AFS debt instruments by ₱13.7 million or 11% and sale of AFS financial assets in 2017 which resulted to a gain of ₱14.3 million compared to a loss of ₱11.7 million in 2016.

#### Finance Expenses

Our finance expense was ₱246.6 million in 2017 compared with ₱219.9 million in 2016, an increase of ₱26.7 million, or 12%. The movement in our finance expense arose from interest on bank loans of EPI and Jobin, which increased by ₱58.3 million mainly because in 2016 a part of the interest expense incurred by EPI and Jobin were capitalized as borrowing cost. Accretion of interest on provision for

mine rehabilitation and decommissioning also increased by ₱7.2 million due to the ₱263.6 million adjustment in the capitalized cost of mine rehabilitation and decommissioning in 2016. The increase was partially offset by ₱33.4 million decrease in guarantee service fee due to reduction in the Group's share in THNC's results of operations from 22.5% to 10% effective July 1, 2016.

#### Equity in Net Income (Losses) of Associates

Our equity in net income (losses) of THNC and CBNC was ₱198.0 million income and ₱413.7 million loss in 2017 and 2016, respectively. The results of operations of THNC and CBNC was net income of US\$19.0 million and US\$20.3 million, respectively, in 2017 compared to a net loss of US\$21.4 million and US\$21.8 million, respectively, in 2016. The increase in the associates results of operations was due to lower operating costs and higher cobalt prices, a by-product of THNC and CBNC plants.

#### Other Income (Charges) - net

Our other income (charges) - net in 2017 were ₱84.4 million charges compared to ₱493.5 million income in 2016, a decrease of ₱577.9 million or 117%. The movement in the account was attributable to the following: 1) the favorable impact of changes in foreign exchange rate in 2017 was lower by ₱282.9 million compared to last year; 2) a gain of ₱239.6 million on the sale of the Parent Company's 12.5% interest in THNC to SMM was recognized in 2016; 3) impairment losses on AFS financial assets was higher by ₱14.1 million compared to last year; 4) decrease in special projects by ₱18.9 million; and 5) increase in demurrage by ₱35.7 million.

#### Provision for (Benefit from) Income Tax

Provision for income tax was ₱1,736.9 million in 2017 compared to ₱1,449.5 million in 2016, an increase of ₱287.4 million, or 20%. Our current provision for income tax in 2017 was ₱1,865.3 million compared to ₱1,441.5 million in 2016, an increase of ₱423.8 million, or 29% primarily due to the increase in our taxable income in 2017 resulting from higher sales revenue. Our provision for (benefit from) deferred income tax in 2017 was ₱128.5 million benefit compared to ₱8.0 million provision in 2016, a decrease in provision by ₱136.5 million. Movement in provision for (benefit from) deferred income tax arises mainly from the tax impact of lower net unrealized foreign exchange gains in 2017, which resulted to lower provision for deferred income tax by ₱81.5 million as compared in 2016, and the tax impact of the amortization of long-term stockpile inventory sold, which resulted to ₱49.0 million benefit from deferred income tax.

#### Net Income

As a result of the foregoing, our consolidated net income was ₱3,854.1 million in 2017 compared to ₱2,711.1 million in 2016. Net of non-controlling interests, our net income was ₱2,770.8 million in 2017 compared to ₱1,966.1 million in 2016, an increase of ₱804.7 million, or 41%.

### **Calendar year ended December 31, 2016 compared with calendar year ended December 31, 2015**

#### Revenues

Our total revenues were ₱14,122.7 million in 2016 compared to ₱15,431.6 million in 2015, a decrease of ₱1,308.9 million, or 8%.

#### Sale of ore

We sold an aggregate 19,254.1 thousand WMT of nickel ore in 2016, marginally lower compared to 19,671.6 thousand WMT of nickel ore in 2015. Our sales for this year included 7,342.1 thousand WMT of saprolite ore sold to customers in Japan, China and Australia, 4,349.6 thousand WMT of limonite ore to our customers in China and Australia, and 7,562.4 thousand WMT of limonite ore to CBNC and THNC compared to sales of 7,058.9 thousand WMT, 4,814.8 thousand WMT and 7,797.9 thousand WMT, respectively, in 2015.

Lower shipment volume coupled with the overall weakness in nickel ore prices led to a drop in the Group's value of shipments from ₱14,381.5 million in 2015 to ₱13,233.5 million in 2016.

The realized nickel price on 11,691.7 thousand WMT of ore sales mainly to Japanese and Chinese customers in 2016 averaged \$20.77 per WMT compared to an average of \$22.64 per WMT realized on 11,873.6 thousand WMT in 2015.

With respect to low-grade limonite ore sold to both the Coral Bay and Taganito processing plants, which are linked to LME prices, the Group realized an average of \$4.39 per pound of payable nickel on 7,562.4 thousand WMT sold in 2016. This compares to an average price of \$5.36 per pound of payable nickel on 7,797.9 thousand WMT sold in 2015. The lower volume compared to the prior year was due to remedial work conducted over a one month period at the Taganito HPAL plant, which reduced ore delivery from the Group's Taganito mine. The work was completed in May 2016 and the plant has since resumed operations at full capacity.

On a per mine basis, the Group's Taganito operation accounted for 42% of total shipments. The mine shipped a total of 2,337.7 thousand WMT of saprolite ore and 5,659.0 thousand WMT of limonite ore, including 4,113.2 thousand WMT to the Taganito HPAL plant in 2016. The comparable figures for 2015 were 2,500.9 thousand WMT, 5,239.8 thousand WMT and 4,426.3 thousand WMT, respectively.

The Rio Tuba mine accounted for 32% of total shipments, which consists of 2,273.5 thousand WMT of saprolite ore and 3,884.0 thousand WMT of limonite ore, including 3,449.2 thousand WMT of ore delivered to the Coral Bay HPAL plant in 2016. For 2015, Rio Tuba sold 3,180.2 thousand WMT of saprolite ore and 3,371.6 thousand WMT of limonite ore to the Coral Bay plant.

The drop in ore shipments was mainly due to a change in the ore grade mix brought about by the impact of lower ore prices.

The prolonged rainy season and resulting sea swells during the first half of 2016 resulted to delays in the start of shipments from the Group's Hinatuan and Cagdianao mines, thereby translating to slightly lower shipment volumes in 2016. Shipments from the Hinatuan mine in 2016 was 3,034.3 thousand WMT compared to 3,209.5 thousand WMT in 2015, while the Cagdianao mine shipped 2,065.6 thousand WMT in 2016 versus 2,169.5 thousand WMT in 2015.

RTN's revenue from sale of limestone was ₱340.9 million in 2016 compared to ₱414.1 million in 2015, a decrease of ₱73.2 million or 18%. The decrease was attributable to the 111.2 thousand WMT or 19% decline in limestone sales in 2016 compared to 2015.

#### *Services and Others*

Our revenue from services and others was ₱530.3 million in 2016 compared to ₱636.0 million in 2015, a decrease of ₱105.7 million, or 17%. The decline in revenue from services and others was attributable to the 12% and 7% drop in volume handled by TMC and RTN, respectively. In addition, the 2015 revenue from services of RTN included price adjustments for 2013 and 2014 materials handling deliveries.

#### Costs

Our costs amounted to ₱6,274.0 million in 2016 compared to ₱6,637.2 million in 2015, a decrease of ₱363.2 million, or 5%.

#### *Cost of Sale of Ore*

Our cost of sale of ore was ₱5,907.2 million in 2016 compared to ₱6,279.2 million in 2015, a decrease of ₱372.0 million, or 6%. Decrease in cost of sale of ore was attributable to the 2% decline in shipment volume caused by unfavorable weather conditions, effects of sea swells during the first half of 2016 and due to a change in the ore grade mix brought about by the impact of lower ore prices. In addition, there was a reduction in cost of fuel due to the significant drop in fuel price. Contractor's fee and materials and supplies withdrawal also decreased because of lesser volume moved and the two conveyors of TMC were already operational, thus contract hauling of ore by truck had been substantially reduced.



#### *Cost of Services*

Cost of services was ₱328.5 million in 2016 compared to ₱357.9 million in 2015, a decrease of ₱29.4 million, or 8%. The decline in cost of services was attributable mainly to the 12% and 7% drop in volume handled by TMC and RTN, respectively. Moreover, the fuel cost per liter was 24% lower than last year.

#### *Operating Expenses*

Our operating expenses amounted to ₱3,776.4 million in 2016 compared to ₱3,890.6 million in 2015, a decrease of ₱114.2 million, or 3%.

#### *Shipping and Loading*

Shipping and loading costs were ₱1,823.5 million for the year 2016 compared to ₱1,757.9 million for the year 2015, an increase of ₱65.6 million, or 4%. The increase in contract fees by ₱67.3 million and depreciation and amortization by ₱24.8 million, which were partially offset by the decrease in fuel, oil and lubricants by ₱31.1 million, were the main factors for the movements in the account.

#### *Excise Taxes and Royalties*

Our excise taxes and royalties were ₱1,006.7 million in 2016 compared to ₱1,089.6 million in 2015, a decrease of ₱82.9 million, or 8%. The decrease in excise taxes and royalties was attributable to the 8% decline in our sale of ore in 2016 compared to 2015.

#### *General and Administrative*

General and administrative expenses were ₱850.3 million for the year 2016 compared to ₱912.9 million for the year 2015, a decrease of ₱62.6 million, or 7%. The decrease in taxes and licenses by ₱67.9 million mainly caused the decrease in the account. Lower taxes and licenses in 2016 were attributable to lower fringe benefit tax paid on stock option exercised during the year by ₱3.6 million. Also in 2015, SEC filing fees of ₱15.1 million was paid by the Parent Company for the increase in its authorized capital stock. Documentary stamp tax were also paid in 2015 for the acquisition of Geogen shares amounting to ₱0.9 million and for the stock dividends issued by the Parent Company in August 2015 and TMC in July 2015 amounting to a total of ₱14.5 million. Deficiency tax assessments were also accrued/paid in 2015 amounting to a total of ₱59.5 million. Local business taxes paid in 2015 were also higher than 2016 since the basis used in 2015 was revenue of 2014, which was significantly higher as compared to previous and current years. Depreciation and amortization also decreased due to full depreciation of Learjet in third quarter of 2015. Donations and contributions were lower by ₱19.0 million due to absence of housing constructions in 2016. The decrease was partially offset by the increase in personnel cost due to salary increases during the year. Also, full year general and administrative expenses of Geogen and EPI group were accounted in 2016 compared to around half year expenses last year since these companies were acquired only in third quarter of 2015.

#### *Marketing*

Marketing costs were ₱95.9 million and ₱130.2 million in 2016 and 2015, respectively. The decrease in marketing cost was also brought by the decline in our sales revenue in 2016 compared with 2015 since the commission paid by CMC to its claimowner and the marketing fees paid to Mitsubishi Corporation are based on certain percentage of sales revenue.

#### *Finance Income*

Our finance income was ₱228.4 million in 2016 compared to ₱305.1 million in 2015, a decrease of ₱76.7 million, or 25%. The decrease in finance income was attributable mainly to the sale of AFS financial assets in 2015 which resulted to a gain of ₱86.3 million compared to a loss of ₱11.7 million in 2016. However, the decrease was partially offset by the increase in interest income from loans and AFS debt instruments.

#### Finance Expenses

Our finance expense was ₱219.9 million in 2016 compared to ₱179.1 million in 2015, an increase of ₱40.8 million, or 23%. The movement in our finance expense arose from interest on bank loans of EPI, which increased by ₱56.4 million, due to additional loans drawn during the year amounting to ₱1,190.0 million and loss on sale of AFS financial assets of ₱11.7 million. The increase was partially offset by ₱24.2 million decrease in guarantee service fee as a result of the change in the Parent Company's equity interest in THNC, which decreased from 22.5% to 10% effective July 1, 2016.

#### Equity in Net Losses of Associates

Our equity in net losses of THNC and CBNC was ₱413.7 million and ₱811.4 million in 2016 and 2015, respectively. The result of THNC's operations in 2016 and 2015 was a net loss of US\$21.4 million and US\$61.7 million, respectively. On the other hand, the results of CBNC's operations in 2016 and 2015 was also a net loss of US\$21.8 million and US\$34.4 million, respectively.

#### Other Income - net

Our other income - net in 2016 and 2015 were almost the same at ₱493.5 million. The movements in the account were attributable to the following: 1) favorable impact of changes in foreign exchange rate since the Group is in net financial asset position, net effect was ₱40.3 million; 2) recognized gain of ₱239.6 million on the sale of the Parent Company's 12.5% interest in THNC to SMM; 3) decrease in impairment losses on input VAT by ₱33.0 million; and 4) increase in special projects by ₱29.2 million. However, the said increases were partially offset by: 1) demurrage incurred in 2016 amounting to ₱107.0 million compared to a despatch of ₱39.0 million in 2015; 2) no business acquisitions happened in 2016, thus no gain on bargain purchase was recognized; 3) decrease in reversal of allowance for impairment losses on inventories by ₱29.1 million; 4) impairment losses on property and equipment amounting to ₱12.8 million was recognized in 2016; and 5) impairment losses on AFS financial assets of ₱119.2 million and trade and other receivables of ₱25.0 million were also recognized in 2016.

#### Provision for Income Tax

Provision for income tax was ₱1,449.5 million in 2016 compared to ₱1,667.3 million in 2015, a decrease of ₱217.8 million, or 13%. Our current provision for income tax in 2016 was ₱1,441.5 million compared to ₱1,605.7 million in 2015, a decrease of ₱164.2 million, or 10% primarily due to the decrease in our taxable income in 2016 resulting from lower sales revenue. Our provision for deferred income tax in 2016 was ₱8.0 million compared to ₱61.5 million in 2015, a decrease of ₱53.5 million, or 87%. In 2015, the tax impact of movements in net operating loss carry-over (NOLCO) amounted to ₱75.0 million provision for deferred income tax as compared in 2016 wherein a benefit of ₱27.5 million was recognized. Provision for deferred income tax on allowance for impairment losses was higher in 2015 due to reversals of allowance for inventory losses and impairment losses on property and equipment amounting to around ₱44.3 million as compared to 2016 wherein the total movement in allowance resulted to a benefit of ₱9.9 million. Benefit from deferred income tax on Executive Stock Option Plan (ESOP) accrual was lower by ₱10.5 million in 2016 compared to 2015. Moreover, the Group recognized a benefit in movement of excess of minimum corporate income tax over regular corporate income tax in 2015 amounting to ₱13.5 million compared to a provision of ₱27.5 million in 2016. The tax impact of unrealized foreign exchange gains in 2016 was higher by ₱37.0 million as compared in 2015.

#### Net Income

As a result of the foregoing, our consolidated net income was ₱2,711.1 million in 2016 compared to ₱3,044.8 million in 2015. Net of non-controlling interests, our net income was ₱1,966.1 million in 2016 compared to ₱2,035.1 million in 2015, a decrease of ₱69.0 million, or 3%.

## **Calendar year ended December 31, 2015 compared with calendar year ended December 31, 2014**

### **Revenues**

Our total revenues were ₱15,431.6 million in 2015 compared to ₱24,745.7 million in 2014, a decrease of ₱9,314.1 million, or 38%.

### ***Sale of ore***

We sold an aggregate 19,671.6 thousand WMT of nickel ore in 2015, an increase of 10% compared to 17,873.3 thousand WMT of nickel ore in 2014. Our sales in 2015 included 7,058.9 thousand WMT of saprolite ore sold to customers in Japan, China and Australia, 4,814.8 thousand WMT of limonite ore to our customers in China and Australia, and 7,797.9 thousand WMT of limonite ore to CBNC and THNC compared to sales of 5,740.5 thousand WMT, 4,726.6 thousand WMT and 7,406.2 thousand WMT, respectively, in 2014.

The direct exports of ore mainly contributed to the higher shipments, increasing to 11,873.6 thousand WMT in 2015 from 10,467.1 thousand WMT in 2014. Ore deliveries to the two HPAL plants likewise rose, in particular to the Taganito HPAL facility, which just completed its first full year of operations at full capacity. The said plant was operating at an average 80% capacity in 2014. Total ore deliveries to the two HPAL plants reached 7,797.9 thousand WMT in 2015 compared to 7,406.2 thousand WMT in 2014.

The record volume of ore shipments achieved in 2015 was not sufficient to offset the fall in nickel prices, resulting to a decrease in the estimated value of shipments from ₱23,736.6 million in 2014 to ₱14,381.5 million in 2015.

The realized nickel price on 11,873.6 thousand WMT of direct exports of ore in 2015 averaged \$22.64 per WMT, much lower than the average of \$45.10 per WMT realized in 2014. It will be recalled that there was a surge in ore prices in 2014 due to the expectation of supply tightness resulting from the effects of the Indonesian export ore ban, which did not occur.

With respect to low-grade limonite ore sold to both the Coral Bay and Taganito plants, which continues to be linked to LME prices, the Group realized an average of \$5.36 per pound of payable nickel in 2015. This compares to an average price of \$7.69 per pound of payable nickel sold in 2014.

RTN's revenue from sale of nickel ore was ₱4,646.7 million in 2015 compared to ₱6,610.4 million in 2014, a decrease of ₱1,963.7 million or 30%. RTN sold an aggregate 6,551.9 thousand WMT of nickel ore in 2015 compared to an aggregate 5,972.4 thousand WMT of nickel ore sold in 2014. The volume of saprolite ore sold to Japanese customers decreased by 160.7 thousand WMT or 18% and the volume of saprolite and limonite ore sold to Chinese customers increased by 639.9 thousand WMT or 38%. In 2015, RTN also shipped 111.5 thousand WMT of saprolite ore to Australia. Lastly, the volume of limonite ore sold to CBNC decreased by 11.2 thousand WMT.

TMC's operations became the largest and accounted for 39% of total shipments in 2015. TMC's revenue from sale of nickel ore was ₱5,069.8 million in 2015 compared to ₱8,479.0 million in 2014, a decrease of ₱3,409.2 million, or 40%. TMC sold an aggregate 7,740.7 thousand WMT of nickel ore in 2015 as compared to an aggregate 7,087.7 thousand WMT of nickel ore in 2014. The volume of saprolite ore sold to Japanese customers decreased by 8.7 thousand WMT or 1% and the volume of saprolite and limonite ore sold to Chinese customers increased by 258.8 thousand WMT or 11%. Further, TMC was able to deliver 4,426.3 thousand WMT of limonite ore to THNC plant in 2015 as against 4,023.4 thousand WMT of limonite ore in 2014.

CMC's revenue from sale of nickel ore was ₱2,350.2 million in 2015 compared to ₱3,595.5 million in 2014, a decrease of ₱1,245.3 million, or 35%. CMC sold an aggregate 2,169.5 thousand WMT of nickel ore in 2015 compared to an aggregate 1,350.3 thousand WMT of nickel ore in 2014. Limonite

shipments from CMC mine rose more than three times to 1,441.5 thousand WMT in 2015 compared to 460.7 thousand WMT in 2014. On the other hand, the saprolite ore sales from Cagdianao mine was 728.0 thousand WMT in 2015 compared to 889.6 thousand WMT in 2014.

HMC's revenue from sale of nickel ore was ₱2,314.8 million in 2015 compared to ₱5,051.7 million in 2014, a decrease of ₱2,736.9 million, or 54%. In 2015, HMC managed to sell an aggregate 3,209.5 thousand WMT of saprolite and limonite ore to Chinese customers compared to 3,462.9 thousand WMT in 2014.

RTN's revenue from sale of limestone ore was ₱414.1 million in 2015 compared to ₱316.1 million in 2014, an increase of ₱98.0 million or 31%. There was an increase in limestone sales in 2015 of 164.3 thousand WMT or 38% due to deliveries to UMPI, which started in August 2014 only.

#### *Services and Others*

Our revenue from services and others was ₱636.0 million in 2015 compared to ₱693.0 million in 2014, a decrease of ₱57.0 million, or 8%. The decrease in our revenues from services and others in 2015 was due to decrease in materials handling services rendered by RTN to CBNC since the processing of limestone and slake lime of CBNC was now handled by another contractor.

#### Costs

Our costs amounted to ₱6,637.2 million in 2015 compared to ₱5,727.6 million in 2014, an increase of ₱909.6 million, or 16%.

#### *Cost of Sale of Ore*

Our cost of sale of ore was ₱6,279.2 million in 2015 compared to ₱5,356.4 million in 2014, an increase of ₱922.8 million, or 17%. Aside from the 10% increase in volume of shipments, the movement in cost of sale of ore was also attributable to the increase in outside services from ₱1,246.4 million to ₱1,753.5 million. The weather allowed for saprolite mining activities in TMC mine and in-house resources were utilized for the said activities. Also, limonite mining and hauling were done by contractors, and this contributed to the increase in cost. RTN also hired contractors for its hauling activities.

#### *Cost of Services*

Cost of services was ₱357.9 million in 2015 compared to ₱371.1 million in 2014, a decrease of ₱13.2 million, or 4%. In 2015, the cost of materials handling services of RTN decreased by ₱30.6 million because most of the limestone and slake lime processing that was previously handled by RTN for CBNC was now handled by another contractor. The decrease was partially offset by the 4% increase in volume handled by TMC for THNC in 2015 which increased its cost by ₱19.5 million. Aside from that, there was an increase in the personnel cost which was directly attributable in rendering of service.

#### Operating Expenses

Our operating expenses amounted to ₱3,890.6 million in 2015 compared to ₱4,717.8 million in 2014, a decrease of ₱827.2 million, or 18%.

#### *Shipping and Loading*

Shipping and loading costs were ₱1,757.9 million for the year 2015 compared to ₱1,837.6 million for the year 2014, a decrease of ₱79.7 million, or 4%. As a result of 13% increase in the volume of our direct export of ores, contract fees increased by ₱58.7 million due to additional LCT rentals. However, the said increase was offset by the movement in fuel, oil and lubricants which decreased by ₱84.7 million as a result of the significant drop in the price of diesel, and other services and fees which decreased by ₱53.5 million.

#### *Excise Taxes and Royalties*

Our excise taxes and royalties were ₱1,089.6 million in 2015 compared to ₱1,754.8 million in 2014, a decrease of ₱665.2 million, or 38%. The decrease in excise taxes and royalties was attributable to the 38% decline in our sale of ore in 2015 as compared to 2014.

#### *General and Administrative*

General and administrative expenses were ₱912.9 million for the year 2015 compared to ₱956.5 million for the year 2014, a decrease of ₱43.6 million, or 5%. The decrease in taxes and licenses by ₱78.6 million mainly caused the decrease in the account. Lower taxes and licenses were attributable to lower fringe benefit tax paid on stock option exercised in 2015. In 2014, a total of 11.4 million shares were exercised, with corresponding fringe benefit tax of ₱116.4 million, as compared to only 2.6 million shares in 2015, with corresponding fringe benefit tax of ₱19.0 million. Moreover, the benefit given in 2014 was higher because the Company's stock price at exercise dates ranges from ₱17.02 to ₱47.80 compared to ₱20.40 in 2015. The decrease in taxes and licenses was partially offset by the increase in local business tax since the basis used was the revenues in 2014 which was significantly higher. Donations of the Group in 2014 were also higher by ₱13.6 million since the majority of the rehabilitation and reconstruction of houses in Guiuan, Eastern Samar, which was strongly hit by the typhoon, was completed on the same year. The decrease in the account was partially offset by the care and maintenance cost incurred by HMC for its South Dinagat mine plus other publicity and promotional expenses of the Group.

#### *Marketing*

Marketing costs were ₱130.2 million and ₱168.9 million in 2015 and 2014, respectively. The decrease in marketing cost was also brought by the decline in our sales revenue in 2015 compared with 2014. Commission paid by CMC to its claimowner and the marketing fee paid to Mitsubishi Corporation are based on certain percentage of sales revenue.

#### *Finance Income*

Our finance income was ₱305.1 million in 2015 compared to ₱172.1 million in 2014, an increase of ₱133.0 million, or 77%. In 2015, due to the excess cash of the Group, the Parent Company put up additional investments in various debt instruments which led to the increase in interest income earned in 2015 compared with 2014. Total investments in debt instruments accounts for 75% of the total AFS financial assets.

#### *Finance Expenses*

Our finance expense was ₱179.1 million in 2015 compared with ₱164.4 million in 2014, an increase of ₱14.7 million, or 9%. Basically, the movement in our finance expense arises from interest on loans availed by EPI which amounted to ₱30.8 million. But the increase was partially offset by the decrease in guarantee service fee by ₱10.6 million due to principal repayments made by THNC in 2015.

#### *Equity in Net Income (Losses) of Associates*

Our equity in net income or losses of THNC and CBNC was ₱811.4 million loss and ₱522.4 million income in 2015 and 2014, respectively. The result of THNC's operations in 2015 and 2014 was a net loss of US\$61.7 million and a net income of US\$32.1 million, respectively. On the other hand, the results of CBNC's operations in 2015 and in the last three quarters of 2014 was a net loss of US\$34.4 million and a net income of US\$59.4 million, respectively.

#### *Other Income - net*

Our other income - net in 2015 was ₱493.5 million compared to ₱470.5 million in 2014, an increase of ₱23.0 million, or 5%. The increase in the account was attributable to the following: 1) favorable impact of changes in foreign exchange rate, with net effect of ₱140.5 million; 2) increase in dividend income from AFS financial assets by ₱19.4 million; and 3) gain on bargain purchase of ₱60.0 million which arises from acquisition of Geogen. However, the said increase was partially offset by: 1) decrease in despatch income by ₱28.3 million; 2) provision for impairment losses on input value added tax of LCSLC of ₱54.5 million; 3) decrease in reversal of allowance for impairment losses on

inventories by ₱78.0 million; 4) decrease in other income for special projects by ₱25.8 million; and 5) management fee/trust fee incurred for our managed funds increased by ₱13.2 million due to additional acquisitions of AFS financial assets during the year 2015.

#### Provision for Income Tax

Provision for income tax was ₱1,667.3 million in 2015 compared to ₱4,292.8 million in 2014, a decrease of ₱2,625.5 million, or 61%. Our current provision for income tax in 2015 was ₱1,605.7 million compared to ₱4,265.5 million in 2014, a decrease of ₱2,659.8 million, or 62% primarily due to the decrease in our taxable income in 2015 resulting from lower sales revenue. Our provision for deferred income tax in 2015 was ₱61.5 million compared to ₱27.4 million in 2014, an increase of ₱34.1 million, or 124%. The movement in the account pertains mainly to the application and expiration of NOLCO in 2015 with corresponding tax impact of ₱74.4 million and ₱9.1 million, respectively, which was higher compared in 2014 of ₱44.2 million and ₱7.4 million, respectively.

#### Net Income

As a result of the foregoing, our consolidated net income was ₱3,044.8 million in 2015 compared to ₱11,008.1 million in 2014. Net of non-controlling interests, our net income was ₱2,035.1 million in 2015 compared to ₱8,551.6 million in 2014, a decrease of ₱6,516.5 million, or 76%.

### **FINANCIAL POSITION**

#### **Calendar year as at December 31, 2017 and 2016**

Total assets amounted to ₱45,737.1 million in 2017 compared to ₱45,351.5 million in 2016.

Current assets increased to ₱20,898.4 million from ₱20,522.8 million mainly because of net acquisitions of AFS financial assets amounting to ₱153.0 million and increase in inventories by ₱291.6 million.

The increase in noncurrent assets from ₱24,828.7 million to ₱24,838.7 million was attributable to the additional project development cost incurred of ₱90.0 million and equity take up of net income of associates during the year amounting to ₱198.0 million. However, the increase was partially offset by the negative adjustment, amounting to ₱69.8 million, in the capitalized cost of mine rehabilitation and decommissioning under property and equipment and reclassification to current assets of long-term stockpile amounting to ₱212.0 million.

The increase in total current liabilities from ₱7,945.8 million to ₱9,614.4 million pertains to the remaining ₱1,500.0 million loan of EPI from SBC which is due for payment in September 2018. In 2016, the said loan was classified under noncurrent liabilities.

In 2017, EPI paid 50% of its outstanding loan from SBC and the remaining balance of ₱1,500.0 million was reclassified under current liabilities, thus total noncurrent liabilities decreased from ₱6,206.0 million to ₱2,904.5 million.

Our equity net of non-controlling interests as at December 31, 2017 increased to ₱29,457.0 million from ₱27,020.5 million as of year-end 2016, due to net difference of cash dividends paid and net earnings in 2017.

#### **Calendar year as at December 31, 2016 and 2015**

Total assets amounted to ₱45,351.5 million in 2016 compared to ₱41,730.4 million in 2015.

Current assets increased to ₱20,522.8 million from ₱16,677.9 million mainly because of the increase in cash and cash equivalents from ₱7,073.2 million to ₱9,647.9 million. The net increase in cash and cash equivalents arose from cash from operations amounting to ₱4,513.4 million, proceeds from sale of 12.5% interest in THNC of ₱2,037.2 million, loans availment of ₱1,182.8 million, interest received of ₱221.6 million, investments from non-controlling shareholders of ₱226.9 million and favorable foreign

exchange impact in cash and cash equivalents of ₱248.2 million less acquisitions of property and equipment of ₱3,337.0 million, amount spent for geothermal exploration and evaluation of ₱463.2 million, cash dividends paid of ₱1,473.3 million and loan and interest payments of ₱293.3 million.

The decrease in noncurrent assets from ₱25,052.4 million to ₱24,828.7 million was attributable mainly to the sale of the Parent Company's 12.5% interest in THNC plus the equity take up of net losses of associates in 2016 which resulted to a decrease of ₱2,182.0 million. Long-term stockpile inventory also decreased by ₱217.5 million due to ore deliveries to CBNC. However, the decrease was partially offset by the net increase in property and equipment by ₱1,656.8 million and geothermal exploration and evaluation assets by ₱463.2 million.

Total current liabilities increased to ₱7,945.8 million from ₱7,713.2 million due to increase in income tax payable by ₱312.9 million and current portion of long-term debt by ₱23.8 million. This was partially offset by the decrease in trade and other payables by ₱109.0 million.

Total noncurrent liabilities increased to ₱6,206.0 million from ₱4,603.9 million due to full drawdown of EPI's long-term bank loans amounting to ₱890.0 million and bank loans availed by Jobin amounting to ₱300.0 million. Moreover in 2016, the Group re-assessed its provision for mine rehabilitation and decommissioning which resulted to additional provisions recognized amounting to ₱263.6 million. Deferred income tax liabilities also increased from ₱731.5 million to ₱876.5 million due to the tax effect of increase in unrealized foreign exchange gains, adjustment in undepleted asset retirement obligation, capitalized borrowing costs, movement in share in cumulative translation adjustment and reduction in long-term stockpile inventory.

Our equity net of non-controlling interests as at December 31, 2016 increased to ₱27,020.5 million from ₱25,511.9 million as of year-end 2015, due to net difference of cash dividends paid and net earnings in 2016.

## **CASH FLOWS**

### **Calendar years ended December 31, 2017, 2016 and 2015**

The net cash flows from operating activities amounted to ₱5,296.3 million in 2017 compared to ₱4,513.4 million in 2016 and ₱4,858.2 million in 2015, as proceeds from the sale of ore were higher in 2017 and 2015 compared to 2016 because of higher ore prices or volume sold. Increase in ore prices in 2017 was due to higher average prices, in part the result of a change in the ore mix to higher value ore, and a more favorable Peso to US dollar exchange rate. In 2015, the volume of shipment was higher compared to 2016.

The net cash used for investment activities amounting to ₱1,468.1 million, ₱1,840.2 million and ₱9,285.5 million in 2017, 2016 and 2015, respectively, arises mainly from net acquisitions of property and equipment amounting to ₱1,474.3 million, ₱3,337.0 million and ₱3,913.6 million, respectively, and net acquisitions of AFS financial assets amounting to ₱265.4 million, ₱344.8 million and ₱3,229.1 million, respectively. The Group also spent ₱21.8 million, ₱463.2 million and ₱470.7 million for the geothermal exploration and evaluation assets of its Montelago project in 2017, 2016 and 2015, respectively. In 2016, the cash used in investing activities was partially offset by ₱2,037.2 million proceeds from the sale of the Parent Company's 12.5% interest in THNC. In addition, in 2015 a loan amounting to ₱1,000.0 million was issued to East Coast and new subsidiaries were acquired amounting to a total of ₱800.8 million.

In 2017, 2016 and 2015, the net cash used in financing activities amounting to ₱3,807.7 million, ₱346.6 million and ₱2,195.2 million, respectively, arises mainly from payments of cash dividends, short and long-term debts plus the related interest. However, these payments were partially offset by the proceeds from loan availments of ₱2,099.4 million in 2015 and ₱1,182.8 million in 2016. As at December 31, 2017, 2016 and 2015, cash and cash equivalents amounted to ₱9,645.9 million, ₱9,647.9 million and ₱7,073.2 million, respectively.

## **TOP FIVE KEY PERFORMANCE INDICATORS**

### **1) SALES VOLUME**

The volume of saprolite ore that we sell largely depends on the grade of saprolite ore that we mine. The volume of limonite ore that we sell to our customers in China largely depends on the demand for NPI and carbon steel in China. PAMCO purchases our high-grade saprolite ore that we are able to extract and ship at any given time. With respect to our low-grade saprolite and limonite ore, in periods when we are able to extract more ore than we are able to ship, we generally continue our mining operations and stockpile such ore for sale when demand improves or when prices rise to more attractive levels. As stated above, the volume of our low-grade saprolite ore and limonite ore sales to our Chinese customers is roughly correlated with the LME nickel price, with volume increasing as nickel prices rise. In addition to sales of nickel ore to PAMCO, SMM and our customers in China and Australia, we sell limonite ore from our Rio Tuba mine to the Coral Bay HPAL facility, in which we have a 10% equity interest, and from our Taganito mine to the Taganito HPAL facility, in which we also have a 10% equity interest. CBNC purchases an amount of limonite ore from us sufficient to meet its ore requirements. The annual capacity of its Coral Bay HPAL facility was originally 10,000 tonnes of contained nickel and was expanded to 20,000 tonnes of contained nickel in the second half of 2009, resulting in a higher volume of limonite ore sales from RTN. In 2010, the Coral Bay HPAL facility was able to attain an annual capacity of 24,000 tonnes as a result of the facility's expansion in 2009 which became fully operational in 2010. The Taganito HPAL facility has an annual capacity of 30,000 tonnes of mixed nickel-cobalt sulfide over an estimated thirty (30) year Project life.

#### Type and Grade of Ore that we Mine

We realize higher sales prices for our saprolite ore than for our limonite ore. Accordingly, the type and grade (which is a factor of nickel content) of the ore that we mine affects our revenues from year to year. The quantity of saprolite ore that we mine annually depends on the customer demand and the availability of such ore at our mine sites. The mix between high-and low-grade saprolite ore at our minesites coupled with our long-term mining plan determines the quantities of each that we extract on an annual basis. The quantity of limonite ore that we mine on an annual basis depends on the amount of such ore that needs to be removed in order to extract the saprolite ore, as well as market demand.

In 2017 and 2016, we sold an aggregate of 17,702.5 thousand WMT and 19,254.1 thousand WMT, respectively.

### **2) TOTAL COST PER VOLUME SOLD**

The total cost per volume of ore sold provides a cost profile for each operating mine and allows us to measure and compare operating performance as well as changes in per unit costs from year to year.

The total cost includes production, shipping and loading costs, excise taxes and royalties, marketing and general and administrative expenses incurred by the Group.

The average total cost per volume sold in 2017 is ₱527.77 per WMT on the basis of aggregate cash costs of ₱9,342.9 million and a total sales volume of 17,702.5 thousand WMT of ore. This compares to ₱480.15 per WMT in 2016 on the basis of aggregate cash costs of ₱9,244.9 million and a total sales volume of 19,254.1 thousand WMT of ore.

### **3) ATTRIBUTABLE NET INCOME**

Attributable net income represents the portion of consolidated profit or loss for the year, net of income taxes, which is attributable to the Parent Company. This is a relevant and transparent metric of the information contained in the consolidated financial statements. The net income attributable to equity holders of the Parent Company is ₱2,770.8 million in 2017 compared to ₱1,966.1 million in 2016.



#### **4) NUMBER OF HECTARES REHABILITATED/REFORESTED**

We adhere to the principles and practices of sustainable development. We are committed to complying and following environmental regulations by implementing best practices in managing environmental impacts of our operations. To manage environmental impacts, the Parent Company's subsidiaries have an EPEP. This refers to the comprehensive and strategic environmental management plan for the life of mining projects to achieve the environmental management objectives, criteria and commitments including protection and rehabilitation of the affected environment. A major component under our EPEP is the rehabilitation and reforestation of the areas affected by our mining operations. We also participate in the government's National Greening Program where we plant trees and/or donate seedlings outside of our mining properties. In 2017 and 2016, the Group has rehabilitated and reforested a total of 217 hectares and 219 hectares, respectively, with corresponding number of trees planted of about 429,360 and 452,412, respectively.

#### **5) FREQUENCY RATE**

Health and safety are integral parts of our personnel policies. Our comprehensive safety program is designed to minimize risks to health arising out of work activities and to assure compliance with occupational health and safety standards and rules and regulations that apply to our operations. We measure our safety effectiveness through the Frequency Rate which is the ratio of lost-time accidents to total man-hours worked for the year. In 2017 and 2016, our frequency rate is 0.04 and 0.05, respectively.

#### **OFF-BALANCE SHEET ARRANGEMENTS**

Under the Suretyship Agreement executed by and between the Parent Company and Security Bank Corporation (SBC) on August 4, 2015, the Parent Company solidarily with EPI guarantees and warrants to SBC, its assigns and successors-in-interest, prompt and full payment and performance of EPI's obligations to SBC (see Note 15 to the Consolidated Financial Statements).

Other than the Suretyship Agreement mentioned above, we have not entered into any off-balance sheet transactions or obligations (including contingent obligations), or other relationships with unconsolidated entities or other persons.

#### **Item 7. FINANCIAL STATEMENTS**

The audited financial statements are presented in Part V, Exhibits and Schedules.

#### **Item 8. INFORMATION ON INDEPENDENT ACCOUNTANTS AND OTHER RELATED MATTERS**

Our consolidated financial statements have been audited by SyCip Gorres Velayo & Co ("SGV & Co") (a member practice of Ernst & Young Global Limited), independent auditors, as stated in their reports appearing herein.

Mr. Jaime F. del Rosario is our current audit partner. He replaced Ms. Eleanore A. Layug who had served the Company for five years following the regulatory policy of audit partner rotation every five years. We have not had any disagreements on accounting and financial disclosures with our current external auditors for the same periods or any subsequent interim period.

#### **Audit and Audit-Related Fees**

For the years 2017, 2016 and 2015, SGV & Co. were engaged primarily to express an opinion on the financial statements of the Parent Company and its subsidiaries.

#### **Non-Audit Services Fees**

Non-audit services fees pertain to fees paid to SGV & Co. for the transfer pricing studies, enterprise risk management, tax advisory and seminar fees.

The following table sets out the aggregate fees incurred in 2017 and 2016 for professional services rendered by SGV & Co.:

|                                  | 2017                  | 2016           |
|----------------------------------|-----------------------|----------------|
|                                  | <i>(In Thousands)</i> |                |
| Audit and Audit-Related Services | ₱14,207               | ₱13,457        |
| Non-Audit Services               | 1,713                 | 1,574          |
| <b>Total</b>                     | <b>₱15,920</b>        | <b>₱15,031</b> |

**Audit Committee’s Approval of Policies and Procedures**

Prior to the commencement of the year-end audit work, SGV & Co. present their program and schedule to the Company’s Audit Committee, which include discussion of issues and concerns regarding the audit work to be done. At the completion of the audit works, the Group’s audited financial statements for the year are likewise presented by SGV & Co. to the Audit Committee for committee approval and endorsement to the Board for final approval. The Audit Committee pre-approve the terms of the annual audit services engagement. They also approve, if necessary, any changes in terms resulting from changes in audit scope.

## PART III – CONTROL AND COMPENSATION INFORMATION

### Item 9. DIRECTORS AND EXECUTIVE OFFICERS OF THE ISSUER

#### A. LIST OF DIRECTORS, EXECUTIVE OFFICERS AND COMMITTEES OF THE ISSUER

The BOD is principally responsible for the Company’s overall direction and governance. The Company’s Articles of Incorporation provide for nine (9) members of the BOD, who shall be elected by the stockholders. At present, two (2) of the Company’s nine directors are independent directors. The BOD holds office for one (1) year and until their successors are elected and qualified in accordance with the by-laws.

#### **DIRECTORS**

The following are the present directors of the Company:

| Name                        | Age | Citizenship         | Position  | Date First Elected | Date Last Elected | No. of Years served as Director |
|-----------------------------|-----|---------------------|---|--------------------|-------------------|---------------------------------|
| Manuel B. Zamora, Jr.       | 79  | Philippine National | Executive Director, Chairman                              | July 11, 2008      | May 29, 2017      | 9 years and 5 months            |
| Philip T. Ang               | 76  | Philippine National | Executive Director and Vice-Chairman                      | July 11, 2008      | May 29, 2017      | 9 years and 5 months            |
| Luis J. L. Virata           | 64  | Philippine National | Non-Executive Director                                    | July 11, 2008      | May 29, 2017      | 9 years and 5 months            |
| Gerard H. Brimo             | 66  | Philippine National | Executive Director, President and Chief Executive Officer | August 1, 2009     | May 29, 2017      | 8 years and 4 months            |
| Martin Antonio G. Zamora    | 45  | Philippine National | Executive Director, Executive Vice President              | July 30, 2013      | May 29, 2017      | 4 years and 5 months            |
| Takanori Fujimura           | 74  | Japanese National   | Non-Executive Director                                    | September 20, 2010 | May 29, 2017      | 7 years and 3 months            |
| Takeshi Kubota <sup>1</sup> | 63  | Japanese National   | Non-Executive Director                                    | March 1, 2010      | May 29, 2017      | 7 years and 9 months            |
| Toru Higo <sup>2</sup>      | 56  | Japanese National   | Non-Executive Director                                    | November 6, 2017   | November 6, 2017  | 1 month and 25 days             |
| Fulgencio S. Factoran, Jr.  | 74  | Philippine National | Independent Director                                      | September 20, 2010 | May 29, 2017      | 7 years and 3 months            |
| Frederick Y. Dy             | 63  | Philippine National | Independent Director                                      | September 24, 2010 | May 29, 2017      | 7 years and 3 months            |

<sup>1</sup> Mr. Takeshi Kubota resigned as director effective November 6, 2017.

<sup>2</sup> Mr. Toru Higo was elected director by the BOD on November 6, 2017 to fill up the vacancy in the BOD resulting from the resignation of Mr. Takeshi Kubota.

Mr. Manuel B. Zamora, Jr. is a majority shareholder of Mantra Resources Corp. Mr. Philip T. Ang is a majority shareholder of Ni Capital Corporation.

Certain information on the business and working experience of our Directors and Executive Officers is set out below:

**MANUEL B. ZAMORA, JR.** is the Chairman and a founder of the Company and the Chairman of the Nominations and Corporate Governance Committees of the Board. He is the Chairman of RTN, TMC, CExCI and CBNC. He is also a director of the Company's subsidiary, EPI and a number of other companies in the Philippines, including CLSA Exchange Capital Inc. (CLSA). He once served as Chairman of the Chamber of Mines of the Philippines. Mr. Zamora is a lawyer and a member of the Integrated Bar of the Philippines. He received his Bachelor of Science degree from the University of the Philippines. He placed third in the 1961 Bar Examinations after receiving his Bachelor of Laws degree from the University of the Philippines.

The Chairman has not been Chief Executive Officer (CEO) of the Company since August 2009.

**PHILIP T. ANG** is the Vice Chairman of the Company. He is the Chairman of HMC, CMC and the Vice Chairman for TMC. He is also Director of RTN and EPI. He is an Independent Director of Security Bank Corporation and a Director of its subsidiary, SB Capital Investment Corp. He was previously involved in the textile business as Chairman and President of Solid Mills, Inc. and Unisol Industries and Manufacturing Corp., and as a Director of Investors Assurance Corp. and International Garments Corp. He received his Bachelor of Science in Business Administration degree from Oregon State University and his Master of Business Administration degree from the University of Denver, USA.

**LUIS J. L. VIRATA** is a director of the Company. He is the Chairman and CEO of CLSA. Mr. Virata is also the Chairman of Cavitex Holdings, Inc., President of Exchange Properties Resources Corp., founder and a Director of Amber Kinetics, Inc. and holds shares in these companies through a family-owned holding company, Nonillion Holding Corporation. Mr. Virata is also a Director of Benguet Corporation. He also is a Founder, Trustee of Asia Society Philippine Foundation and the Metropolitan Museum of Manila and is a member of the Huntsman Foundation. Mr. Virata previously held positions with Dillon, Read and Co., Crocker National Bank, Bankers Trust Company, Philippine Airlines, NSC Properties, Inc., the Philippine Stock Exchange, the Makati Stock Exchange, and National Steel Corp. He received his Bachelor of Arts and Master of Arts degrees in Economics from Trinity College, Cambridge University and his Master of Business Administration degree from the Wharton School of the University of Pennsylvania.

**GERARD H. BRIMO** is a director and the President and CEO of the Company since August 2009 and a member of the Board Risk Oversight and Corporate Governance Committees of the Board. He is the President of RTN, TMC, CMC, HMC, CExCI, Newminco Nickel Mining Corp. and Newminco and is the Chairman of EPI. Prior to his career in mining, he worked for Citibank for a period of eight (8) years, resigning as Vice President in the bank's Capital Markets Group in Hong Kong prior to joining Philex Mining Corporation as Vice President-Finance. Mr. Brimo served as Chairman and CEO of Philex Mining Corporation from 1994 until his retirement in December 2003. He served as President of the Chamber of Mines of the Philippines from 1993 to 1995, as Chairman from 1995 to 2003. He was again elected Chairman in 2017, a position he currently holds. He received his Bachelor of Science degree in Business Administration from Manhattan College, USA and his Master of Business Management degree from the Asian Institute of Management.

**MARTIN ANTONIO G. ZAMORA** is the Executive Vice President of the Company and serves as Director of all the subsidiaries of the Company. He is the President of Geogen and Senior Vice President of RTN and HMC. Before joining NAC in 2007, Mr. Zamora was the Philippine Country Manager and a Director of UPC Renewables, a global developer, owner and operator of wind farms and solar facilities. Prior to that, he worked for ten (10) years for finance and investment banking firms such as CLSA, Robert Fleming & Co. (UK), Jardine Fleming, and SyCip Gorres Velayo & Co. He received his Bachelor of Science in Management from Ateneo de Manila University (Philippines), his MBA from London Business School (UK), and his Masters in Organizational Psychology from INSEAD.

**TAKANORI FUJIMURA** is a director of the Company. He is the Chairman of the Related Party Transactions Committee and a member of the Audit Committee of the Board. Mr. Fujimura is also a Director of the following subsidiaries of SMM: Sumitomo Metal Mining Philippine Holdings Corporation, THNC, and CBNC. Prior to joining SMM in 2002, Mr. Fujimura was the Director and General Manager of the Overseas Business Department of PAMCO. He began his professional career in PAMCO in 1970, and was once assigned as the General Manager of PAMCO's New Caledonia and Manila offices. As PAMCO's representative in the Philippines, he was seconded as Vice President of RTN and TMC. He received his Bachelor of Science degree in Mining Engineering from Waseda University, Japan.

**TAKESHI KUBOTA** was a director of the Company until November 6, 2017. During his directorship, Mr. Kubota was a member of the Nominations Committee of the Board. Mr. Kubota is also a qualified executive of SMM and President of Sumitomo Metal Mining Philippine Holdings Corporation, CBNC and THNC. He began his career with SMM in 1977 and occupied the following positions prior to assuming his current post: chief representative of the SMM London office, Manager of the Copper & Precious Metal Sales and Raw Materials Department, General Manager of the Nickel Sales and Raw Materials Department, General Manager of the Nickel Business Unit, Managing Executive Officer of the Non-Ferrous Division, and Director and Senior Managing Executive Officer of SMM. He received his Bachelor of Arts degree in Economics from Keio University, Japan.

**TORU HIGO** was elected director of the Company on November 6, 2017. Mr. Higo is also a Qualified Executive of SMM and the President of Sumitomo Metal Mining Philippine Holdings Corporation, CBNC and THPAL. He began his career with SMM in 1986 and occupied the following positions prior to assuming his current post: Company Secretary of SMM Oceania, General Manager of the Nickel Sales and Raw Materials Department and General Manager of Copper and Precious Metals Raw Materials Department. He received his Bachelor of Science degree in Mathematics from Rikkyo University in Tokyo, Japan.

**FULGENCIO S. FACTORAN, JR.** is an independent director of the Company and is the Chairman of the Board Risk Oversight Committee and a member of the Related Party Transactions and Nominations Committees of the Board. Mr. Factoran is also the Chairman of GAIA South, Inc. and Agility, Inc., and an independent director of Atlas Consolidated Mining and Development Corporation. He was previously a Director of Central Azucarera de Tarlac and Business Certification International, Ltd. He previously held several government positions, such as Trustee of the Government Service and Insurance System, Secretary of the DENR, Chairman of the National Electrification Administration, Chairman of the Philippine Charity Sweepstakes, Director of the National Development Corp., Trustee of the Development Academy of the Philippines and Deputy Executive Secretary under the Corazon Aquino administration. He received his Bachelor of Arts in Humanities and Bachelor of Laws degrees, the latter as Valedictorian, from the University of the Philippines and his Master of Laws degree from Harvard Law School, USA.

**FREDERICK Y. DY** is an Independent Director of the Company, Chairman of the Audit Committee and a Member of the Related Party Transactions and Corporate Governance (Remuneration) Committees of the Board. Mr. Dy is also the Chairman Emeritus of Security Bank Corporation, the Chairman of City Industrial Corporation, the Chairman of St. Luke's Medical Center, a Trustee of St. Luke's College of Medicine, and a Director of Ponderosa Leather Goods Company, Inc. He received his Bachelor of Science degree in Industrial Engineering from Cornell University, USA.

## **EXECUTIVE OFFICERS**

Our Executive Officers, together with our Executive Directors, are responsible for our day-to-day management and operations. The following table sets forth information regarding our Executive Officers.

| <b>Name</b>                                | <b>Age</b> | <b>Citizenship</b>  | <b>Position</b>  |
|--|------------|---------------------|--|
| Jose B. Anievas                            | 73         | Philippine National | Senior Vice President - Chief Operating Officer/Chief Risk Officer                             |
| Emmanuel L. Samson                         | 58         | Philippine National | Senior Vice President - Chief Financial Officer <sup>3</sup>                                   |
| Raymundo B. Ferrer                         | 62         | Philippine National | Senior Vice President for Security   |
| Rolando R. Cruz                            | 57         | Philippine National | Vice President for Project Development and Research <sup>4</sup>                               |
| Augusto C. Villaluna                       | 68         | Philippine National | Vice President - Operations  |
| Jose Roderick F. Fernando <sup>5</sup>     | 44         | Philippine National | Vice President for Legal and Special Projects/Assistant Corporate Secretary/Compliance Officer |
| Georgina Carolina Y. Martinez <sup>6</sup> | 51         | Philippine National | Vice President for Legal and Special Projects/Assistant Corporate Secretary/Compliance Officer |
| Koichi S. Ishihara                         | 44         | Japanese National   | Vice President for Marketing & Purchasing  |
| Jose Bayani D. Baylon                      | 55         | Philippine National | Vice President for Corporate Communications  |
| Ma. Angela G. Villamor                     | 52         | Philippine National | Vice President for Internal Audit/Chief Audit Executive  |
| Gerardo Ignacio B. Ongkingco               | 59         | Philippine National | Vice President - Human Resources   |
| Marnelle A. Jalandoon                      | 47         | Philippine National | Assistant Vice President - MIS and Administration  |
| Rogel C. Cabauatan <sup>7</sup>            | 59         | Philippine National | Assistant Vice President for Environment and Community Relations                               |
| Ryan Rene C. Jornada <sup>8</sup>          | 39         | Philippine National | Assistant Vice President for Regulatory Affairs Claims Management and Labor Relations          |
| Barbara Anne C. Migallos                   | 63         | Philippine National | Corporate Secretary  |

Information on the business and working experience of our Executive Officers is set out below:

**JOSE B. ANIEVAS** is the Senior Vice President for Operations, Chief Operating Officer and Chief Risk Officer of the Company. He started working with TMC in 2009 as its Resident Mine Manager and later as its Vice President for Operations. He has worked with the mining industry for more than fifty (50) years, thirty-seven (37) years with Philex Mining Corporation and Philex Gold Philippines as its Vice President for Operations until his retirement in December 2002, four (4) years as a freelance mining engineer, two (2) years with Carrascal Nickel Corporation, five (5) years with TMC and currently with NAC. He also served the Government in the Professional Regulation Commission as a member of the Board of Examiners for Mining Engineering in 1997-2000 and was President of the Philippine Society of Mining Engineers in the Caraga region in 2010-2012. He is a Fellow of the Society of Mining Engineers and a Competent Person in the Copper and Gold operations. Mr. Anievas earned his Bachelor of Science in Mining Engineering from Mapua Institute of Technology and subsequently passed the Board Exams in 1967. He also received a certificate for completing the Management Development Program from the Asian Institute of Management in 1978.

<sup>3</sup> Mr. Emmanuel L. Samson held the position of Chief Risk Officer until August 31, 2017.

<sup>4</sup> Mr. Rolando R. Cruz held the position of Vice President for Operations until August 14, 2017.

<sup>5</sup> Until August 31, 2017.

<sup>6</sup> Effective September 1, 2017.

<sup>7</sup> Effective June 1, 2017.

<sup>8</sup> Effective December 1, 2017.

**EMMANUEL L. SAMSON** is the Senior Vice President and Chief Financial Officer of the Company and is responsible for the finance and treasury functions of the NAC Group. He is a member of the BOD of EPI and is also its Treasurer. Prior to joining NAC in 2006, Mr. Samson was Senior Country Officer for Credit Agricole Indosuez in the Philippines. Mr. Samson has eleven (11) years' experience in the Philippine equities markets having held positions with W.I. Carr Indosuez Securities (Phils.) Inc., Amon Securities Corporation and Rizal Commercial Banking Corporation.

**RAYMUNDO B. FERRER** is the Senior Vice President for Security. He joined the Company in May 2012. He is a retired Lieutenant General from the Armed Forces of the Philippines. Some of his previous assignments prior to his compulsory retirement on January 23, 2012 was Commander of Western Mindanao Command, Commander of Eastern Mindanao Command, Commander of the 6th Infantry Division, Philippine Army operating in Central Mindanao; Commander of the 1st Infantry Division, Philippine Army operating in Zamboanga Peninsula; and Commander of 103rd Infantry Brigade in Basilan Province.

**ROLANDO R. CRUZ** is the Vice President for Project Development and Research of the Company and is responsible for the assessment and development of projects, concepts and plans for the growth and economic sustainability of the business. Engr. Cruz is a licensed mining engineer in the Philippines with over twenty-five (25) years of professional experience in both mining operations and project development in gold, copper, chromite, concrete aggregates, nickel, and oil sands deposits using the open pit and underground bulk mining methods. He has held various positions with firms such as Albian Sands Energy, Inc. (Canada), Berong Nickel Corporation, Concrete Aggregates Corporation, Philex Mining Corporation, and Benguet Corporation.

**AUGUSTO C. VILLALUNA** is the Vice President for Operations responsible for the Rio Tuba and Hinatuan mines of the Company. Engr. Villaluna is a licensed Mining Engineer/Fellow with over forty-two (42) years' experience in both underground and surface mining. He last served as Executive Vice President of Lepanto Consolidated Mining Company and Senior Vice President and member of the BOD of Manila Mining Corporation. He received his Bachelor of Science degree in Mining Engineering from Mapua Institute of Technology. He is a director of the Philippine Mine Safety and Environment Association. He is a Competent Person under the PMRC, as well as, a registered APEC and ASEAN Engineer. Engr. Villaluna sits as member of the Board of Mining Engineering of the Professional Regulation Commission.

**JOSE RODERICK F. FERNANDO** was the Vice President for Legal and Special Projects and the Assistant Corporate Secretary of the Company until August 31, 2017. He was also the Compliance Officer of the Company and the Corporate Secretary of the Company's subsidiaries. Prior to joining the Company in 2008, Mr. Fernando was a practicing lawyer with Balane Tamase Alampay Law Office for seven (7) years, specializing in commercial litigation, labor and corporate law. He obtained his Juris Doctor from Ateneo Law School and he has a Master of Laws from the University of Pennsylvania Law School. Mr. Fernando is admitted to both the Philippine Bar and the New York State Bar.

**GEORGINA CAROLINA Y. MARTINEZ**, is the Vice President for Legal and Special Projects and the Assistant Corporate Secretary of the Company, being primarily responsible for the Group's legal matters, including claims and tenements. She is likewise the Compliance Officer of the Company and the Asst. Corporate Secretary of EPI, CExCI and Newminco. Prior to her appointment with the Company, Ms. Martinez was the Senior Vice President for Legal/HRAD of EPI. She obtained her Juris Doctor from Ateneo de Manila University and is a member of the Philippine Bar. Ms. Martinez has over 24 years' experience in the field of commercial and corporate law.

**KOICHI S. ISHIHARA** is the Vice President for Marketing and Purchasing. Prior to joining NAC in 2011, he was a Manager and Philippine Representative of PAMCO handling nickel and stainless market analysis and update in Asian countries. He has also supported establishing a Hydro Metallurgical Processing Plant.

**JOSE BAYANI D. BAYLON** is the Vice President for Corporate Communications. He joined the Company in June 2012. He has almost two decades of experience in the field of corporate communications and public affairs. Prior to joining NAC, he was Vice President and Director for Public Affairs and Communications of The Coca-Cola Export Corporation for 14 years, and, prior to that, was executive assistant and

speechwriter to Mr. Enrique Zobel at E. Zobel Inc. for 9 years. He was a public affairs commentator at Radio Station DWWW 774 KhZ from 2001-2011 and has been contributing opinion pieces to the newspaper Malaya Business Insight since 2001.

**MA. ANGELA G. VILLAMOR** is the Vice President for Internal Audit and Chief Audit Executive. She is responsible for reviewing the Company's organizational and operational controls, risk management policies, and governance. Prior to joining NAC in 2011, she was a Senior Director in the Assurance Division of SyCip Gorres Velayo & Co. She also worked as Senior Manager in KPMG UAE.

**GERARDO IGNACIO B. ONGKINGCO** is the Vice President for Human Resources. His career in Human Resources started in the early 80's and has been enriched with exposure to various industries; government, manufacturing, agriculture and hospitality. He was past President of the Philippine Quality and Productivity Movement, Davao Chapter. He earned his Bachelor's Degree in Community Development as well as his Masters in Industrial Relations from the University of the Philippines.

**MARNELLE A. JALANDOON** is the Assistant Vice President - MIS and Administration of the Company and is responsible for the technology, communications infrastructure and administrative operations of the Group. Prior to joining NAC in 2008, Mr. Jalandoon was the Technical Operations Director of Concentrix Technologies, Inc, driving both the Technical Department and the Application Development Teams. He has held various IT positions with Grand International Airways, First Internet Alliance, WebScape, I-Next Internet and PSINET Philippines, garnering more than twenty (20) years experience in IT Infrastructure and Communications.

**ROGEL C. CABAUTAN** is the Assistant Vice President for Environment and Community Relations and is responsible for overseeing, guiding and coordinating the environmental and community relations programs of the Company and its operating companies. Mr. Cabauatan has 32 years of experience in environment management, community development and organization, and conflict management gained while working in the government and mining industry. He obtained his Bachelor of Science in Forestry from the University of the Philippines at Los Banos, Laguna.

**RYAN RENE C. JORNADA** is the Assistant Vice President for Regulatory Affairs, Claims Management and Labor Relations. He is responsible for implementing and managing government and regulatory affairs strategies to support the Company's business and providing legal support services on claims management and industrial and labor relations. Prior to joining the Company in 2011, he was an associate in the law firm of Belo Gozon Elma Parel Asuncion and Lucila and was an election assistant for the COMELEC and political affairs officer of the congressional representative of the 2<sup>nd</sup> district of Iloilo. A member of the Philippine bar, Mr. Jornada obtained his Bachelor of Laws degree from the University of Santo Tomas.

**BARBARA ANNE C. MIGALLOS** is the Corporate Secretary of the Company and its subsidiaries, EPI and CExCI. She is the Managing Partner of Migallos and Luna Law Offices, and was a Senior Partner of Roco Kapunan Migallos and Luna from 1986 to 2006. A practicing lawyer since 1980, Ms. Migallos focuses principally on corporate law, mergers and acquisitions, and securities law. She is a Director and Corporate Secretary of Philex Mining Corporation and a Director of Mabuhay Vinyl Corporation, both publicly listed companies. She is also Corporate Secretary of PXP Energy Corporation and of Alliance Select Foods International, Inc. both also listed companies. She is a Director of Philippine Resins Industries, Inc. and other corporations, and is Corporate Secretary of Eastern Telecommunications Philippines, Inc. Ms. Migallos is a professorial lecturer at the DLSU College of Law and chairs its Mercantile Law and Taxation Department.

No director or senior officer of the Company is or has been in the past two years, a former employee or partner of the current external auditor.

Also, the Company discloses the transactions of its directors and officers as required by applicable laws and regulation.



## B. SIGNIFICANT EMPLOYEES/EXECUTIVE OFFICERS

No single person is expected to make a significant contribution to the business since the Company considers the collective efforts of all its employees as instrumental to the overall success of the Company's performance.

## C. FAMILY RELATIONSHIP

Aside from Mr. Martin Antonio G. Zamora being the son of Mr. Manuel B. Zamora, Jr., and Mr. Ryan Rene C. Jornada being a third civil degree relative by affinity of Mr. Manuel B. Zamora, Jr. and a fourth civil degree relative by affinity of Mr. Martin Antonio G. Zamora, none of our Executive Officers are related to each other or to our Directors and substantial Shareholders.

## D. INVOLVEMENT IN CERTAIN LEGAL PROCEEDINGS

None of the members of our Board, nor any of our executive officers, has been or is involved in any criminal, bankruptcy or insolvency investigations or proceedings for the past five years and up to the date of this report. None of the members of our Board, nor any of our executive officers, has been convicted by final judgment of any offense punishable by the laws of the Republic of the Philippines or of any other nation or country. None of the members of our Board nor any of our executive officers have been or are subject to any order, judgment, or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities, commodities or banking activities. None of the members of our Board nor any of our executive officers have been found by a domestic or foreign court of competent jurisdiction (in a civil action), the Commission or comparable foreign body, or a domestic or foreign Exchange or other organized trading market or self-regulatory organization, to have violated a securities or commodities law or regulation.

## Item 10. EXECUTIVE COMPENSATION

The table set out below identifies our CEO and four most highly compensated executive officers (the "named executive officers") and summarizes their aggregate compensation in 2016 and 2017 and their estimated compensation for 2018. The amounts set forth in the table have been prepared based on what we paid for the compensation of our executive officers for the years indicated and what we expect to pay on the ensuing year.

|   | December 31, 2016 |         |         | December 31, 2017 |         |         | December 31, 2018<br>(Estimated) |         |         |
|---|-------------------|---------|---------|-------------------|---------|---------|----------------------------------|---------|---------|
|   | Salary            | Bonus   | Total   | Salary            | Bonus   | Total   | Salary                           | Bonus   | Total   |
| (In Php Thousands)                                  |                   |         |         |                   |         |         |                                  |         |         |
| Named executive officers <sup>(1)</sup>             | ₱29,793           | ₱17,565 | ₱47,358 | ₱33,967           | ₱27,766 | ₱61,733 | ₱36,005                          | ₱29,432 | ₱65,437 |
| All other officers and directors as a group unnamed | 23,786            | 10,093  | 33,879  | 33,058            | 12,656  | 45,714  | 35,042                           | 13,415  | 48,457  |

<sup>1</sup>The named executive officers are: Gerard H. Brimo (President and CEO), Martin Antonio G. Zamora (Executive Vice President), Emmanuel L. Samson (Chief Financial Officer), Jose B. Anievas (Chief Operating Officer), Rolando R. Cruz (Vice President for Project Development and Research).

## COMPENSATION OF DIRECTORS

Each of the directors of the Parent Company is entitled to a director's fee for each meeting attended. In addition, the directors who serve in the committees of the BOD are each entitled to a fee for each committee meeting attended.

The table below shows the compensation of our Directors for each meeting:

| Type                   | Board Meeting | Audit Committee Meeting | Board Risk Oversight | Related Party | Other Meetings | Stock Option                               |
|------------------------|---------------|-------------------------|----------------------|---------------|----------------|--|
| Executive Director     | ₱10,000       | ₱10,000                 | ₱10,000              | ₱-            | ₱10,000        | Yes  |
| Non-executive Director | 10,000        | 10,000                  | -                    | 10,000        | 10,000         | Yes, Except for the Non-Filipino Directors |
| Independent Director   | 150,000       | 50,000                  | 50,000/<br>25,000    | 25,000        | 10,000         | Yes  |

Currently, there are no arrangements for additional compensation of directors.

### **STOCK OPTION PLANS**

On March 24, 2014 and June 6, 2014, our BOD and stockholders, respectively, approved the 2014 Executive Stock Option Plan (the 2014 ESOP or the New Plan) covering up to 32,000,000 shares allocated to our directors, officers, corporate secretary and the officers of our subsidiaries, specifically those with positions of Assistant Vice President and higher, including all Resident Mine Managers of our subsidiaries. The optionees of the 2014 ESOP may avail of the ESOP shares at ninety percent (90%) of the Offer Price for a number of ESOP Shares equivalent to up to four (4) times the annual salary of the optionees. In case of non-executive directors and the corporate secretary, their grants shall be the average of the highest and lowest grants within the ESOP. The 2014 ESOP shall be valid for five (5) years commencing from the date of the approval of the New Plan. Options shall vest yearly at a rate of 25% of the entitlement, with the first vesting occurring one year after the grant. The optionee can exercise the vested option by giving notice to the Parent Company within the term of the New Plan, and can opt to either purchase the shares directly at the exercise price or request the Parent Company to advance the purchase price and to sell the shares, in which case the participant will receive the sales proceeds less the exercise price.

On June 16, 2010, our BOD and stockholders approved the 2010 Executive Stock Option Plan (the 2010 ESOP or the Plan) covering up to 12,000,000 shares allocated to our officers and the officers of our subsidiaries, specifically those with positions of Assistant Vice President and higher, including all Resident Mine Managers of our subsidiaries. The optionees of the 2010 ESOP may avail of the ESOP shares at ninety percent (90%) of the Offer Price for a number of ESOP Shares equivalent to up to three (3) year's annual salary of the optionee. The term of the 2010 ESOP shall be six (6) years commencing from the date of the approval of the Plan. Options shall vest yearly at a rate of 25% of the entitlement, with the first vesting occurring one year after the grant. The optionee can exercise the vested option by giving notice to the Parent Company within the term of the Plan, and can opt to either purchase the shares directly at the exercise price or request the Parent Company to advance the purchase price and to sell the shares, in which case the participant will receive the sales proceeds less the exercise price.

The cost of share-based payment plan in 2017, 2016 and 2015 amounted to ₱11.0 million, ₱25.7 million and ₱57.8 million, respectively.

Several executive officers have exercised their option under the ESOP totaling to 2,584,213 shares at an exercise price of ₱4.80 per share (or ₱2.40 per share after the effect of stock dividends) in 2015, 5,989,498 shares at an exercise price of ₱2.40 per share in 2016 and nil in 2017.

On November 10, 2016 and June 2, 2015, the SEC approved the exemption from registration of 31,523,262 common shares and 11,625,987 common shares, respectively, which shall form part of the ESOP.

## Item 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

### A. SECURITY OWNERSHIP OF CERTAIN RECORD AND BENEFICIAL OWNERS

The following table sets forth the record owners and, to the best knowledge of the BOD and Management of the Company, the beneficial owners of more than 5% or more of the Company's outstanding share of common stock as at December 31, 2017 follows:

| Title of class | Name, address of record owner and relationship with issuer   | Name of Beneficial Owner and Relationship with Record Owner | Citizenship | No. of Shares Held   |  | Percent |
|----------------|--|---|-------------|--|--|---------|
|                |  |   |             |  |  |         |
| Common Stock   | PCD Nominee Corporation (Filipino)   |   | Filipino    | 1,457,853,782  |  | 19.17%  |
| Common Stock   | Mantra Resources Corporation<br>30 <sup>th</sup> Floor NAC Tower,<br>32 <sup>nd</sup> Street, Bonifacio<br>Global City, Taguig | Manuel B. Zamora, Jr. - Chairman                            | Filipino    | 0 - Direct<br>1,954,779,738 <sup>9</sup> - Indirect          |  | 25.71%  |
| Common Stock   | Sumitomo Metal Mining Philippine Holdings Corporation<br>24F Pacific Star Building<br>Makati Avenue, Makati City               |   | Foreign     | 1,444,657,926 - Direct<br>563,340,900 - Indirect             |  | 26.41%  |
| Common Stock   | Ni Capital Corporation<br>28 <sup>th</sup> Floor NAC Tower,<br>32 <sup>nd</sup> Street, Bonifacio<br>Global City, Taguig       | Philip T. Ang - Vice Chairman                               | Filipino    | 0 - Direct<br>1,016,831,382 <sup>10</sup> - Indirect         |  | 13.37%  |
| Common Stock   | Nonillion Holding Corporation<br>3/F Corporate Business Centre, 151<br>Paseo de Roxas Makati City                              | Luis J. L. Virata - Director                                | Filipino    | 720,000,000 – Direct<br>250,838,016 <sup>11</sup> - Indirect |  | 12.77%  |
| Common Stock   | PCD Nominee Corporation (Non-Filipino)   |   | Foreign     | 507,688,030 - Direct   |  | 6.68%   |

### B. SECURITY OWNERSHIP OF MANAGEMENT

The beneficial ownership of the Company's directors and executive officers as of December 31, 2017 follows:

| Title of Class | Name of Beneficial Owner | Amount and Nature of Beneficial Ownership  | Citizenship | Percent |
|----------------|--------------------------|--|-------------|---------|
| Common Stock   | Manuel B. Zamora Jr.     | 5,982,236 - Direct<br>3,548,828 - Indirect | Filipino    | 0.13%   |
| Common Stock   | Gerard H. Brimo          | 15,728,247 - Direct<br>138,425 - Indirect  | Filipino    | 0.21%   |
| Common Stock   | Philip T. Ang            | 1,616,724 - Direct<br>147,036 - Indirect   | Filipino    | 0.02%   |

<sup>9</sup> Lodged with PCD Nominee Corporation

<sup>10</sup> Lodged with PCD Nominee Corporation

<sup>11</sup> Lodged with PCD Nominee Corporation

| Title of Class | Name of Beneficial Owner      | Amount and Nature of Beneficial Ownership | Citizenship | Percent |
|----------------|-------------------------------|---|-------------|---------|
| Common Stock   | Luis J. L. Virata             | 400 - Direct<br>970,838,016 - Indirect    | Filipino    | 12.77%  |
| Common Stock   | Martin Antonio G. Zamora      | 300 - Direct<br>8,706 - Indirect          | Filipino    | 0%      |
| Common Stock   | Fulgencio S. Factoran, Jr.    | 842 - Direct                              | Filipino    | 0%      |
| Common Stock   | Frederick Y. Dy               | 842 - Direct                              | Filipino    | 0%      |
| Common Stock   | Toru Higo                     | 1,124 - Direct                            | Japanese    | 0%      |
| Common Stock   | Takanori Fujimura             | 1,124 - Direct                            | Japanese    | 0%      |
| Common Stock   | Jose B. Anievas               | 318,750 - Direct<br>2,418,744 - Indirect  | Filipino    | 0.04%   |
| Common Stock   | Emmanuel L. Samson            | -   | Filipino    | 0%      |
| Common Stock   | Raymundo B. Ferrer            | -   | Filipino    | 0%      |
| Common Stock   | Rolando R. Cruz               | 614,952 - Direct<br>330,000 - Indirect    | Filipino    | 0.01%   |
| Common Stock   | Georgina Carolina Y. Martinez | -   | Filipino    | 0%      |
| Common Stock   | Koichi Ishihara               | -   | Japanese    | 0%      |
| Common Stock   | Jose Bayani D. Baylon         | 10,000 - Indirect                         | Filipino    | 0%      |
| Common Stock   | Augusto C. Villaluna          | -   | Filipino    | 0%      |
| Common Stock   | Gerardo Ignacio B. Ongkingco  | -   | Filipino    | 0%      |
| Common Stock   | Barbara Anne C. Migallos      | -   | Filipino    | 0%      |
| Common Stock   | Ma. Angela G. Villamor        | 540,308 - Indirect                        | Filipino    | 0%      |

#### C. VOTING TRUST HOLDERS OF 5% OR MORE

There is no voting trust holder of 5% or more of the Company's stock.

#### D. CHANGES IN CONTROL

There are no arrangements which may result in a change in control of the Company.

### Item 12. CERTAIN RELATIONSHIP AND RELATED TRANSACTIONS

Related party relationships exist when one party has the ability to control, directly or indirectly through one or more intermediaries, the other party or exercise significant influence over the other party in making financial and operating decisions. Such relationships also exist between and/or among entities which are under common control with the reporting enterprise, or between and/or among the reporting enterprise and their key management personnel, directors, or its stockholders.

All sales and purchases from related parties are made at prevailing market prices.

#### Nickel Ore Sale Agreements with PAMCO

The Group supplies saprolite ore to PAMCO. PAMCO is a stockholder of the Parent Company, RTN and TMC. All sales made to PAMCO are transacted at prevailing market prices. Under the terms of the agreement, the base price of the ore products for a specific shipment shall be based on LME. Effective April 2014, ore sales to PAMCO are benchmarked to China prices on the basis of a negotiated price per WMT of ore. PAMCO shall pay the Group 80% to 90% of the provisional invoice amount upon receipt of the required documents and pay the final payment of each shipment after the final dry weight and applicable assay have been determined.

#### Nickel Ore Sale Agreement with PAMCO and Sojitz Corporation (Sojitz)

RTN supplies saprolite ore to PAMCO under a sale agreement, which shall continue to be valid and in effect until December 2020, wherein PAMCO appointed Sojitz as agent. PAMCO owns 36% and Sojitz owns 4% of the outstanding shares in the capital stock of RTN.

Nickel Ore Supply Agreement with Mitsubishi Corporation RTM International Pte., Ltd. and Mitsubishi Corporation RTM Japan Ltd. (Mitsubishi)

RTN, TMC and HMC entered into an agreement with Mitsubishi, a Singapore and Japan-based corporations, covering the sale of its ore products. Under the terms of the agreement, the ore sales are benchmarked to China prices on the basis of a negotiated price per WMT of ore. Mitsubishi shall pay 85% of the provisional invoice amount upon receipt of the required documents and pay the final payment of each shipment after the final dry weight and applicable assay have been determined. Under the agreement, the end user of the material is PAMCO.

Nickel Ore Supply Agreement with CBNC

RTN entered into an agreement with CBNC to supply all of the limonite ore requirements for the Coral Bay Hydro Metallurgical Processing Plant (HPP) facility until the earlier of the cessation of operations at the Coral Bay HPP facility and exhaustion of the limonite ore reserves at the Rio Tuba mine. RTN has also entered into an agreement with CBNC to supply limestone and provide ancillary services to the Coral Bay HPAL facility. CBNC is the owner of the Coral Bay HPP facility.

Nickel Ore Supply Agreement with THNC

TMC entered into an agreement with THNC covering the sale of its ore products. Under the terms of the agreement, the base price of the ore products for a specific shipment shall be based on LME.

Service Agreements with CBNC

RTN entered into various service agreements with CBNC pertaining to materials handling and others.

Materials Handling Agreement with THNC

On October 7, 2013, TMC and THNC executed an agreement wherein TMC will render services related to the handling, hauling and transport of cargo for THNC. THNC shall compensate TMC based on the prices stipulated in the agreement which are agreed annually and determined on the basis of the weight of the cargo. Payment is collected within fifteen (15) days from receipt of TMC's billing.

Funding Commitment with SMM

RTN's long-term debt was incurred to complete infrastructure projects to support the development of the Coral Bay HPAL facility. These projects included the causeway, trestles and dolphins in the Rio Tuba foreshore and offshore areas.

Funding Commitment with THNC

TMC as owner/developer of Taganito Special Economic Zone (TSEZ) incurred a long-term debt to finance the construction of the pier facilities that will be utilized to support the operations of the Taganito HPAL facility. These projects included the jetty, dolphins, rubber fender, jettybollard and other pier facilities in the Taganito foreshore and offshore areas.

THNC Stockholder's Agreement

On September 15, 2010, NAC, SMM and Mitsui executed a Stockholders Agreement, pursuant to which the parties formed a joint venture company, THNC, to build and operate a plant in Barangay Taganito, Claver, Surigao del Norte for the purpose of producing and selling nickel-cobalt mixed sulfide to be used in the production of electrolytic nickel and electrolytic cobalt.

Pursuant to the Stockholders Agreement, SMM granted THNC a non-exclusive license of technology owned by SMM to produce the products and has undertaken to provide technical assistance to THNC. The Parent Company has undertaken to cause TMC to supply THNC with nickel ore and limestone and to further cause TMC to make available to THNC the use of the land and infrastructure necessary for the production of the products while Mitsui shall assist THNC in procuring materials and equipment necessary for the mine's operations. The Stockholders Agreement shall terminate upon the dissolution of THNC.

The Parent Company, along with the other stockholders of THNC, also agreed to make loans to THNC or guarantee the repayment of THNC's loan obligations in accordance with the financial requirements of THNC, in proportion to their shareholding ratio in THNC.

In a separate agreement dated December 9, 2011, SMM agreed to assume Parent Company's obligation to make loans to, or guarantee the repayment of THNC's loan obligations. The Parent Company, in consideration for this agreement, pays SMM an annual guarantee fee of 1% of THNC's outstanding loan obligations.

#### Throughput Agreements

##### *THNC*

On October 4, 2010, TMC and THNC executed a Throughput Agreement wherein TMC will construct the pier facilities within the TSEZ pursuant to its role as Developer. The TSEZ is located within the Surigao Mineral Reservation, an area declared for mineral development pursuant to Proclamation 391, under the supervision of the DENR that issued an "Order to Use Offshore Area" dated September 20, 2010 to TMC for the use of such portion of the Surigao Mineral Reservation for the construction of the pier facilities. In relation to this, THNC entered into a Registration Agreement with the PEZA to construct and operate a mineral processing plant within the TSEZ as an Ecozone Export Enterprise.

Under the agreement, TMC will make available the pier facilities and provide certain services to THNC in consideration for usage fees and service fees to be paid by the latter starting April 2011 until 2031, unless terminated earlier. The usage fee amounted to \$1.3 million for each semi-annual period to be paid on or before October 10 and April 10.

THNC also agrees to pay service fee that will be agreed upon by both parties which shall be billed on a monthly basis.

Prior to the commencement date, THNC may also request TMC to use any part of the constructed pier facilities, which is ready for use, upon payment of reasonable compensation which shall be mutually agreed by TMC and THNC.

##### *CBNC*

Under the agreement, CBNC shall pay RTN the price which consists of all its direct costs for the pier facilities which includes but not limited to, financial costs, maintenance costs and tax as well as indirect costs directly used for the pier facilities and the services as agreed by the parties. CBNC shall pay to RTN in US\$, as a part of such financial costs, the amounts to be paid by RTN to SMM such as interests and loan repayments pursuant to the Omnibus Agreement made and entered into by and between RTN and SMM. The agreement shall continue for twenty-five (25) years after November 25, 2002 unless terminated earlier.

#### MOU

On September 14, 2009, the Parent Company and TMC entered into a MOU with SMM. Pursuant to the terms thereof, the Parent Company and SMM will move ahead on a joint venture basis to build a nickel-cobalt processing plant (the Project) using the HPAL technology to be located within the TMC's mine in Surigao del Norte, while TMC will supply low-grade nickel ore to the plant over the life of the Project. The estimated cost of the Project is US\$1,420.0 million, which further increased to US\$1,590.0 million, over a three-year construction period, which started in the last quarter of 2010. The plant will have an annual capacity of 51,000 dry metric tons of mixed nickel-cobalt sulfide over an estimated thirty (30) year project life. The MOU provides that the equity share of the Parent Company and SMM shall be 20%-25% and 75%-80%, respectively.

Following the MOU is the Taganito HPAL Stockholders Agreement (the Agreement) entered into by the Parent Company, SMM and Mitsui on September 15, 2010 stating that the Project will be undertaken by THNC, a company that will be jointly owned by the Parent Company, SMM and Mitsui with equity interest of 22.5%, 62.5% and 15.0%, respectively. Pursuant to the Agreement, SMM granted THNC a non-exclusive license of technology owned by SMM to produce the products and has undertaken to

provide technical assistance to THNC. The Parent Company has undertaken to cause TMC to supply THNC with nickel ore and limestone and to further cause TMC to make available to THNC the use of the land and infrastructure necessary for the production of the products while Mitsui shall assist THNC in procuring materials and equipment necessary for the plant's operations.

Pursuant to the sale of 12.5% equity interest of the Parent Company to SMM in October 2016, the shareholding ratio of the Parent Company and SMM is 10% and 75%, respectively.

The Agreement also sets forth the respective rights and obligations of the Parent Company, SMM and Mitsui, including their responsibilities in respect of financing the US\$1,420.0 million, which further increased to US\$1,590.0 million, project investment undertaken by THNC.

Also, under the Agreement, the Parent Company, SMM and Mitsui agreed to make loans to THNC or guarantee the repayment of THNC's obligations in accordance with the financial requirements of THNC and in proportion to their shareholding ratio in THNC.

Pursuant to the Agreement, the Parent Company, SMM and Mitsui extended loans to THNC amounting to a total of US\$939.5 million as at December 31, 2017 and US\$803.9 million as at December 31, 2016 to cover THNC's working capital requirement, loan repayments, capital investment and/or construction of tailings dam.

The Agreement shall terminate upon the dissolution of THNC.

#### Loan Guarantee/Substitution Agreement

##### *NAC*

Under a loan guarantee/substitution agreement dated December 9, 2011 between the Parent Company and SMM, the latter agreed to substitute for the Parent Company to make loans or guarantee the repayment of THNC pursuant to the Stockholders Agreement dated September 15, 2010.

In consideration of the loans and guarantee made by SMM, the Parent Company shall pay to SMM an annual fee equal to 1% of the relevant outstanding amount, which is payable every February 21 and August 21 of each year.

On January 26, 2015, December 18 and December 3, 2013, the Parent Company and SMM entered into another loan guarantee/substitution agreement with respect to the new loan agreement made and entered by THNC and SMM on August 4, 2014, December 3 and January 31, 2013, respectively. The annual fee is also equal to 1% of the relevant outstanding amount, which is payable every March 21 and September 21 of each year.

In case of default, such loan guarantee/substitution agreements will be terminated and the Parent Company shall provide loans to THNC or guarantee the repayment of THNC's loans payable. Failure to provide such loans or guarantee shall be considered a default under the Stockholders' Agreement.

#### Lease Agreement with THNC

On October 31, 2013, TMC and THNC executed a lease agreement wherein TMC will lease the land within the TSEZ to the lessee. The TSEZ leased area of approximately 675 hectares is located at Barangays Taganito and Hayanggabon, Claver, Surigao del Norte. The duration of the lease agreement shall be for a period of twenty (20) years starting January 1, 2013, however, rental rate shall be annually agreed by both parties.

#### Loan Agreements with EPI

- a. On August 22, 2014, the Parent Company and EPI executed a loan agreement amounting to ₱551.0 million which was drawn in two (2) tranches. The first and second tranche of the loans amounted to ₱105.0 million and ₱446.0 million, respectively.

The proceeds of the first tranche loan was used by EPI to fund the activities preparatory to drilling and for the drilling of the initial two (2) wells under the Montelago Geothermal Project, while the second tranche loan was used to fund the drilling costs and related activities (to include slim or other test holes) on the said initial two (2) wells.

At the option of the Parent Company, the entire second tranche loan, and not any smaller portion thereof, may be converted into shares of stock of EPI constituting 55% of its total issued and outstanding shares, at any time before the lapse of three hundred sixty five (365) days after drawdown of the entire second tranche loan.

The loan is subject to 2% interest per annum (p.a.). The first tranche of the loan is payable one (1) year after the first drawdown on the first tranche loan or upon sale of EPI's entire shareholdings in Occidental Mindoro Consolidated Power Corporation (OMCP), whichever is earlier. The second tranche loan is payable one year after the first drawdown on the second tranche loan unless the conversion right is exercised.

For and to secure the loan and the notes covering the same, EPI executed and delivered a Pledge Agreement covering its shares of stock in OMCP consisting of 100% of OMCP's issued and outstanding shares.

As at December 31, 2015, the entire first and second tranche loan amounting to ₱105.0 million and ₱446.0 million, respectively, were fully drawn by EPI.

On April 15, 2015, the Parent Company expressed its intention to exercise its conversion right on the entire second tranche loan of ₱446.0 million to 55% equity interest in EPI, which is equivalent to 312,888,889 common shares, subject to the SEC's approval of the increase in authorized capital stock of EPI.

On July 16, 2015, the Parent Company subscribed to an additional 11% equity interest in EPI, which is equivalent to 184,052,288 common shares, for a total consideration of ₱474.0 million, subject also to the approval of EPI's increase in authorized capital stock.

The increase in EPI's authorized capital stock was approved by the SEC on July 28, 2015 and the corresponding shares were subsequently issued to the Parent Company.

The first tranche loan, including interest, was paid by EPI in August 2015.

- b. In July 2016, the Parent Company agreed to provide a loan facility to EPI amounting to ₱1,500.0 million for EPI's overhead costs and development of its solar project. The loan bears an interest of 5% p.a. which is payable semi-annually following the date of the corresponding drawdown. The loan principal is payable within three (3) years after drawdown.

As at December 31, 2017, a total of ₱1,500.0 million was released to EPI.

On December 22, 2017, the Parent Company and EPI entered into a Deed of Assignment of Advances wherein the Parent Company offered to subscribe to additional shares of EPI equivalent to 1,190,476,190 shares, subject to the SEC's approval of the increase in authorized capital stock of EPI, and in consideration for which the Parent Company shall assign to EPI its outstanding loan receivable of ₱1,500.0 million.

- c. On September 22, 2017, the Parent Company and EPI signed a Loan Agreement for the amount of ₱450 million to fund the working capital and operational activities of EPI and its subsidiaries. The loan has an interest rate of 5% p.a. and a maturity of three (3) years for each drawdown. As at December 31, 2017, a total of ₱135.0 million was released to EPI.



Loan with Manta Equities Inc. (Manta)

On June 8, 2015, EPI entered into a one year loan agreement with Manta amounting to ₱180.0 million to finance the development expenses of EPI's geothermal power project. The loan bears an annual interest of 5%. The principal and interest is payable at the end of the loan agreement. On June 6, 2016, EPI and Manta extended the loan for another year or up to June 7, 2017 under the same terms of the original loan. The principal and interest was paid in June 2017.

Loan with THNC

On October 4, 2010, TMC entered into an Omnibus Agreement with THNC, wherein the latter granted the former a total loan facility amounting to US\$35.0 million at a prevailing one hundred eighty (180)-day British Banker Association London Inter-Bank Offered Rate (LIBOR) plus 2% spread, to exclusively finance the construction of the pier facilities within the TSEZ. The loan shall be drawn down in one or multiple times by July 31, 2011.

The interest on the loan is payable semi-annually, on October 10 and April 10. The total principal is payable in semi-annual installments of US\$0.9 million starting on October 10, 2011 up to April 10, 2031.

Loan with SMM

On November 25, 2002, RTN entered into an Omnibus Agreement with SMM, wherein the latter granted the former a loan facility amounting to US\$1.8 million at a prevailing one hundred eighty (180)-day LIBOR plus 2% spread, for the construction of the pier facilities.

In July 2003, an additional loan amounting to US\$0.2 million was granted by SMM. Starting 2003, the interest on the original and additional loans is payable semi-annually, on February 28 and August 31. The total principal is payable in twenty (20) equal semi-annual installments starting on February 28, 2004 up to August 31, 2013. In February 2007, RTN and SMM agreed to an additional loan facility amounting to US\$9.0 million. Of the total loan facility, the remaining US\$0.5 million was drawn in February and March 2008. The additional loan facility is payable in semi-annual installments starting on August 31, 2008 up to February 28, 2018.

In consideration, and to ensure payment of these loans, RTN assigned, transferred, and set over to SMM, absolutely and unconditionally, all of RTN's rights, title, and interest over its future receivable from CBNC under the Throughput Agreements. RTN also constituted a first ranking mortgage on the pier facilities.

Lease Agreement with Manta

On March 18, 2013, the Group entered into a lease agreement with Manta for its office and parking space. The lease agreement is effective for a period of five (5) years starting May 15, 2013 and is renewable subject to negotiation of the terms and conditions and mutual agreement of both parties.

Notes 34 and 39 of the Notes to Consolidated Financial Statements of the Exhibits in Part IV is incorporated hereto by reference.

## PART IV – EXHIBITS AND SCHEDULES

### Item 13. EXHIBITS AND REPORTS ON SEC FORM 17-C

#### Exhibits

See accompanying Index to Exhibits as well as the Company's Audited Financial Statements for the recently completed fiscal year. These financial statements are reports from the Corporation's Independent Public Accountant, SGV & Co.

#### Reports on SEC Form 17-C

The Parent Company filed the following reports on SEC Form 17-C during the year 2017.


| Items Reported  | Date Reported     |
|---|-------------------|
| Press Release: Nickel Asia Reports 19.3 Million Wet Metric Tons of Ore Shipments In 2016  | January 12, 2017  |
| Clarification on News Report Involving NIKL's Subsidiary Hinatuan Mining Corporation  | February 2, 2017  |
| Receipt of DENR Order   | February 13, 2017 |
| Clarification of News Article on Press Release Made by the DENR   | February 15, 2017 |
| Press Release: Nickel Asia Corporation announces 2016 Financial and Operating Results   | March 15, 2017    |
| Declaration of Cash Dividends   | March 15, 2017    |
| Notice of Annual Shareholders Meeting   | March 15, 2017    |
| Promotion of Officer - Martin Antonio G. Zamora   | March 15, 2017    |
| Press Release: NIKL's Estimated Value of Shipments Jumps 47% In First Quarter 2017  | April 11, 2017    |
| Clarification of News Report on DENR Administrative Order   | May 2, 2017       |
| Re-organization of Existing Board Committees and Creation of New Board Committees   | May 5, 2017       |
| Press Release: Nickel Asia Corporation Financial and Operating Results for 1Q 2017  | May 5, 2017       |
| Results of NIKL's Annual Stockholders' Meeting  | May 29, 2017      |
| Results of the Organizational Meeting of NIKL's Board of Directors  | May 29, 2017      |
| Press Release: Nickel Asia estimated value of shipments rises 41% in 1H 2017  | July 13, 2017     |
| Results of the Meeting of NIKL's Board of Directors on 04 August 2017   | August 4, 2017    |
| Press Release: Nickel Asia Corporation announces 1H 2017 Financial and Operating Results with an improvement In Net Income to ₱1.54B  | August 4, 2017    |
| Change in Designation of one of NIKL's Officers - Rolando R. Cruz   | August 23, 2017   |
| Resignation of NIKL's Vice President for Legal and Special Projects, Assistant Corporate Secretary, and Chief Compliance Officer - Atty. Jose Roderick F. Fernando; and Appointment of a New Officer - Atty. Georgina Carolina Y. Martinez; and the Change of Designation of an Officer - Jose B. Anievas | August 31, 2017   |
| NIKL's Estimated Value of Shipments Rises 16% For The Nine Month Ended September 2017   | October 10, 2017  |
| Change in Director - Toru Higo and Appointment of New Officer - Aloysius C. Diaz  | November 6, 2017  |
| Conversion of Shareholder's Advances in Emerging Power Inc. to additional Equity  | December 27, 2017 |


**SIGNATURES**


Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, this report is signed on behalf of the Issuer by the undersigned, thereunto duly authorized, in the City of Taguig on \_\_\_\_\_, 2018.

By:

  
**GERARD H. BRIMO**  
President and Chief Executive Officer

  
**EMMANUEL L. SAMSON**  
Senior Vice President and  
Chief Financial Officer

  
**JOSE B. ANIEVAS**  
Senior Vice President and  
Chief Operating Officer

  
**BARBARA ANNE C. MIGALLOS**  
Corporate Secretary

  
**IRYAN JEAN U. PADILLO**  
Senior Finance Manager

Subscribed and sworn to before me this \_\_\_\_\_ day of \_\_\_\_\_, 2018 affiant (s) exhibiting to me his/their Passport Number, as follows:

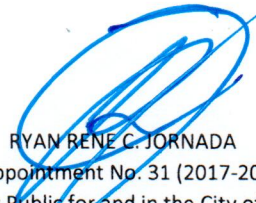
| Names                    | Passport No. | Date of Issue | Place of Issue |
|--------------------------|--------------|---------------|----------------|
| Gerard H. Brimo          | P1914438A    | 02/11/2017    | Manila         |
| Emmanuel L. Samson       | P2955746A    | 05/10/2017    | Manila         |
| Jose B. Anievas          | P4396681A    | 09/16/2017    | Manila         |
| Barbara Anne C. Migallos | EC0356963    | 02/20/2014    | Manila         |
| Iryan Jean U. Padillo    | EC1477706    | 06/25/2014    | Manila         |

**SUBSCRIBED** and **SWORN** to before me, this APR 03 2018, at TAGUIG CITY,  
affiants who exhibited to me her competent evidence of identity specified below:

| Name                     | Competent Evidence of Identity | Date and Place Issued     |
|--------------------------|--------------------------------|---------------------------|
| JOSE B. ANIEVAS          | Passport #: P4396681A          | Sept. 16, 2017/DFA Manila |
| GERARD H. BRIMO          | Passport #: P1914438A          | Feb. 11, 2017/DFA Manila  |
| EMMANUEL L. SAMSON       | Passport #: P2955746A          | May 05, 2017/DFA Manila   |
| BARBARA ANNE C. MIGALLOS | Passport #: EC0356963          | Feb. 20, 2014/DFA Manila  |
| IRYAN JEAN U. PADILLO    | Passport #: EC1477706          | June 25, 2014/DFA Manila  |

avowed under penalty of law as to the truth of the contents of this instrument.

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Page No.: 180  
Book No.: 3  
Series of 2018

  
RYAN RENE C. JORNADA  
Appointment No. 31 (2017-2018)  
Notary Public for and in the City of Taguig  
Until December 31, 2018  
Roll No. 58552

PTR No. A-3781856 January 2018/Taguig City  
IBP No. 015794 (Lifetime)/O.R. No. 1070904/30 January 2017  
MCLE Compliance No. V-0018775, until 19 April 2019  
28F NAC Tower, 32<sup>nd</sup> Street, BGC, Taguig City

**NICKEL ASIA CORPORATION**  
SEC FORM 17-A  
INDEX TO FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES

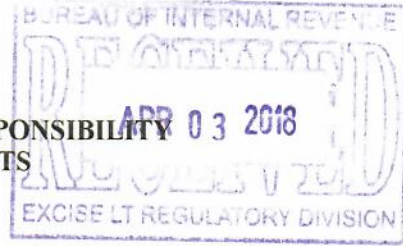
**CONSOLIDATED FINANCIAL STATEMENTS**

Statement of Management's Responsibility for Financial Statements  
Independent Auditor's Report  
Consolidated Statements of Financial Position as at December 31, 2017 and 2016  
Consolidated Statements of Income for the years ended December 31, 2017, 2016 and 2015  
Consolidated Statements of Comprehensive Income for the years ended December 31, 2017, 2016 and 2015  
Consolidated Statements of Changes in Equity for the years ended December 31, 2017, 2016 and 2015  
Consolidated Statements of Cash Flows for the years ended December 31, 2017, 2016 and 2015  
Notes to Consolidated Financial Statements

**SUPPLEMENTARY SCHEDULES**

Independent Auditor's Report on Supplementary Schedules  
Schedule I: Retained Earnings Available for Dividend Declaration  
Schedule II: Schedule of Effective Standards and Interpretations under the PFRS  
Schedule III: Supplementary Schedules under Annex 68-E  
A. Financial Assets  
B. Amounts Receivable from Directors, Officers, Employees, Related Parties,  
and Principal Stockholders (Other than Affiliates)  
C. Amounts Receivable from Related Parties which are Eliminated during the  
Consolidated Financial Statements  
D. Intangible Assets - Other Assets  
E. Long-Term Debt  
F. Indebtedness to Affiliates and Related Parties (Long-Term Loans from  
Related Companies)  
G. Guarantees of Securities of Other Issuers  
H. Capital Stock  
Schedule IV: A Map Showing the Relationships Between and Among the Company and its  
Ultimate Parent Company, Middle Parent, Subsidiaries, Co-Subsidiaries and Associates  
Schedule V: Schedule Showing Financial Soundness

**STATEMENT OF MANAGEMENT'S RESPONSIBILITY  
FOR FINANCIAL STATEMENTS**



The management of **Nickel Asia Corporation and Subsidiaries** (the "Group") is responsible for the preparation and fair presentation of the consolidated financial statements including the schedules attached therein, for the years ended December 31, 2017 and 2016, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

  
\_\_\_\_\_  
**Manuel B. Zamora, Jr.**  
Chairman of the Board

\_\_\_\_\_  
**Gerard H. Brimo**  
President and Chief Executive Officer

  
\_\_\_\_\_  
**Emmanuel L. Samson**  
Senior Vice President/Chief Financial Officer

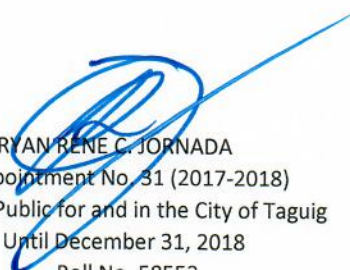
Signed this 14th day of March 2018

**SUBSCRIBED** and **SWORN** to before me, this MAR 28 2018, at Taguig City,  
affiants who exhibited to me her competent evidence of identity specified below:

| Name                  | Competent Evidence of Identity | Date and Place Issued    |
|-----------------------|--------------------------------|--------------------------|
| MANUEL B. ZAMORA, JR. | Passport #: EB9270874          | Oct. 01, 2013/DFA Manila |
| GERARD H. BRIMO       | Passport #: P1914438A          | Feb. 11, 2017/DFA Manila |
| EMMANUEL L. SAMSON    | Passport #: P2955746A          | May 05, 2017/DFA Manila  |

avowed under penalty of law as to the truth of the contents of this instrument.

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Page No.: 98  
Book No.: 3  
Series of 2018

  
RYAN RENE C. JORNADA  
Appointment No. 31 (2017-2018)  
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Roll No. 58552

PTR No. A-3781856 January 2018/Taguig City  
IBP No. 015794 (Lifetime)/O.R. No. 1070904/30 January 2017  
MCLE Compliance No. V-0018775, until 19 April 2019  
28F NAC Tower, 32<sup>nd</sup> Street, BGC, Taguig City



## INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Stockholders  
Nickel Asia Corporation and Subsidiaries  
28th Floor NAC Tower, 32nd Street  
Bonifacio Global City, Taguig City

### Opinion

We have audited the consolidated financial statements of Nickel Asia Corporation and its subsidiaries (the Group), which comprise the consolidated statements of financial position as at December 31, 2017 and 2016, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2017, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

### Basis for Opinion

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

### Key Audit Matters

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

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







### *Estimation of ore reserves*

Ore reserves are estimates of the amount of ore that can be economically and legally extracted from the Group's mining properties and are key inputs to depletion, amortization, and decommissioning provisions. The Group estimates its ore reserves based on information compiled by appropriately qualified persons relating to the geological data on the size, depth and shape of the ore body, and requires complex geological judgments to interpret the data. The estimation of recoverable reserves is based upon factors such as estimates of foreign exchange rates, commodity prices, future capital requirements, and production costs along with geological assumptions and judgments made in estimating the size and grade of the ore body. Changes in the reserve or resource estimates may impact upon the carrying values of property and equipment, provision for mine rehabilitation and decommissioning, recognition of deferred income tax assets and depreciation and depletion charges.

As discussed in Note 9 to the consolidated financial statements, the Group's mining properties and development costs are amortized using the units of production method. The land improvements, machinery and equipment, and buildings and improvements are depreciated and amortized using the straight line method, where the estimated useful life is based on the mineable ore reserves. This matter is significant to our audit because the estimation of the mineable ore reserves for mining projects located in Palawan and Surigao del Norte, for the remaining life of the mines, requires significant estimation from the management.

### *Audit response*

We obtained an understanding of management's processes and controls in the estimation of mineable ore reserves. We evaluated the competence, capabilities and objectivity of the internal specialist engaged by the Group to perform an independent assessment of its ore reserves. We reviewed the specialist's report and obtained an understanding of the nature, scope and objectives of their work, and basis of the estimates including any changes in the reserves during the year. In addition, we tested the reserves estimates applied to the relevant areas of the consolidated financial statements including depletion, depreciation, amortization and decommissioning provisions.

### *Recoverability of geothermal exploration and evaluation assets and deferred mine exploration costs*

The ability of the Group to recover its geothermal exploration and evaluation assets and deferred mine exploration costs would depend on the commercial viability of the reserves. The carrying values of geothermal exploration and evaluation assets and deferred mine exploration costs as of December 31, 2017 are disclosed in Notes 11 and 13 to the consolidated financial statements. The substantial amount of this account and the significant management judgment required in assessing whether there is any indication of impairment are key areas of focus in our audit.

### *Audit response*

We obtained an understanding of the Group's capitalization policy and tested whether the policy has been applied consistently. We obtained management's assessment on whether there are impairment indicators affecting the recoverability of the geothermal exploration and evaluation assets and deferred mine exploration costs. We inquired into the status of these projects and their plans on operations. We reviewed contracts and agreements, and budgets for exploration and development costs. We inspected the licenses, permits and correspondences with regulatory agencies of each exploration project, to determine that the period for which the Group has the right to explore in the specific area, has not been cancelled or has not expired, will not expire in the near future, and will be renewed accordingly. We also inquired





about the existing concession areas that are expected to be abandoned or any exploration activities that are planned to be discontinued in those areas.

*Recoverability of solar project and construction in-progress*

The Group is adversely affected by the continued decline in wholesale electricity prices. In the event that an impairment indicator is identified, the assessment of the recoverable amount of the solar project and construction in-progress related to solar farms and geothermal projects, requires significant judgment and is based on assumptions. The carrying values of the Group's solar project and construction in-progress recorded as part of property and equipment as of December 31, 2017 are disclosed in Note 9 to the consolidated financial statements. The assessment of the recoverable amounts of the Sta. Rita Solar Power and the Biliran Geothermal Power Projects, which require estimation and assumptions about future production levels and costs, as well as external inputs such as commodity prices, discount rate, and foreign currency exchange rates, is a key audit matter in our audit.

*Audit response*

We obtained an understanding of the Group's impairment assessment process and the related controls. We involved our internal specialist in evaluating the methodologies and the assumptions used. These assumptions include the expected life of the plant, forecasted annual energy output, forecasted average price of wholesale electricity, forecasted contributions to the government based on current regulations, inflation rate, planned debt ratio, and interest rate. We compared the key assumptions used against the industry benchmark plant life, production reports from operations department, average market price of electricity on Wholesale Electric Spot Market (WESM), current tax laws and Department of Energy regulations, Bangko Sentral ng Pilipinas (BSP) forecasted inflation rate, industry debt ratio and discount rate based on industry weighted average capital cost. We tested the parameters used in the determination of the discount rate against the market data.

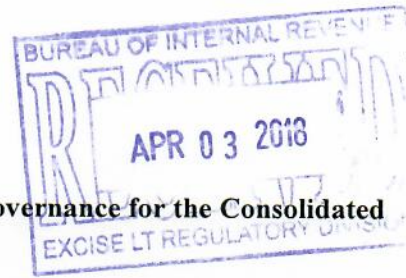
**Other Information**

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

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

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





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

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

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

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

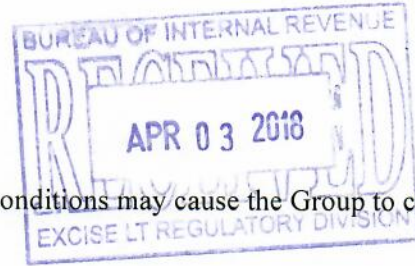
## **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to





the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Jaime F. del Rosario.

SYCIP GORRES VELAYO & CO.

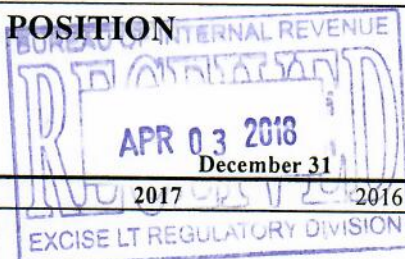


Jaime F. del Rosario  
Partner  
CPA Certificate No. 56915  
SEC Accreditation No. 0076-AR-4 (Group A),  
May 1, 2016, valid until May 1, 2019  
Tax Identification No. 102-096-009  
BIR Accreditation No. 08-001998-72-2018,  
February 14, 2018, valid until February 13, 2021  
PTR No. 6621247, January 9, 2018, Makati City

March 14, 2018



**NICKEL ASIA CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
(Amounts in Thousands)



|  |                    |                    |
|--|--------------------|--------------------|
| <b>ASSETS</b>  |                    |                    |
| <b>Current Assets</b>  |                    |                    |
| Cash and cash equivalents (Note 4)                               | P9,645,932         | P9,647,943         |
| Trade and other receivables (Note 5)                             | 905,125            | 1,145,271          |
| Inventories (Note 6)   | 3,502,414          | 3,210,838          |
| Available-for-sale (AFS) financial assets (Note 7)               | 5,925,682          | 5,572,285          |
| Prepayments and other current assets (Note 8)                    | 919,285            | 946,431            |
| <b>Total Current Assets</b>                                      | <b>20,898,438</b>  | <b>20,522,768</b>  |
| <b>Noncurrent Assets</b>   |                    |                    |
| Property and equipment (Note 9)                                  | 15,388,259         | 15,566,425         |
| Investments in associates (Note 10)                              | 2,952,132          | 2,582,087          |
| Geothermal exploration and evaluation assets (Note 11)           | 1,784,183          | 1,775,799          |
| AFS financial assets - net of current portion (Note 7)           | 732,738            | 746,793            |
| Long-term stockpile inventory - net of current portion (Note 12) | 167,559            | 367,244            |
| Deferred income tax assets (Note 36)                             | 333,094            | 370,052            |
| Other noncurrent assets (Note 13)                                | 3,480,696          | 3,420,348          |
| <b>Total Noncurrent Assets</b>                                   | <b>24,838,661</b>  | <b>24,828,748</b>  |
| <b>TOTAL ASSETS</b>  | <b>P45,737,099</b> | <b>P45,351,516</b> |
| <b>LIABILITIES AND EQUITY</b>                                    |                    |                    |
| <b>Current Liabilities</b>                                       |                    |                    |
| Trade and other payables (Note 14)                               | P7,569,941         | P7,016,683         |
| Income tax payable   | 235,233            | 426,802            |
| Other current liability (Note 39k)                               | 169,079            | 169,079            |
| Current portion of:  |                    |                    |
| Long-term debts (Note 15)  | 1,635,178          | 148,274            |
| Long-term payable (Note 17)                                      | 5,000              | 5,000              |
| Short-term debt (Note 15)  | -                  | 180,000            |
| <b>Total Current Liabilities</b>                                 | <b>9,614,431</b>   | <b>7,945,838</b>   |
| <b>Noncurrent Liabilities</b>                                    |                    |                    |
| Long-term debts - net of current portion (Note 15)               | 1,349,211          | 4,468,059          |
| Deferred income tax liabilities - net (Note 36)                  | 766,874            | 876,467            |
| Provision for mine rehabilitation and decommissioning (Note 16)  | 388,787            | 442,484            |
| Pension liability (Note 35)                                      | 320,781            | 332,320            |
| Deferred income - net of current portion (Note 39m)              | 58,659             | 62,849             |
| Long-term payable - net of current portion (Note 17)             | 20,168             | 23,846             |
| <b>Total Noncurrent Liabilities</b>                              | <b>2,904,480</b>   | <b>6,206,025</b>   |
| <b>Total Liabilities</b>   | <b>12,518,911</b>  | <b>14,151,863</b>  |
| <b>Equity Attributable to Equity Holders of the Parent</b>       |                    |                    |
| Capital stock (Note 18)  | 3,808,665          | 3,808,665          |
| Additional paid-in capital (Note 18)                             | 8,262,455          | 8,300,002          |
| Other components of equity:                                      |                    |                    |
| Share in cumulative translation adjustment (Note 10)             | 564,152            | 409,286            |
| Net valuation gains on AFS financial assets (Note 7)             | 163,935            | 12,954             |
| Cost of share-based payment plan (Note 19)                       | 137,635            | 126,622            |
| Asset revaluation surplus  | 32,097             | 32,480             |
| Retained earnings:   |                    |                    |
| Unappropriated   | 15,392,459         | 13,221,526         |
| Appropriated (Note 18)   | 1,095,583          | 1,108,956          |
|  | <b>29,456,981</b>  | <b>27,020,491</b>  |
| <b>Non-controlling Interests (NCI)</b>                           | <b>3,761,207</b>   | <b>4,179,162</b>   |
| <b>Total Equity</b>  | <b>33,218,188</b>  | <b>31,199,653</b>  |
| <b>TOTAL LIABILITIES AND EQUITY</b>                              | <b>P45,737,099</b> | <b>P45,351,516</b> |

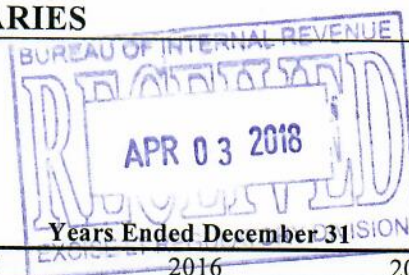
See accompanying Notes to Consolidated Financial Statements.



**NICKEL ASIA CORPORATION AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF INCOME**

(Amounts in Thousands, Except Earnings per Share)

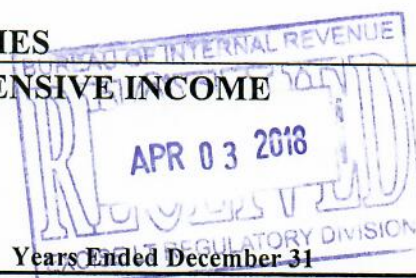


|  | 2017              | 2016              | 2015              |
|--|-------------------|-------------------|-------------------|
| <b>REVENUES</b>  |                   |                   |                   |
| Sale of ore (Note 34)  | P14,897,080       | P13,574,382       | P14,795,649       |
| Services and others (Notes 34 and 39)                        | 630,064           | 530,275           | 635,997           |
| Sale of power (Note 39p)                                     | 212,152           | 18,010            | -                 |
|  | <b>15,739,296</b> | <b>14,122,667</b> | <b>15,431,646</b> |
| <b>COSTS</b>   |                   |                   |                   |
| Sale of ore (Note 21)  | 6,033,241         | 5,907,249         | 6,279,248         |
| Services (Note 22)   | 351,339           | 328,457           | 357,917           |
| Power generation (Note 23)                                   | 257,276           | 38,295            | -                 |
|  | <b>6,641,856</b>  | <b>6,274,001</b>  | <b>6,637,165</b>  |
| <b>OPERATING EXPENSES</b>                                    |                   |                   |                   |
| Shipping and loading costs (Note 24)                         | 1,626,410         | 1,823,549         | 1,757,943         |
| Excise taxes and royalties (Note 25)                         | 1,103,686         | 1,006,712         | 1,089,603         |
| General and administrative (Note 26)                         | 863,153           | 850,251           | 912,854           |
| Marketing (Notes 39e and 39l)                                | 96,464            | 95,869            | 130,166           |
|  | <b>3,689,713</b>  | <b>3,776,381</b>  | <b>3,890,566</b>  |
| <b>FINANCE INCOME</b> (Note 29)                              | <b>316,303</b>    | <b>228,430</b>    | <b>305,112</b>    |
| <b>FINANCE EXPENSES</b> (Note 30)                            | <b>(246,615)</b>  | <b>(219,933)</b>  | <b>(179,125)</b>  |
| <b>EQUITY IN NET INCOME (LOSSES) OF ASSOCIATES</b> (Note 10) | <b>197,972</b>    | <b>(413,702)</b>  | <b>(811,369)</b>  |
| <b>OTHER INCOME (CHARGES) - net</b> (Note 31)                | <b>(84,387)</b>   | <b>493,540</b>    | <b>493,544</b>    |
| <b>INCOME BEFORE INCOME TAX</b>                              | <b>5,591,000</b>  | <b>4,160,620</b>  | <b>4,712,077</b>  |
| <b>PROVISION FOR (BENEFIT FROM) INCOME TAX</b> (Note 36)     |                   |                   |                   |
| Current  | 1,865,318         | 1,441,526         | 1,605,750         |
| Deferred   | (128,462)         | 7,952             | 61,536            |
|  | <b>1,736,856</b>  | <b>1,449,478</b>  | <b>1,667,286</b>  |
| <b>NET INCOME</b>  | <b>P3,854,144</b> | <b>P2,711,142</b> | <b>P3,044,791</b> |
| Net income attributable to:                                  |                   |                   |                   |
| Equity holders of the parent                                 | P2,770,768        | P1,966,107        | P2,035,143        |
| NCI  | 1,083,376         | 745,035           | 1,009,648         |
|  | <b>P3,854,144</b> | <b>P2,711,142</b> | <b>P3,044,791</b> |
| <b>Basic/Diluted Earnings Per Share</b>                      |                   |                   |                   |
| (EPS; Note 20)   | <b>P0.36</b>      | <b>P0.26</b>      | <b>P0.27</b>      |

See accompanying Notes to Consolidated Financial Statements.



**NICKEL ASIA CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
(Amounts in Thousands)



|   | Years Ended December 31 |                   |                   |
|---|-------------------------|-------------------|-------------------|
|   | 2017                    | 2016              | 2015              |
| <b>NET INCOME</b>   | <b>₱3,854,144</b>       | <b>₱2,711,142</b> | <b>₱3,044,791</b> |
| <b>OTHER COMPREHENSIVE INCOME (LOSS)</b>  |                         |                   |                   |
| <i>Other comprehensive income (loss) to be reclassified to consolidated statements of income in subsequent periods:</i> |                         |                   |                   |
| Share in translation adjustment of associates (Note 10)   | 172,073                 | 29,270            | 360,506           |
| Income tax effect   | (17,207)                | (26,593)          | (36,051)          |
|   | <b>154,866</b>          | <b>2,677</b>      | <b>324,455</b>    |
| Net valuation gains (losses) on AFS financial assets (Note 7)   | 194,243                 | 153,124           | (369,761)         |
| Income tax effect (Note 7)  | (41,132)                | (3,035)           | 65,435            |
|   | <b>153,111</b>          | <b>150,089</b>    | <b>(304,326)</b>  |
| Net other comprehensive income to be reclassified to consolidated statements of income in subsequent periods            | <b>307,977</b>          | <b>152,766</b>    | <b>20,129</b>     |
| <i>Other comprehensive loss not to be reclassified to consolidated statements of income in subsequent periods:</i>      |                         |                   |                   |
| Remeasurement loss on pension liability (Note 35)   | (8,373)                 | (83,731)          | (9,047)           |
| Income tax effect   | 2,512                   | 25,119            | 2,715             |
|   | <b>(5,861)</b>          | <b>(58,612)</b>   | <b>(6,332)</b>    |
| Asset revaluation surplus   | (547)                   | (547)             | (547)             |
| Income tax effect   | 164                     | 164               | 164               |
|   | <b>(383)</b>            | <b>(383)</b>      | <b>(383)</b>      |
| Net other comprehensive loss not to be reclassified to consolidated statements of income in subsequent periods          | <b>(6,244)</b>          | <b>(58,995)</b>   | <b>(6,715)</b>    |
| <b>TOTAL OTHER COMPREHENSIVE INCOME - NET OF TAX</b>  | <b>301,733</b>          | <b>93,771</b>     | <b>13,414</b>     |
| <b>TOTAL COMPREHENSIVE INCOME - NET OF TAX</b>  | <b>₱4,155,877</b>       | <b>₱2,804,913</b> | <b>₱3,058,205</b> |
| Total comprehensive income attributable to:   |                         |                   |                   |
| Equity holders of the parent  | <b>₱3,071,379</b>       | <b>₱2,076,466</b> | <b>₱2,052,080</b> |
| NCI   | <b>1,084,498</b>        | <b>728,447</b>    | <b>1,006,125</b>  |
|   | <b>₱4,155,877</b>       | <b>₱2,804,913</b> | <b>₱3,058,205</b> |

See accompanying Notes to Consolidated Financial Statements.



**NICKEL ASIA CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015**  
**(Amounts in Thousands)**

|   | Equity Attributable to Equity Holders of the Parent |                               |                                      |  |   |                                    |                           |  |                |                        |             |
|---|---|-------------------------------|--------------------------------------|--|---|------------------------------------|---------------------------|--|----------------|------------------------|-------------|
|   | Capital Stock (Note 18)                             | Stock Dividends Distributable | Additional Paid-in Capital (Note 18) | Share in Cumulative Translation Adjustment (Note 10) | Net Valuation Gains (Losses) on AFS Financial Assets (Note 7) | Share-based Payment Plan (Note 19) | Asset Revaluation Surplus | Retained Earnings Appropriated (Note 18) | Unappropriated | Appropriated (Note 18) | Total       |
| Balances at December 31, 2016                                       | ₱3,808,665  | ₱-                            | ₱8,300,002                           | ₱409,286   | ₱12,954   | ₱126,622                           | ₱32,480                   | ₱13,221,526                              | ₱1,108,956     | ₱4,179,162             | ₱31,199,653 |
| Net income  | -   | -                             | -                                    | -  | -   | -                                  | -                         | 2,770,768                                | -              | 1,083,376              | 3,854,144   |
| Other comprehensive income (loss)                                   | -   | -                             | -                                    | 154,866  | 150,981   | -                                  | (383)                     | (4,853)                                  | -              | 1,122                  | 301,733     |
| Total comprehensive income (loss)                                   | -   | -                             | -                                    | 154,866  | 150,981   | -                                  | (383)                     | 2,765,915                                | -              | 1,084,498              | 4,155,877   |
| Cost of share-based payment plan (Notes 19 and 27)                  | -   | -                             | -                                    | -  | -   | 11,013                             | -                         | -  | -              | -                      | 11,013      |
| Cash dividends (Note 18)  | -   | -                             | -                                    | -  | -   | -                                  | -                         | (608,234)                                | -              | -                      | (608,234)   |
| 7% Cash dividends - P preferred share (Note 34)                     | -   | -                             | -                                    | -  | -   | -                                  | -                         | (504)                                    | -              | -                      | (504)       |
| Cash dividends to NCI (Note 33)                                     | -   | -                             | -                                    | -  | -   | -                                  | -                         | -  | -              | (1,540,000)            | (1,540,000) |
| Reversal of appropriation (Note 18)                                 | -   | -                             | -                                    | -  | -   | -                                  | -                         | 108,956                                  | (108,956)      | -                      | -           |
| Appropriation of retained earnings (Note 18)                        | -   | -                             | -                                    | -  | -   | -                                  | -                         | (95,583)                                 | 95,583         | -                      | -           |
| Dilution in NCI   | -   | -                             | (37,547)                             | -  | -   | -                                  | -                         | -  | -              | (37,547)               | -           |
| Asset revaluation surplus transferred to retained earnings (Note 9) | -   | -                             | -                                    | -  | -   | -                                  | -                         | 383                                      | -              | 383                    | -           |
| Balances at December 31, 2017                                       | ₱3,808,665  | ₱-                            | ₱8,262,455                           | ₱564,152   | ₱163,935  | ₱137,635                           | ₱32,097                   | ₱15,392,459                              | ₱1,095,583     | ₱3,761,307             | ₱33,218,188 |

See accompanying Notes to Consolidated Financial Statements.





Equity Attributable to Equity Holders of the Parent

|   | Net Valuation           |                               |                                      |  |   |  |                           |                                  |                        |               | Total        | NCI           | Total |
|---|-------------------------|-------------------------------|--------------------------------------|--|---|--|---------------------------|----------------------------------|------------------------|---------------|--------------|---------------|-------|
|   | Capital Stock (Note 18) | Stock Dividends Distributable | Additional Paid-in Capital (Note 18) | Share in Cumulative Translation Adjustment (Note 10) | Net Gains (Losses) on AFS Financial Assets (Note 7) | Cost of Share-based Payment Plan (Note 19) | Asset Revaluation Surplus | Retained Earnings Unappropriated | Appropriated (Note 18) | Total         |              |               |       |
| Balances at December 31, 2015                                       | P= 3,805,670            | P=                            | P= 8,284,767                         | P= 406,609   | P= (134,467)  | P= 104,824                                 | P= 32,863                 | P= 11,300,347                    | P= 1,711,260           | P= 25,511,873 | P= 3,901,315 | P= 29,413,188 |       |
| Net income  | -                       | -                             | -                                    | -  | -   | -  | -                         | 1,966,107                        | -                      | 1,966,107     | 745,035      | 2,711,142     |       |
| Other comprehensive income (loss)                                   | -                       | -                             | -                                    | 2,677  | 147,421   | -  | (383)                     | (39,356)                         | -                      | 110,359       | (16,588)     | 93,771        |       |
| Total comprehensive income (loss)                                   | -                       | -                             | -                                    | 2,677  | 147,421   | -  | (383)                     | 1,926,751                        | -                      | 2,076,466     | 728,447      | 2,804,913     |       |
| Exercise of stock options (Note 19)                                 | 2,995                   | -                             | 15,235                               | -  | -   | (3,855)                                    | -                         | -                                | -                      | 14,375        | -            | 14,375        |       |
| Cost of share-based payment plan (Notes 19 and 27)                  | -                       | -                             | -                                    | -  | -   | 25,653                                     | -                         | -                                | -                      | 25,653        | -            | 25,653        |       |
| Cash dividends (Note 18)  | -                       | -                             | -                                    | -  | -   | -  | -                         | (607,755)                        | -                      | (607,755)     | -            | (607,755)     |       |
| 7% Cash dividends - Preferred share (Note 34)                       | -                       | -                             | -                                    | -  | -   | -  | -                         | (504)                            | -                      | (504)         | -            | (504)         |       |
| Cash dividends to NCI (Note 33)                                     | -                       | -                             | -                                    | -  | -   | -  | -                         | -                                | -                      | -             | (677,500)    | (677,500)     |       |
| Reversal of appropriation (Note 18)                                 | -                       | -                             | -                                    | -  | -   | -  | -                         | 711,260                          | (711,260)              | -             | -            | -             |       |
| Appropriation of retained earnings (Note 18)                        | -                       | -                             | -                                    | -  | -   | -  | -                         | (108,956)                        | 108,956                | -             | -            | -             |       |
| Asset revaluation surplus transferred to retained earnings (Note 9) | -                       | -                             | -                                    | -  | -   | -  | -                         | 383                              | -                      | 383           | -            | 383           |       |
| Investments from non-controlling shareholders                       | -                       | -                             | -                                    | -  | -   | -  | -                         | -                                | -                      | -             | -            | -             |       |
| Balances at December 31, 2016                                       | P= 3,808,665            | P=                            | P= 8,300,002                         | P= 409,286   | P= 12,954   | P= 126,622                                 | P= 32,480                 | P= 13,221,526                    | P= 1,108,956           | P= 27,020,491 | P= 4,179,162 | P= 31,199,653 |       |

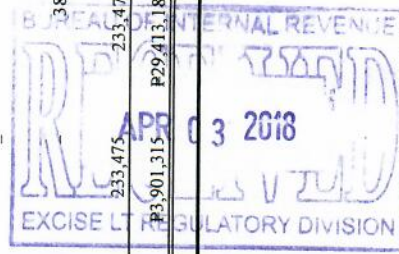
See accompanying Notes to Consolidated Financial Statements.



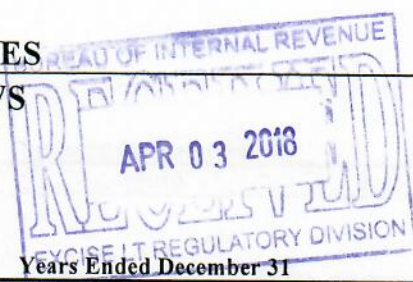
Equity Attributable to Equity Holders of the Parent

|  | Capital Stock | Stock Dividends Distributable | Additional Paid-in Capital | Share in Cumulative Translation Adjustment | Net Valuation Gains (Losses) on AFS Financial Assets | Share-based Payment Plan | Asset Revaluation Surplus | Retained Earnings |                        | Total       | NCI         | Total       |
|--|---------------|-------------------------------|----------------------------|--|--|--------------------------|---------------------------|-------------------|------------------------|-------------|-------------|-------------|
|  |               |                               |                            |  |  |                          |                           | Unappropriated    | Appropriated (Note 18) |             |             |             |
| Balances at December 31, 2014                              | ₱1,272,495    | ₱632,648                      | ₱8,273,655                 | ₱82,154                                    | ₱171,322   | ₱47,060                  | ₱33,246                   | ₱15,098,051       | ₱1,575,000             | ₱27,185,631 | ₱3,716,715  | ₱30,902,346 |
| Net income   | -             | -                             | -                          | -  | -  | -                        | -                         | 2,035,143         | -                      | 2,035,143   | 1,009,648   | 3,044,791   |
| Other comprehensive income (loss)                          | -             | -                             | -                          | 324,455                                    | (305,789)  | -                        | (383)                     | (1,346)           | -                      | 16,937      | (3,523)     | 13,414      |
| Total comprehensive income (loss)                          | -             | -                             | -                          | 324,455                                    | (305,789)  | -                        | (383)                     | 2,033,797         | -                      | 2,052,080   | 1,006,125   | 3,058,205   |
| Exercise of stock options                                  | 1,292         | -                             | 11,112                     | -  | -  | -                        | -                         | -                 | -                      | 12,404      | -           | 12,404      |
| Stock dividends (Note 18)                                  | 2,531,883     | (632,648)                     | -                          | -  | -  | -                        | -                         | (1,899,235)       | -                      | -           | -           | -           |
| Cost of share-based payment plan (Note 27)                 | -             | -                             | -                          | -  | -  | 57,764                   | -                         | -                 | -                      | 57,764      | -           | 57,764      |
| Cash dividends (Note 18)                                   | -             | -                             | -                          | -  | -  | -                        | -                         | (3,795,885)       | -                      | (3,795,885) | -           | (3,795,885) |
| 7% Cash dividends - Preferred share (Note 34)              | -             | -                             | -                          | -  | -  | -                        | -                         | (504)             | -                      | (504)       | -           | (504)       |
| Cash dividends to NCI                                      | -             | -                             | -                          | -  | -  | -                        | -                         | -                 | -                      | -           | (1,055,000) | (1,055,000) |
| Appropriation of retained earnings (Note 18)               | -             | -                             | -                          | -  | -  | -                        | -                         | -                 | 136,260                | -           | -           | -           |
| Asset revaluation surplus transferred to retained earnings | -             | -                             | -                          | -  | -  | -                        | -                         | 383               | -                      | 383         | -           | 383         |
| Investments from non-controlling shareholders              | -             | -                             | -                          | -  | -  | -                        | -                         | -                 | -                      | -           | 233,475     | 233,475     |
| Balances at December 31, 2015                              | ₱3,805,670    | ₱-                            | ₱8,284,767                 | ₱406,609                                   | (₱134,467)   | ₱104,824                 | ₱32,863                   | ₱11,300,347       | ₱1,711,260             | ₱25,511,873 | ₱3,901,315  | ₱29,413,188 |

See accompanying Notes to Consolidated Financial Statements.



**NICKEL ASIA CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Amounts in Thousands)



|  | 2017        | 2016        | 2015        |
|--|-------------|-------------|-------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>  |             |             |             |
| Income before income tax   | ₱5,591,000  | ₱4,160,620  | ₱4,712,077  |
| Adjustments for:   |             |             |             |
| Depreciation, amortization and depletion (Notes 9 and 28)  | 1,480,045   | 1,475,139   | 1,439,872   |
| Interest income (Note 29)  | (301,967)   | (228,430)   | (212,806)   |
| Interest expense (Notes 22 and 30)   | 203,049     | 135,741     | 77,530      |
| Equity in net losses (income) of associates (Note 10)  | (197,972)   | 413,702     | 811,369     |
| Provisions for (reversals of allowance for) impairment losses on:                                |             |             |             |
| AFS financial assets (Notes 7 and 31)  | 133,320     | 119,220     | -           |
| Property and equipment (Notes 9 and 31)  | (12,825)    | 12,825      | -           |
| Deferred mine exploration costs (Notes 13 and 31)  | 1,233       | 460         | 1,233       |
| Dividend income (Notes 7 and 31)   | (36,967)    | (35,117)    | (25,827)    |
| Movements in pension liability   | (36,225)    | (17,119)    | 5,851       |
| Accretion of interest on provision for mine rehabilitation and decommissioning (Notes 16 and 30) | 16,123      | 8,942       | 8,520       |
| Loss (gain) on:  |             |             |             |
| Sale of AFS financial assets (Notes 7, 29 and 30)  | (14,336)    | 11,715      | (86,250)    |
| Sale of property and equipment (Note 31)   | 4,508       | (6,644)     | (6,919)     |
| Debt extinguishment (see Notes 15 and 30)  | 3,433       | -           | -           |
| Sale of interest in an associate (Notes 10 and 31)   | -           | (239,620)   | -           |
| Write-off of advances to claimowners (Note 31)   | -           | 5,350       | -           |
| Write-off of AFS financial assets (Notes 7 and 31)   | -           | 3,000       | -           |
| Write-off of deferred mine exploration costs (Notes 31 and 39e)                                  | -           | 2,278       | 5,461       |
| Bargain purchase (Notes 31 and 32)   | -           | -           | (59,921)    |
| Cost of share-based payment plan (Notes 19 and 27)   | 11,013      | 25,653      | 57,764      |
| Unrealized foreign exchange loss (gains) - net (Note 31)   | 9,720       | (300,086)   | (157,954)   |
| Accretion income (Note 29)   | -           | -           | (3,933)     |
| Casualty losses (Note 31)  | -           | -           | 2,516       |
| Day 1 gain (Note 29)   | -           | -           | (2,123)     |
| Effect of change in estimate on provision for mine rehabilitation and decommissioning            | -           | -           | (88)        |
| Operating income before working capital changes  | 6,853,152   | 5,547,629   | 6,566,372   |
| Decrease (increase) in:  |             |             |             |
| Trade and other receivables  | 223,212     | (235,789)   | 406,673     |
| Inventories  | (91,891)    | 217,927     | (120,068)   |
| Prepayments and other current assets   | 71,671      | (7,108)     | 214,586     |
| Increase (decrease) in trade and other payables  | 296,999     | 119,395     | (203,958)   |
| Net cash generated from operations   | 7,353,143   | 5,642,054   | 6,863,605   |
| Income taxes paid  | (2,056,887) | (1,128,663) | (2,005,409) |
| Net cash flows from operating activities   | 5,296,256   | 4,513,391   | 4,858,196   |

(Forward)



|   | Years Ended December 31 |                    |                    |
|---|-------------------------|--------------------|--------------------|
|   | 2017                    | 2016               | 2015               |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                                       |                         |                    |                    |
| Acquisitions of:  |                         |                    |                    |
| AFS financial assets (Note 7)   | (P5,246,568)            | (P8,641,008)       | (P13,392,836)      |
| Property and equipment (Note 9)   | (1,494,458)             | (3,349,750)        | (3,922,099)        |
| Proceeds from:  |                         |                    |                    |
| Sale of AFS financial assets (Note 7)   | 4,981,173               | 8,296,174          | 10,163,700         |
| Sale of property and equipment  | 20,116                  | 12,794             | 8,538              |
| Sale of interest in an associate (Note 10)  | -                       | 2,037,188          | -                  |
| Insurance claims  | -                       | -                  | 1,010              |
| Interest received   | 295,365                 | 221,560            | 197,080            |
| Decrease (increase) in:   |                         |                    |                    |
| Other noncurrent assets   | (52,212)                | 10,861             | (184,163)          |
| Geothermal exploration and evaluation assets<br>(Note 11)                         | (8,384)                 | (463,184)          | (470,720)          |
| Dividends received (Note 7)   | 36,862                  | 35,138             | 114,817            |
| Issuance of loans (Note 39a)  | -                       | -                  | (1,000,000)        |
| Acquisition of subsidiaries, net of cash acquired<br>(Note 32)                    | -                       | -                  | (800,792)          |
| <b>Net cash flows used in investing activities</b>                                | <b>(1,468,106)</b>      | <b>(1,840,227)</b> | <b>(9,285,465)</b> |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                                       |                         |                    |                    |
| Payments of:  |                         |                    |                    |
| Cash dividends (Notes 18 and 34)  | (1,801,238)             | (1,473,259)        | (4,303,909)        |
| Long-term debt  | (1,628,463)             | (114,827)          | (114,827)          |
| Short-term debt   | (180,000)               | -                  | -                  |
| Long-term payable   | (5,000)                 | -                  | -                  |
| Rehabilitation cost   | -                       | -                  | (670)              |
| Interest paid   | (188,840)               | (178,460)          | (52,472)           |
| Decrease in deferred income   | (4,190)                 | (4,190)            | (4,190)            |
| Proceeds from:  |                         |                    |                    |
| Availment of long-term debt (Note 15)   | -                       | 1,182,846          | 2,099,449          |
| Exercise of stock options (Note 19)   | -                       | 14,375             | 12,404             |
| Investments from non-controlling shareholders                                     | -                       | 226,900            | -                  |
| Increase in other current liability (Note 39k)                                    | -                       | 21                 | 169,058            |
| <b>Net cash flows used in financing activities</b>                                | <b>(3,807,731)</b>      | <b>(346,594)</b>   | <b>(2,195,157)</b> |
| <b>NET INCREASE (DECREASE) IN CASH AND<br/>CASH EQUIVALENTS</b>                   | <b>20,419</b>           | <b>2,326,570</b>   | <b>(6,622,426)</b> |
| <b>CASH AND CASH EQUIVALENTS AT<br/>BEGINNING OF YEAR</b>                         | <b>9,647,943</b>        | <b>7,073,171</b>   | <b>13,561,803</b>  |
| <b>EFFECT OF EXCHANGE RATE CHANGES IN<br/>CASH AND CASH EQUIVALENTS (Note 31)</b> | <b>(22,430)</b>         | <b>248,202</b>     | <b>133,794</b>     |
| <b>CASH AND CASH EQUIVALENTS AT END OF<br/>YEAR (Note 4)</b>                      | <b>P9,645,932</b>       | <b>P9,647,943</b>  | <b>P7,073,171</b>  |

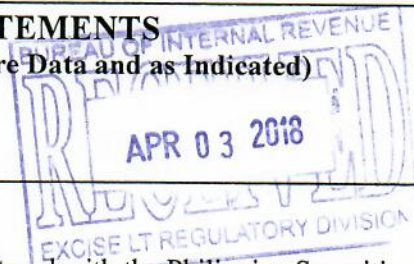
See accompanying Notes to Consolidated Financial Statements.



# NICKEL ASIA CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in Thousands, Except Number of Shares, Per Share Data and as Indicated)



### 1. Corporate Information

Nickel Asia Corporation (NAC; Parent Company) was registered with the Philippine Securities and Exchange Commission (SEC) on July 24, 2008. The Parent Company is primarily engaged in investing in and holding of assets of every kind and description and wherever situated, as and to the extent permitted by law. It is also registered, within the limits prescribed by law, to engage in the business of mining of all kinds of ore, metals and minerals and in the business of generation, transmission, distribution and supply of electricity to cities and other localities and to the public in general.

The common shares of the Parent Company were listed on the Philippine Stock Exchange (PSE) on November 22, 2010. The registered office address of the Parent Company is at 28th floor NAC Tower, 32nd Street, Bonifacio Global City, Taguig City.

#### The Subsidiaries

##### *Hinatuan Mining Corporation (HMC)*

HMC was registered with the SEC on October 9, 1979, is a 100% owned subsidiary of the Parent Company and is primarily engaged in the exploration, mining and exporting of nickel ore located in Hinatuan Island, Surigao del Norte and Manicani Island, Eastern Samar. HMC is also engaged in the chartering out of Landing Craft Transport (LCT) and providing complete marine services.

##### *Cagdianao Mining Corporation (CMC)*

CMC was registered with the SEC on July 25, 1997, is a 100% owned subsidiary of the Parent Company and is primarily engaged in the exploration, mining and exporting of nickel ore located in Barangay Valencia, Municipality of Cagdianao, Province of Dinagat Island.

##### *Samar Nickel Mining Resources Corporation (SNMRC)*

SNMRC was registered with the SEC on March 11, 2010, is a 100% owned subsidiary of the Parent Company and is primarily engaged in the exploration, mining and exporting of mineral ores. SNMRC has not yet started commercial operations.

##### *La Costa Shipping and Lighterage Corporation (LCSLC)*

LCSLC was registered with the SEC on October 23, 1992, is a 100% owned subsidiary of the Parent Company through HMC, and is primarily engaged in the chartering out of LCT and providing complete marine services. LCSLC was acquired by HMC in April 2010. In a resolution dated May 6, 2014, the Board of Directors (BOD) of LCSLC authorized the sale of all of its LCT to HMC for a consideration.

##### *Geogen Corporation (Geogen)*

Geogen was registered with the SEC on October 9, 1998, is a 100% owned subsidiary of the Parent Company and is primarily engaged in the exploration, exploitation and mining of metallic and non-metallic minerals, including, but not limited to, nickel, iron, cobalt, chromite and other associated mineral deposits. Geogen has not yet started commercial operations.



On January 16, 2018, the BOD of Geogen approved to change its corporate name to Dinapigue Mining Corporation. The application for the change in the corporate name was approved by the SEC on March 5, 2018.

*Falck Exp Inc. (FEI)*

FEI was registered with the SEC on November 22, 2005, is an 88% owned subsidiary of the Parent Company through HMC, CMC and Taganito Mining Corporation (TMC), and is primarily engaged in the business of exploring, prospecting and operating mines and quarries of all kinds of ores and minerals, metallic and non-metallic. On August 8, 2014, the BOD of FEI approved the immediate dissolution of FEI. Thereafter, the liquidation process commenced and as a result, FEI changed from going-concern to liquidation basis of accounting. On November 17, 2016, the termination of FEI's registration with the Bureau of Internal Revenue (BIR) was approved. Final dissolution will take place after the approval of FEI's application with the SEC. As at December 31, 2017, FEI is still waiting for the approval of SEC.

*Cordillera Exploration Co., Inc. (CExCI)*

CExCI was registered with the SEC on October 19, 1994, is a 71.25% owned subsidiary of the Parent Company and is primarily engaged in the business of large-scale exploration, development and utilization of mineral resources. CExCI has a number of mining properties at various stages of exploration. It is currently not engaged in any development or commercial production activities.

*Newminco Pacific Mining Corporation (Newminco)*

Newminco was registered with the SEC on October 9, 2006, is a 71.25% owned subsidiary of the Parent Company through CExCI, and is primarily engaged in the exploration, mining, development, utilization, extraction, beneficiation and marketing of minerals and mineral resources. It is currently not engaged in any development or commercial production activities.

*Taganito Mining Corporation*

TMC was registered with the SEC on March 4, 1987, is a 65% owned subsidiary of the Parent Company and is primarily engaged in the exploration, mining and exporting of nickel ore located in Claver, Surigao del Norte. TMC also provides services which involves the handling, hauling and transportation of materials required in the processing operations of Taganito HPAL Nickel Corporation (THNC).

*Rio Tuba Nickel Mining Corporation (RTN)*

RTN was registered with the SEC on July 15, 1969, is a 60% owned subsidiary of the Parent Company and is primarily engaged in the exploration, mining and exporting of nickel ore located in Barangay Rio Tuba, Municipality of Bataraza, Palawan and providing non-mining services required in the processing operations of Coral Bay Nickel Corporation (CBNC).

*Emerging Power Inc. (EPI)*

EPI was registered with the SEC on October 16, 2007, is an 86.29% owned subsidiary of the Parent Company and is primarily engaged in the renewable energy business.

*Mindoro Geothermal Power Corporation (MGPC)*

MGPC was registered with the SEC on May 7, 2014, is an 86.29% owned subsidiary of the Parent Company through EPI, and is primarily engaged in the renewable energy business. By virtue of a Deed of Assignment of rights and obligations of EPI under Geothermal Renewable Energy Service Contract (GRESO) No. 2010-02-013 on November 24, 2014, MGPC acquired the exclusive rights to explore, develop and exploit geothermal resources covering a geothermal field in the municipality of Naujan, Oriental Mindoro.



*Manta Energy Inc. (MEI)*

MEI was registered with the SEC on May 21, 2007, is an 86.29% owned subsidiary of the Parent Company through EPI, and is primarily engaged in power business, including but not limited to power generation, power trading and supply to retail customers and end users. On July 5, 2016, the Energy Regulatory Commission (ERC) approved MEI's registration as Registered Electric Supplier for a period of five (5) years, and renewable thereafter.

*Biliran Holdings Inc. (BHI)*

BHI was registered with the SEC on July 31, 2015, is an 86.29% owned subsidiary of the Parent Company through EPI, and is primarily engaged in investing in and holding of assets of every kind and description, as and to the extent permitted by law. It is also registered, within the limits prescribed by law, to engage in the business of infrastructure, power generation, real estate, manufacturing, trading and agribusiness and to pay other evidences of indebtedness or securities of this or any other corporation.

*Jobin-SQM, Inc. (Jobin)*

Jobin was registered with the SEC on January 6, 2010, is an 86.29% owned subsidiary of the Parent Company through EPI, and is primarily engaged in power business, including but not limited to power generation, power trading and supply to retail customers and end users. Jobin was acquired by EPI on September 11, 2015. On May 23, 2016, Jobin entered into the testing and commissioning phase for the 7.14 MW Sta. Rita Solar Power Project. On November 7, 2016, Jobin was granted by ERC a Provisional Authority to Operate (PAO) to transition from testing and commissioning phase to actual production and operation phase for a period of six (6) months for its 7.14 MW Sta. Rita Solar Power Plant pending approval of Jobin's dedicated point to point limited facilities to connect to the transmission system. On March 18, 2017, Jobin commenced testing and commissioning phase for the 25.19 MW Sta. Rita Solar Power Project and was granted by ERC a PAO to transition from testing and commissioning phase to actual production on September 27, 2017.

*Biliran Geothermal Inc. (BGI)*

BGI was registered with the SEC on October 31, 2007, is a 51.77% owned subsidiary of the Parent Company through EPI. The principal activities of BGI are to explore, exploit, discover, develop, extract, dig and drill for, produce, utilize, refine, treat, process, transport, store, market, sell, use, supply, experiment with, distribute, manufacture, or otherwise deal in, any substance, minerals or otherwise, which by itself or in contribution with other substances generate or emanate heat or power and to enter into and perform service contracts including geothermal services. On December 28, 2014, BGI received the Confirmation of Commerciality for the Biliran Geothermal Project from the Philippine Government through the Department of Energy (DOE). BGI was acquired by BHI on December 17, 2015.

*Mantex Services Inc. (Mantex)*

Mantex was registered with the SEC on March 26, 2012, is a 43.15% owned subsidiary of the Parent Company through EPI. Mantex is established primarily to provide technical, financial and public relations advisory, management and investments services for infrastructure projects.

Updates in the Philippine Mining Industry

In line with the issuance of Department of Environment and Natural Resources (DENR) Memorandum Order No. 2016-01 mandating a comprehensive review of all operating mines and mines under suspended and/or care and maintenance status, and a moratorium on the acceptance, processing and/or approval of mining applications and/or new mining projects for all metallic and non-metallic minerals, an industry-wide audit was carried on since July 2016.



On February 2, 2017, the Secretary of the DENR ordered the closure and suspension of several mines in the country for alleged environmental violations noted during the industry-wide audit.

In light of concerns expressed by various industry stakeholders, the Mineral Industry Coordinating Council (MICC) issued a resolution on February 9, 2017, which called for the review of the audit conducted on mining companies, and the closure and suspension orders by the DENR Secretary. This mandate of the MICC covers all mining contracts in the Philippines, although the review will start with mining companies affected by the closure order. The multi-stakeholder review shall be based on the guidelines and parameters set forth in mining contracts and in other pertinent laws, and will advise the DENR on the performance of existing mining operations in consultation with local government units. Five technical review teams (TRT) will conduct the review over a three (3) month period starting in March 2017. The TRTs will check the compliance of affected mining companies with applicable agreements, and laws and regulations taking into account the technical, legal, social, environmental and economic aspects of their mining operations. The results of the review will be submitted to the multi-stakeholder Technical Working Group (TWG) of the MICC. The TWG will verify the results before the final presentation to the MICC. The MICC will then present the findings and submit its recommendations to the Office of the President, which shall make the final decision on the DENR's closure and suspension orders. As at March 14, 2018, the MICC review is still ongoing.

On February 14, 2017, the Secretary of the DENR announced the cancellation of a total of 75 Mineral Production Sharing Agreements (MPSAs) considered to be situated in watersheds. Show cause orders were issued to the concerned mining companies, which were given seven (7) days to respond.

On February 13, 2017, HMC received a letter from DENR stating that MPSA in Taganaan Island, Surigao is being cancelled due to alleged violations of Republic Act (RA) No. 7942 or the "Philippine Mining Act of 1995" as a result of the audit conducted in July 2016. On February 17, 2017, HMC filed a Notice of Appeal with the Office of the President. It is the Parent Company's position that there are no legal and technical grounds to support the cancellation of HMC's MPSA.

The Parent Company will pursue all legal remedies to overturn the said order because of due process violations and the absence of any basis that would warrant a suspension of HMC's operations, much less the cancellation of its MPSA.

RTN, TMC and CMC were not included in the list of mining operations recommended for suspension or closure by the DENR.

The consolidated financial statements as at December 31, 2017 and 2016 and for each of the three years in the period ended December 31, 2017 were authorized for issuance by the Parent Company's BOD on March 14, 2018.

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## **2. Basis of Preparation and Consolidation, Statement of Compliance and Summary of Significant Accounting Policies**

### Basis of Preparation

The consolidated financial statements have been prepared on a historical cost basis, except for AFS financial assets which are measured at fair value. The consolidated financial statements are presented in Philippine peso, which is the Parent Company's functional and presentation currency. The Parent Company and its subsidiaries (collectively referred to as the Group) have the





Philippine Peso as their functional currency and items included in the financial statements of each entity are measured using that functional and presentation (or reporting) currency. All amounts are rounded to the nearest thousand (₱000), except when otherwise indicated.

**Basis of Consolidation**

The consolidated financial statements include the Group and its associates:

|                         | Principal Place of Business | Principal Activities                   | Effective Ownership |         |
|-------------------------|-----------------------------|--|---------------------|---------|
|                         |                             |  | 2017                | 2016    |
| <i>Subsidiaries</i>     |                             |  |                     |         |
| HMC                     | Philippines                 | Mining and Services                    | 100.00%             | 100.00% |
| CMC                     | Philippines                 | Mining                                 | 100.00%             | 100.00% |
| SNMRC                   | Philippines                 | Mining                                 | 100.00%             | 100.00% |
| LCSLC <sup>(a)</sup>    | Philippines                 | Services                               | 100.00%             | 100.00% |
| Geogen                  | Philippines                 | Mining                                 | 100.00%             | 100.00% |
| FEI <sup>(b)</sup>      | Philippines                 | Mining                                 | 88.00%              | 88.00%  |
| CExCI                   | Philippines                 | Mining                                 | 71.25%              | 71.25%  |
| Newminco <sup>(c)</sup> | Philippines                 | Mining                                 | 71.25%              | 71.25%  |
| TMC                     | Philippines                 | Mining and Services                    | 65.00%              | 65.00%  |
| RTN                     | Philippines                 | Mining and Services                    | 60.00%              | 60.00%  |
| EPI*                    | Philippines                 | Renewable Energy (RE) Developer        | 86.29%              | 70.92%  |
| MGPC <sup>(d)</sup>     | Philippines                 | Developer                              | 86.29%              | 70.92%  |
| MEI <sup>(d)</sup>      | Philippines                 | Power Generation, Trading and Services | 86.29%              | 70.92%  |
| BHI <sup>(d)</sup>      | Philippines                 | Services                               | 86.29%              | 70.92%  |
| Jobin <sup>(d)</sup>    | Philippines                 | Power Generation                       | 86.29%              | 70.92%  |
| BGI <sup>(d)</sup>      | Philippines                 | Power Generation                       | 51.77%              | 42.55%  |
| Mantex <sup>(d)</sup>   | Philippines                 | Management and Advisory Services       | 43.15%              | 35.46%  |
| <i>Associates</i>       |                             |  |                     |         |
| THNC                    | Philippines                 | Manufacturing                          | 10.00%              | 10.00%  |
| CBNC                    | Philippines                 | Manufacturing                          | 10.00%              | 10.00%  |

\* The Parent Company's equity interest in EPI increased from 70.92% to 86.29% as a result of capital infusion of ₱1,500.0 million in September 2017.

(a) Indirect ownership through HMC

(b) Indirect ownership through HMC, CMC and TMC

(c) Indirect ownership through CExCI

(d) Indirect ownership through EPI

The consolidated financial statements comprise the financial statements of the Group as at December 31, 2017 and 2016. The financial statements of the subsidiaries are prepared for the same reporting year as the Parent Company using uniform accounting policies. When necessary, adjustments are made to the separate financial statements of the subsidiaries to bring their accounting policies in line with the Group's accounting policies.

***Subsidiaries***

Subsidiaries are entities over which the Parent Company has control.

The Parent Company controls an investee if and only if the Parent Company has:

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



When the Parent Company has less than a majority of the voting or similar rights of an investee, the Parent Company 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; and
- The Parent Company's voting rights and potential voting rights.

The Parent Company 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 Parent Company obtains control over the subsidiary and ceases when the Parent Company 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 financial statements from the date the Parent Company gains control until the date the Parent Company ceases to control the subsidiary.

Consolidated statement of income and each component of consolidated statement of comprehensive income are attributed to the equity holders of the Parent Company and to the NCI, even if this results in the NCI having a deficit balance.

#### *NCI*

NCI represents interest in a subsidiary that is not owned, directly or indirectly, by the Parent Company.

NCI represents the portion of profit or loss and the net assets not held by the Group. Transactions with NCI are accounted for using the entity concept method, whereby the difference between the consideration and the book value of the share in the net assets acquired is recognized as an equity transaction.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Parent Company loses control over a subsidiary, it:

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary;
- Derecognizes the carrying amount of any NCI;
- Derecognizes the cumulative translation differences recorded in equity;
- Recognizes the fair value of the consideration received;
- Recognizes the fair value of any investment retained;
- Recognizes any surplus or deficit in the consolidated statement of income; and
- Reclassifies the Parent Company's share of components previously recognized in the consolidated statement of comprehensive income to consolidated statement of income or retained earnings, as appropriate, as would be required if the Parent Company had directly disposed of the related assets or liabilities.

All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions are eliminated in full.

#### Statement of Compliance

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



### Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year except that the Group has applied for the first time certain pronouncements, which are effective for annual periods beginning on or after January 1, 2017. Adoption of these pronouncements did not have any significant impact on the Group's financial position or performance unless otherwise indicated.

- 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.

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

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

The Group has provided the required information in Note 41 to the consolidated financial statements. As allowed under the transition provisions of the standard, the Group did not present comparative information for the year ended December 31, 2016.

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

The Group applied the amendments retrospectively. However, their application has no significant effect on the Group's financial position and performance as the Group has no deductible temporary differences or assets that are in the scope of the amendments.



### Standards and Interpretations Issued but not yet Effective

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

*Effective beginning on or after January 1, 2018:*

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

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

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

The Group is currently assessing the potential effect of the amendments on its consolidated financial statements.

- PFRS 9, *Financial Instruments*

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

The Group is still assessing the potential impact of adopting PFRS 9 in 2018.

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

The amendments address concerns arising from implementing PFRS 9, the new financial instruments standard before implementing the new insurance contracts standard. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying PFRS 9 and an overlay approach. The temporary exemption is first applied for reporting periods beginning on or after January 1, 2018. An entity may elect the overlay approach when it first applies PFRS 9 and apply that approach retrospectively to financial assets designated on transition to PFRS 9. The entity restates comparative information reflecting the overlay approach if, and only if, the entity restates comparative information when applying PFRS 9.

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



- *PFRS 15, Revenue from Contracts with Customers*

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

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

The Group is still assessing the potential impact of adopting PFRS 15 in 2018.

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

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

The amendments should be applied retrospectively, with earlier application permitted. Adoption of these amendments is not expected to have any impact on the consolidated financial statements.

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

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

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



- Philippine Interpretation based on International Financial Reporting Interpretations Committee (IFRIC) 22, *Foreign Currency Transactions and Advance Consideration*

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

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.

*Effective beginning on or after January 1, 2019:*

- Amendments to PFRS 9, *Prepayment Features with Negative Compensation*  
The amendments to PFRS 9 allow debt instruments with negative compensation prepayment features to be measured at amortized cost or fair value through other comprehensive income (OCI). An entity shall apply these amendments for annual financial reporting periods beginning on or after January 1, 2019. Earlier application is permitted. Adoption of these amendments is not expected to have any impact on the consolidated financial statements.

- 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 is currently assessing the impact of adopting PFRS 16.

- Amendments to PAS 28, *Long-term Interests in Associates and Joint Ventures*  
The amendments to PAS 28 clarify that entities should account under PFRS 9 its long-term interests in an associate or joint venture to which the equity method is not applied. An entity shall apply these amendments for annual financial reporting periods beginning on or after January 1, 2019. Earlier application is permitted. Adoption of these amendments is not expected to have any impact on the 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 and does not apply to taxes or levies outside the scope of PAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

The interpretation specifically addresses the following:

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

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

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

*Deferred Effectivity:*

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

On January 13, 2016, the Financial Reporting Standards Council deferred the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board 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 adopting the amendments to this standard on its consolidated financial statements.

The revised, amended and additional disclosures or accounting changes provided by the standards and interpretations will be included in the consolidated financial statements in the year of adoption, if applicable.

### Summary of Significant Accounting Policies

#### Presentation of Consolidated Financial Statements

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

#### Foreign Currency Transactions

Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at functional currency rate of exchange ruling at the end of the financial reporting period. Nonmonetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates prevailing as at the date of the initial transactions. Nonmonetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. All differences are taken to "Other income (charges) - net" in the consolidated statement of income.

As at the end of the financial reporting period, the statement of financial position of associates (whose functional currency is other than the Philippine peso) is translated into the presentation currency of the Group (the Philippine peso) using the rate of exchange prevailing at the end of the financial reporting period and the consolidated statement of income is translated using the weighted average exchange rate for the year. The exchange differences arising on the translation is recognized in OCI. Upon disposal of such associate, the component of OCI relating to that particular associate will be recognized in the consolidated statement of income.

#### Current versus Noncurrent Classification

The Group presents assets and liabilities in the consolidated statement of financial position based on current/noncurrent classification. An asset is current when it is:

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

The Group classifies all other assets as noncurrent.

A liability is current when:

- It is expected to be settled in normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within twelve (12) months after the end of the financial reporting period; or





- There is no unconditional right to defer the settlement of the liability for at least twelve (12) months after the end of the financial reporting period.

The Group classifies all other liabilities as noncurrent.

#### Cash and Cash Equivalents

Cash includes cash on hand, with banks and under managed funds. Cash with banks and under managed funds earn interest at the prevailing bank deposit rates. Cash equivalents pertain to short-term cash investments that are made for varying periods of up to three (3) months depending on the immediate cash requirements of the Group and earn interest at the respective short-term cash investment rates.

#### Financial Instruments

##### *Date of Recognition*

The Group recognizes a financial asset or a financial liability in 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 (regular way trades) are recognized on the trade date (i.e., the date that the Group commits to purchase or sell the asset).

##### *Initial Recognition, Classification and Measurement of Financial Instruments*

The Group determines the classification of financial instruments at initial recognition and, where allowed and appropriate, re-evaluates this designation at every end of the financial reporting period.

All financial instruments are recognized initially at fair value. Directly attributable transaction costs are included in the initial measurement of all financial instruments, except for financial instruments measured at FVPL.

##### *Financial Assets*

Financial assets within the scope of PAS 39 are classified in the following categories: financial assets at FVPL, loans and receivables, held-to-maturity (HTM) investments, AFS financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market.

The Group's financial assets are in the nature of loans and receivables and AFS financial assets. The Group has no financial assets at FVPL, HTM investments and derivatives designated as hedging instruments in an effective hedge as at December 31, 2017 and 2016.

##### *Financial Liabilities*

Also under PAS 39, financial liabilities are classified into financial liabilities at FVPL, other financial liabilities or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

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.



The Group's financial liabilities are in the nature of other financial liabilities. The Group has no financial liabilities classified as at FVPL and derivatives designated as hedging instruments in an effective hedge as at December 31, 2017 and 2016.

*Fair Value Measurement*

The Group measures financial instruments, such as AFS financial assets, at fair value at each end of the financial reporting period. Fair value is the 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 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; and
- 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 re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at each end of the financial reporting period.

The fair value of financial instruments that are actively traded in organized financial markets is determined by reference to quoted market close prices at the close of business at the end of the financial reporting period.

For financial instruments where there is no active market, fair value is determined using valuation techniques. Such techniques include comparison to similar investments for which market observable prices exist and discounted cash flow analysis or other valuation models.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the Level of the fair value hierarchy as explained above.



#### *“Day 1” Difference*

Where the transaction price in a non-active market is different from the fair value based on other observable current market transactions in the same instrument or based on a valuation technique whose variable 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 income unless it qualifies for recognition as some other type of asset. In cases where use 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 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.

#### *Subsequent Measurement*

The subsequent measurement of financial instruments depends on their classification as follows:

##### *Loans and Receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as “Financial assets held for trading”, designated as “AFS financial assets” or “Financial assets designated at FVPL”. After initial measurement, loans and receivables are subsequently measured at amortized cost using the effective interest rate (EIR) method, less any allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The amortization and losses arising from impairment are included in “Other income (charges) - net” in the consolidated statement of income. Gains and losses are recognized in the consolidated statement of income when the loans are derecognized or impaired as well as through the amortization process.

Loans and receivables are included in current assets if maturity is within twelve (12) months from the end of the financial reporting period or within the Group’s normal operating cycle, whichever is longer. Otherwise, these are classified as noncurrent assets.

The Group’s loans and receivables include “Cash and cash equivalents”, “Trade and other receivables”, loan receivable and long-term negotiable instruments which are included under “Other noncurrent assets” in the consolidated statement of financial position (see Notes 4, 5 and 13).

##### *AFS Financial Assets*

AFS financial assets are those which are designated as such or do not qualify to be classified or designated at FVPL, HTM investments or loans and receivables.

Financial assets may be designated at initial recognition as AFS financial assets if they are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions.

AFS financial assets are included in current assets if it is expected to be realized or disposed of within twelve (12) months from the end of the financial reporting period. Otherwise, these are classified as noncurrent assets.

When the security is disposed of, the cumulative gain or loss previously recognized in “Net valuation gains on AFS financial assets” under equity is recognized in the consolidated statement of income. Where the Group holds more than one investment in the same security, these are



deemed to be disposed of on a first-in, first-out basis. Interest earned on holding AFS financial assets are reported as “Interest income” using the EIR. Dividends earned on holding AFS financial assets are recognized in the consolidated statement of income when the right to receive payment has been established. The losses arising from impairment of such investments are recognized in the consolidated statement of income.

The Group uses the specific identification method in determining the cost of securities sold.

The Group’s investments in debt and equity instruments are classified under this category (see Note 7).

#### *Other Financial Liabilities*

This category pertains to financial liabilities that are not held for trading, not derivatives, or not designated at FVPL upon the inception of the liability. After initial recognition, other financial liabilities are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in the consolidated statement of income when the liabilities are derecognized as well as through the EIR amortization process.

Amortized cost is calculated by taking into account any issue cost, and any discount or premium on settlement. The EIR amortization is included under “Finance income” in the consolidated statement of income.

Other financial liabilities are included in current liabilities if settlement is within twelve (12) months from the end of the financial reporting period, otherwise, these are classified as noncurrent liabilities.

This accounting policy applies primarily to the Group’s trade and other payables, short-term and long-term debts, long-term payable and other obligations that meet the above definition (excluding government payables and other liabilities that are covered by other accounting standards, such as income tax payable and pension; see Notes 14, 15 and 17).

#### Offsetting of Financial Instruments

Financial instruments are only offset and the net amount is reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognized amounts and the Group intends to either settle on a net basis, or to realize the asset and the liability simultaneously. The Group assesses that it has a currently enforceable right of offset and the right is not contingent on a future event, event of default and event of insolvency or bankruptcy of the Group and all of the counterparties, and is legally enforceable in the normal course of business.

#### Impairment of Financial Assets

The Group assesses at the end of each financial reporting period whether there is any objective evidence that a financial asset or a 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 has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

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



*Loans and Receivables*

For financial assets carried at amortized cost, the Group first assesses individually 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 an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss was incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial assets' original EIR. 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 assets is reduced through the use of an allowance account and the amount of loss is recognized in the consolidated statement of income. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of "Finance income" in the consolidated statement of income.

Loans, together with the associated allowance, are written-off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Group.

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

*AFS Financial Assets*

For AFS financial assets, the Group assesses at each end of the financial reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired.

In the case of equity investments classified as AFS financial assets, objective evidence would include a significant or prolonged decline in the fair value of the investments below its cost. The determination of what is "significant" or "prolonged" requires judgment. "Significant" is to be evaluated against the original cost of the investment and "prolonged" is to be evaluated against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in OCI) is removed from OCI and recognized in the consolidated statement of income.

Impairment losses on equity investments are not reversed through the consolidated statement of income while increases in fair value after impairment are recognized directly in OCI under equity.

In the case of debt instruments classified as AFS financial assets, the impairment is assessed based on the same criteria as financial assets carried at amortized cost. However, the amount recorded



for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in the consolidated statement of income.

Future interest income continues to be accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of “Finance income” in the consolidated statement of income. If, in the subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized through the consolidated statement of income, the impairment loss is reversed through the consolidated statement of income.

If there is objective evidence of impairment loss in unquoted equity instrument for AFS financial assets carried at cost, such as unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Objective evidence of impairment includes, but is not limited to, significant financial difficulty of the issuer or obligor and it becoming probable that the borrower will enter bankruptcy or other financial reorganization.

#### Derecognition of Financial Instruments

##### *Financial Assets*

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- The rights to receive cash flows from the asset have expired;
- The Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a “pass-through” arrangement; or
- The Group has transferred its rights to receive cash flows from the asset and either: (a) has transferred substantially all the risks and rewards of the asset; or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group’s continuing involvement in the asset. 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. In such 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, cancelled or has expired.



Where 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 of a financial liability extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in the consolidated statement of income.

#### Inventories

Inventories, including the long-term stockpile inventory, are carried at the lower of cost and net realizable value (NRV). Cost is determined by the moving average production cost during the year for beneficiated nickel ore and limestone exceeding a determined cut-off grade and average handling costs of limonite ores. The NRV of beneficiated nickel ore and limestone inventories is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale. Periodic ore inventory survey is performed to determine the volume of ore inventory.

For materials and supplies, cost is determined using the moving average method and composed of purchase price, transport, handling and other costs directly attributable to its acquisition. The NRV of materials and supplies is the current replacement cost. Any provision for inventory losses is determined by reference to specific items of stock. A regular review is undertaken to determine the extent of any provision or obsolescence.

The long-term stockpile inventory cost is represented by the fair value of the long-term stockpile inventory related to the acquisition of the controlling interest in RTN in August 2006. The fair value was determined using the present value of the estimated cash flows, which RTN will derive from the sale of this inventory to CBNC under its Nickel Ore Supply Agreement with CBNC (see Note 34a). After initial recognition, the long-term stockpile inventory is subsequently charged to cost of sale of ore based on actual tonnage delivered to CBNC. NRV of long-term stockpile inventory is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

#### Prepayments and Other Current Assets

Prepayments and other current assets include advances and deposits, input Value Added Tax (VAT), tax credit certificates and various prepayments which the Group expects to realize or consume the assets within twelve (12) months after the end of the financial reporting period.

#### *VAT*

Revenues, expenses, and assets are recognized net of the amount of VAT, if applicable.

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. Deferred input VAT, which represents input VAT on capital assets subject to amortization, and any excess input VAT which: (1) may be utilized against output VAT, if any, beyond twelve (12) months from the end of the financial reporting period; or (2) are being claimed for refund or as tax credits with the BIR and/or Court of Tax Appeals are presented as part of "Other noncurrent assets" in the consolidated statement of financial position. Input VAT is stated at cost less any impairment in value.



Property and Equipment

Property and equipment, except land, is stated at cost, excluding the costs of day-to-day servicing, less accumulated depreciation, amortization and depletion and accumulated impairment loss, if any. The initial cost of property and equipment consists of its purchase price including import duties and any directly attributable costs of bringing the property and equipment to its working condition and location for its intended use. Such cost also includes the cost of replacing part of such property and equipment when the recognition criteria are met. When each major inspection is performed, its cost is recognized in the carrying amount of the property and equipment as a replacement if the recognition criteria are satisfied. Land is carried at cost less any impairment loss.

Depreciation and amortization are computed using the straight-line method over the following estimated useful lives of the assets:

| <u>Category</u>                    | <u>Number of Years</u> |
|------------------------------------|------------------------|
| Land improvements                  | 5                      |
| Machinery and equipment            | 2-15                   |
| Buildings and improvements         | 2-25                   |
| Transmission lines and substations | 10-40                  |
| Solar farm                         | 5-40                   |

Mining properties and development costs include the capitalized cost of mine rehabilitation and decommissioning and other development cost necessary to prepare the area for operations. Depletion of mining properties and development costs is calculated using the unit-of-production method based on the estimated economically recoverable reserves to which they relate to or are written-off if the property is abandoned. Development costs are depreciated using the straight-line method over the estimated useful life of the asset of twenty (20) to thirty (30) years.

Construction in-progress represents work under construction and is stated at cost. Construction in-progress is not depreciated until such time that the relevant assets are completed and available for use. This also include interest on borrowed funds incurred during the construction period.

Depreciation, amortization and depletion of property and equipment, except land, begins when it becomes available for use, i.e., when it is in the location and condition necessary for it to be capable of operating in the manner intended by management, or in case of mining properties, from start of commercial operations upon extraction of ore reserves. Depreciation, amortization and depletion ceases when the assets are fully depreciated, amortized or depleted, or at the earlier of the date that the item is classified as held for sale (or included in the disposal group that is classified as held for sale) in accordance with PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations*, and the date the item is derecognized.

The assets' estimated recoverable reserves, residual values, useful lives and depreciation, amortization and depletion methods are reviewed periodically to ensure that the estimated recoverable reserves, residual values, periods and methods of depreciation, amortization and depletion are consistent with the expected pattern of economic benefits from items of property and equipment. If there is an indication that there has been a significant change in depreciation, amortization and depletion rate, useful life or residual value of an asset, these are revised prospectively to reflect the new expectations.





The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

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

The asset revaluation surplus which arose from the acquisition of the controlling interest in RTN in August 2006, relates to the land, machinery and equipment, and building and improvements. The related and applicable depreciation on these assets is transferred periodically to retained earnings.

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

#### *Borrowing Cost*

Borrowing costs directly attributable to the development of the Group's projects that necessarily take a substantial period of time to get ready for its intended use are capitalized. Borrowing costs consist of interest on borrowed funds used to finance the construction of the asset and other financing costs that the Group incurs in connection with the borrowing of funds. The capitalization of the borrowing cost as part of the cost of the asset: (a) commences when the expenditures and borrowing costs are being incurred during the construction and related activities necessary to prepare the asset for its intended use are in progress; and (b) ceases when substantially all the activities necessary to prepare the asset for its intended use are complete. Capitalized borrowing costs are based on the applicable borrowing rate agreed in the agreement.

#### Investments in Associates

Associates are entities over which the Group is able to exert significant influence. Significant influence is the power to participate in the financial and reporting policy decisions of the investee, but has no control or joint control over those policies. The considerations made in determining significant influence are similar to those necessary to determine control activities. The Group's investments in associates are accounted for using the equity method, less any impairment in value, in the consolidated statement of financial position.

The consolidated statement of income reflects the Group's share of the results of operations of the associates. When there has been a change recognized directly in the equity of the associate, the Group recognizes its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealized gains and losses resulting from transactions between the Group and the associates are eliminated to the extent of the interest in the associate. The aggregate of the Group's share in profit or loss of an associate is shown in the consolidated statement of income outside operating profit and represents profit or loss after tax and NCI in the subsidiaries of the associate.

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



If the ownership interest in an associate is reduced, but the investment continues to be an associate, the Group shall reclassify to profit or loss the proportionate gain or loss that had previously been recognized in OCI relating to the reduction in ownership interest if that gain or loss would be required to be reclassified to profit or loss on the disposal of the related asset.

The financial statements of the associates are prepared for the same reporting period and using uniform accounting policies as the Group. When necessary, adjustments are made to bring the accounting policies of the associates in line with those of the Group.

#### Business Combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any NCI in the acquiree. For each business combination, the acquirer measures the NCI in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs incurred are charged to profit or loss.

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. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognized in accordance with PAS 39, either in profit or loss or as a charge to OCI. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

#### Geothermal Exploration and Evaluation Assets

The Group follows the full cost method of accounting for its geothermal exploration and evaluation assets determined on the basis of the service contract. Under this method, all exploration costs relating to each service contract are accumulated and deferred under "Geothermal exploration and evaluation assets" account in the consolidated statement of financial position pending the determination of whether the wells have proved reserves. Capitalized expenditures include costs of license acquisition, technical services and studies, exploration drilling and testing, and appropriate technical and administrative expenses. General overhead or costs incurred prior to having obtained the legal rights to explore an area are recognized as expense in the consolidated statement of income when incurred.

If tests conducted on the drilled exploratory wells reveal that these wells cannot produce proved reserves, the capitalized costs are charged to expense except when the management decides to use the unproductive wells, for recycling or waste disposal.

Once the technical feasibility and commercial viability of the project to produce proved reserves are established, the geothermal exploration and evaluation assets are reclassified to property and equipment.



Geothermal exploration and evaluation assets are derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the assets. Any gain or loss arising from the derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the assets) is included in the consolidated statement of income in the year the item is derecognized.

Geothermal exploration and evaluation assets also include interest on borrowed funds that are directly attributable to the construction and development of the Group's projects.

#### Other Noncurrent Assets

Other noncurrent assets of the Group include deferred mine exploration costs, input VAT, loan receivable, mine rehabilitation fund (MRF), advances and deposits, project development costs, long-term negotiable instruments, Social Development Management Program (SDMP) funds, investment properties, pension asset, and other deposits. Aside from MRF, SDMP funds and restricted cash which are restricted as to withdrawal for specified purpose, these are classified as noncurrent since the Group expects to utilize the assets beyond twelve (12) months from the end of the financial reporting period.

#### *Deferred Mine Exploration Costs*

Expenditures for the acquisition of property rights are capitalized. Expenditures for mine exploration work prior to drilling are charged to operations. When it has been established that a mineral deposit is commercially mineable and a decision has been made to formulate a mining plan (which occurs upon completion of a positive economic analysis of the mineral deposit), costs subsequently incurred to develop a mine on the property prior to the start of mining operations are capitalized. Upon the start of commercial operations, such costs are transferred to property and equipment. Capitalized amounts may be written down if future cash flows, including potential sales proceeds related to the property, are projected to be less than the carrying value of the property. If no mineable ore body is discovered, capitalized acquisition costs are expensed in the period in which it is determined that the mineral property has no future economic value.

Costs incurred during the start-up phase of a mine are expensed as incurred. Ongoing mining expenditures on producing properties are charged against earnings as incurred. Major development expenditures incurred to expose the ore, increase production or extend the life of an existing mine are capitalized.

#### *Deferred Stripping Costs*

Stripping costs incurred in the development of a mine before production commences are capitalized as part of the cost of constructing the mine which are amortized subsequently. Where a mine operates several open pit that are regarded as separate operations for the purpose of mine planning, stripping costs are accounted for separately by reference to the ore from each separate pit. If, however, the pits are highly integrated for the purpose of the mine planning, the second and subsequent pits are regarded as extensions of the first pit in accounting for stripping costs. In such cases, the initial stripping (i.e., overburden and other waste removal) of the second and subsequent pits is considered to be production phase stripping relating to the combined operation.

For stripping costs incurred subsequently during the production stage of the operation, the stripping activity cost is accounted as part of the cost of inventory if the benefit from the stripping activity will be realized in the current period. When the benefit is the improved access to ore, the Group shall recognize these costs as stripping activity assets. The stripping activity asset is accounted for as an addition to, or as an enhancement of, an existing asset. After initial recognition, the deferred stripping cost is carried at its cost less depreciation or amortization and less impairment losses.



### *Project Development Costs*

Project development costs are expensed as incurred until management determines that the project is technically, commercially, and financially viable, at which time project development costs are capitalized. Project's viability generally occurs in tandem with management's determination that a project should be classified as an advanced project as evidenced by a favorable system impact study, interconnection agreements, or when project financing is in place.

Following initial recognition of the project development cost as an asset, the cost model is applied requiring the asset to be carried at cost less accumulated amortization and any accumulated impairment losses. Amortization of the asset begins when the development of the wind and solar energy projects is complete and the asset is available for use. It is amortized using the straight-line method over the period of expected future benefit. During the period in which the asset is not yet available for use, the project development costs are tested for impairment annually, irrespective of whether there is indication of impairment.

### *Investment Properties*

Investment properties, which pertain to land, are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met and excludes the costs of day-to-day servicing of an investment property. Subsequent to initial recognition, investment property is carried at cost less any accumulated impairment losses.

Investment property is derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the consolidated statement of income in the year of retirement or disposal.

Transfers are made to investment properties when, and only when, there is a change in use, evidenced by ending of owner-occupation or commencement of an operating lease to another party. Transfers are made from investment properties when, and only when, there is a change in use, evidenced by commencement of owner-occupation or commencement of development with a view to sale.

Under the cost model, transfers between investment property and owner-occupied property do not change the carrying amount of the property transferred and they do not change the cost of that property for measurement or disclosure purposes.

### Impairment of Nonfinancial Assets

#### *Inventories and Long-term Stockpile Inventory*

The Group determines the NRV of inventories and long-term stockpile inventory at each end of the financial reporting period. If the cost of the inventories and long-term stockpile inventory exceeds its NRV, the asset is written down to its NRV and impairment loss is recognized in the consolidated statement of income in the year the impairment is incurred. In the case when NRV of the inventories and long-term stockpile inventory increased subsequently, the NRV will increase the carrying amounts of inventories but only to the extent of their original acquisition costs.



*Property and Equipment and Nonfinancial Prepayments and Other Current and Noncurrent Assets*

The Group assesses, at each end of the financial reporting period, whether there is an indication that an asset may be impaired. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If any such indication exists and where the carrying amount of an asset exceeds its recoverable amount, the asset or cash generating unit (CGU) is written down to its recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and its value in use. The fair value less costs to sell is the 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 less the costs of disposal, while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. These calculations are corroborated by valuation multiples or other available fair value indicators. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the CGU to which the asset belongs. Impairment losses are recognized in the consolidated statement of income.

Recovery of impairment loss recognized in prior years is recorded when there is an indication that the impairment losses recognized for the asset no longer exist or have decreased. The recovery is recorded in the consolidated statement of income. However, the increased carrying amount of an asset due to a recovery of an impairment loss is recognized to the extent it does not exceed the carrying amount that would have been determined (net of depreciation, amortization and depletion) had no impairment loss been recognized for that asset in prior years.

*Investments in Associates*

After application of the equity method, the Group determines whether it is necessary to recognize an impairment loss on its investments in associates. At each end of the financial reporting period, the Group determines whether there is objective evidence that the investments in associates are impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, and then recognizes the amount in the consolidated statement of income.

*Geothermal Exploration and Evaluation Assets and Deferred Mine Exploration Costs*

An impairment review is performed, either individually or at the CGU level, when there are indicators that the carrying amount of the assets may exceed their recoverable amounts. To the extent that this occurs, the excess is fully provided against, in the financial reporting period in which this is determined.

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

- The period for which the Group has the right to explore in the specific area has expired or will expire in the near future and is not expected to be renewed;
- Substantive expenditure on further exploration and evaluation of mineral resources in the specific area is neither budgeted nor planned;
- Exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the entity has decided to discontinue such activities in the specific area;



- When a service contract where the Group has participating interest in is permanently abandoned; and
- Sufficient data exist to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

Geothermal exploration and evaluation assets and deferred mine exploration costs are reassessed for impairment on a regular basis.

#### Other Current Liability

Other current liability pertains to deposits for future stock subscription which represents advance payments from stockholders for the subscription of future issuance of shares.

The Group classifies its deposits for future stock subscription as a separate account under equity if and only if, all of the following elements are present as at the end of the financial reporting period:

- There is a lack of or insufficiency in unissued authorized capital stock;
- The BOD and stockholders have approved the proposed increase in authorized capital stock; and
- An application for the approval of the proposed increase in authorized capital stock has been presented for filing or has been filed with the SEC.

If any or all of the foregoing elements are not present, the deposits for future stock subscription shall be recognized and included as a separate line item under liabilities in the consolidated statement of financial position.

#### Deferred Income

Deferred income is advance payments received during one (1) financial reporting period but earned and shown in the consolidated statement of income in the year when it can be matched with the period in which it is realized as income.

#### Provisions

##### *General*

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each end of the financial reporting period and adjusted to reflect the current best estimate. The expense relating to any provision is presented in the consolidated statement of income, net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, 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 part of "Finance expense" in the consolidated statement of income.

##### *Provision for Mine Rehabilitation and Decommissioning*

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 dismantling and removing structures, rehabilitating mines and tailings dams, dismantling operating facilities, closure of plant and waste sites, and restoration, reclamation and re-vegetation of affected areas. 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. 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 as part of “Finance expense” in the consolidated statement of income. Additional disturbances or changes in rehabilitation costs will be recognized as additions or charges to the corresponding assets and provision for mine rehabilitation and decommissioning when they occur. When rehabilitation is conducted systematically over the life of the operation, rather than at the time of closure, provision is made for the estimated outstanding continuous rehabilitation work at each end of the financial reporting period and the cost is charged to consolidated statement of income.

The ultimate cost of mine rehabilitation and decommissioning is uncertain and cost estimates can vary in response to many factors including changes to the relevant legal requirements, the emergence of new restoration techniques or experience. The expected timing of expenditure can also change, for example in response to changes in ore reserves or production rates. As a result, there could be significant adjustments to the provision for mine rehabilitation and decommissioning, which would affect future financial results. For closed sites, changes to estimated costs are recognized immediately in the consolidated statement of income.

MRF committed for use in satisfying environmental obligations are included within “Other noncurrent assets” in the consolidated statement of financial position.

#### OCI

OCI comprises items of income and expense (including items previously presented under the consolidated statement of changes in equity) that are not recognized in the consolidated statement of income for the year in accordance with PFRS.

#### Capital Stock

Common shares are classified as equity and are measured at par value for all shares issued and outstanding.

Preferred shares are classified as equity if it is non-redeemable, or redeemable only at the Parent Company’s option, and any dividends are discretionary. Dividends thereon are recognized as distributions within equity upon approval by the Parent Company’s BOD. Preferred shares are classified as a liability if it is redeemable on a specific date or at the option of the shareholders, or if dividend payments are not discretionary. Dividends thereon are recognized as “Interest expense” in the consolidated statement of income as accrued.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from proceeds. The excess of proceeds from issuance of shares over the par value of shares are credited to additional paid-in capital.

Unpaid subscriptions are recognized as a reduction from subscribed capital shares.

#### Retained Earnings

Retained earnings represent the cumulative balance of periodic net income or loss, prior period adjustments, effect of changes in accounting policies in accordance with PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors* and other capital adjustments, net of any dividend declaration.



Dividends are recognized as a liability and deducted from equity when they are approved or declared by the BOD and/or stockholders. Dividends for the period that are approved after the end of the financial reporting period are dealt with as an event after the end of the financial reporting period.

#### Share-based Payment Transactions

The executives of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments (equity-settled transactions).

The cost of equity-settled transaction is determined by the fair value at the date when the grant is made using the Black Scholes-Merton model. The cost of equity-settled transaction is recognized, together with a corresponding increase in equity, over the period in which the service conditions are fulfilled ending on the date on which the relevant employees become fully entitled to the award (“the vesting date”). The cumulative expense recognized for equity-settled transactions at the end of each financial reporting period until the vesting date reflects the extent to which the vesting period has expired and the Parent Company’s best estimate of the number of equity instruments that will ultimately vest.

The charge or credit in the consolidated statement of income for a period represents the movement in cumulative expense recognized as at the beginning and end of that period and are recognized in “Personnel costs”.

No expense is recognized for awards that do not ultimately vest.

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

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

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted EPS.

#### Basic/Diluted EPS

##### *Basic EPS*

Basic EPS amounts are calculated by dividing the net income attributable to ordinary equity holders of the Parent Company by the weighted average number of ordinary shares outstanding, after giving retroactive effect for any stock dividends, stock splits or reverse stock splits during the year.

##### *Diluted EPS*

Diluted EPS amounts are calculated by dividing the net income attributable to ordinary equity holders of the Parent Company by the weighted average number of ordinary shares outstanding, adjusted for any stock dividends declared during the year plus weighted average number of ordinary shares that would be issued on the conversion of all the dilutive ordinary shares into ordinary shares, excluding treasury shares.





### Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

#### *Sale of Beneficiated Nickel Ore and Limestone*

Revenue is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer which, in the case of deliveries other than to CBNC and THNC, coincides with the loading of the ores into the buyer's vessel and the date of the bill of lading issued by the buyer's shipping agent. In the case of deliveries to CBNC and THNC, this occurs at the time the ore passes into the ore preparation hopper of the respective plants. Under the terms of the arrangements with customers, other than CBNC and THNC, the Group bills the remaining balance, generally at 5% to 20% of the ore shipped, based on the assay results agreed by both the Group and the customers. Where the assay results are not yet available as at the end of the financial reporting period, the Group accrues the remaining 5% to 20% of the revenue based on the amount of the initial billing made. For CBNC and THNC, 100% of the revenue is billed monthly.

#### *Rendering of Services*

Revenue from rendering of services consists of shipsiding activities, service fees, usage fees, assaying fees, drilling fees and materials handling fees are recognized when the services are rendered.

#### *Sale of Power*

Revenue from sale of solar power is based on sales price and is composed of generation fees from spot sales to the Wholesale Electricity Spot Market. Revenue is recognized monthly based on the actual energy delivered.

#### *Interest*

Income is recognized as interest 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 asset).

#### *Dividend*

Dividend income is recognized when the Group's right to receive payment is established.

#### *Rental*

Revenue is recognized based on a straight-line basis over the term of the lease agreement.

#### *Despatch*

Despatch is recognized when shipment loading is completed within the allowable laytime.

#### *Issuance of Fuel, Oil and Lubricants*

Revenue is recognized upon release of inventory from the depot.

#### *Other Income*

Revenue is recognized in the consolidated statement of income as they are earned.



### Cost and Expense Recognition

Cost and expenses are decreases in economic benefits during the financial reporting period in the form of outflows or decrease of assets or incurrence of liabilities that result in decrease in equity, other than those relating to distributions to equity participants. Cost and expenses, finance expenses and other charges are generally recognized when the expense arises, incurred or accrued in the appropriate period.

#### *Cost of Sale of Ore*

Cost of sale of ore is incurred in the normal course of business and is recognized when incurred. They comprise mainly of cost of goods sold, which are provided in the period when goods are delivered.

#### *Cost of Services*

Cost of services is incurred in the normal course of business and is provided in the period when the related service has been rendered.

#### *Cost of Power Generation*

Cost of power generation using solar energy include expenses incurred directly for the generation of revenues from power at operating project locations. Cost of power generation are expensed when incurred.

#### *Operating Expenses*

Operating expenses consist of costs associated with the development and execution of marketing and promotional activities, costs of shipping and loading which are expenses incurred in connection with the distribution of ores, excise taxes and royalties due to the government and to indigenous people, and expenses incurred in the direction and general administration of day-to-day operation of the Group. These are generally recognized when the expense arises.

#### *Demurrage*

Demurrage represents the damages incurred as a result of a contractual breach; i.e., failure on the part of the Group to complete the loading of ore within the agreed laytime. Such cost for the delay or detention of the vessel beyond the period allowed is reimbursed by the Group to the buyer.

### Leases

#### *Determination of Whether an Arrangement Contains a Lease*

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

A reassessment is made after 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 that term of the renewal or extension was initially included in the lease term;
- c) There is a change in the determination of whether fulfilment 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) above, and at the date of renewal or extension period for scenario (b).

*Group as a Lessee*

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are amortized as expense in the consolidated statement of income on a straight-line basis over the lease term.

*Group as a Lessor*

Leases where the Group retains substantially all the risks and rewards of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income.

Pension Costs

The net defined benefit liability or asset is the aggregate of the present value of the pension liability at the end of the financial reporting period 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 plans is actuarially determined using the projected unit credit method. This method reflects service rendered by employees to the date of valuation and incorporates assumptions concerning the employees' projected salaries.

Defined benefit costs comprise the following:

- Service cost;
- Net interest on the net defined benefit liability or asset; and
- 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 pension costs under "Personnel costs" in the consolidated statement of income. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuaries.

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 and included under "Finance expense" or "Finance income" in the consolidated statement of 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 income in subsequent periods. Remeasurements recognized in OCI after the initial adoption of Revised PAS 19 are closed to retained earnings.



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 obligations).

If the fair value of the plan assets is higher than the present value of the defined benefit obligation, 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 obligation is recognized as a separate asset at fair value when and only when reimbursement is virtually certain.

#### Income Taxes

##### *Current Income Tax*

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The income tax rates and income tax laws used to compute the amount are those that are enacted or substantively enacted at the end of the financial reporting period. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretations and establishes provisions where appropriate.

##### *Deferred Income Tax*

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

Deferred income tax liabilities are recognized for all taxable temporary differences, except:

- Where the deferred income tax liability arises from the initial recognition of goodwill or 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 income or loss; and
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences, carryforward benefits of unused tax credits and unused tax losses, to the extent that it is probable that sufficient taxable income will be available against which the deductible temporary differences, and the carryforward benefits of unused tax credits and unused tax losses can be utilized except:

- Where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income or loss; and



- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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

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

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

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

#### Business Segments

For management purposes, the Group is organized into operating segments (mining, power and services) according to the nature of the products and the services provided, with each segment representing a strategic business unit that offers different products and serves different markets. The segment locations are the basis upon which the Group reports its primary segment information for the mining segment. All of the segments operate and generate revenue only in the Philippines. Financial information on business segments is presented in Note 42.

#### Contingencies

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

#### Events after the End of the Financial Reporting Period

Post year-end events that provide additional information about the Group's position at each end of the financial reporting period (adjusting events) are reflected in the consolidated financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.



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### 3. Significant Accounting Judgments, Estimates and Assumptions

The consolidated financial statements prepared in accordance with PFRS requires management to make judgments, estimates and assumptions that affect the amounts reported in the consolidated financial statements and related notes. Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effects of any change in estimates are reflected in the consolidated financial statements as they become reasonably determinable.

Judgments, estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcome can differ from these estimates.

#### Judgments

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

#### *Determining Functional Currency*

Based on the economic substance of the underlying circumstances relevant to the Group, the functional currency of the parent company and its subsidiaries has been determined to be the Philippine peso. The functional currency is the currency of the primary economic environment in which the Group operates. It is the currency that mainly influences labor, material and other costs of providing goods and services.

#### *Classifying Financial Instruments*

The Group classifies a financial instrument, or its component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual agreement and the definitions of a financial asset, a financial liability or an equity instrument. The substance of the financial instrument, rather than its legal form, governs its classification in the consolidated statements of financial position.

#### *Assessing Production Start Date*

The Group assesses the stage of each mine development project to determine when a mine moves into the production stage. The criteria used to assess the start date of a mine are determined based on the unique nature of each mine development project. The Group considers various relevant criteria to assess when the mine is substantially complete, ready for its intended use and moves into the production phase.

Some of the criteria include, but are not limited to the following:

- The level of capital expenditure compared to construction cost estimates;
- Completion of a reasonable period of testing of the property and equipment;
- Ability to produce ore in saleable form; and
- Ability to sustain ongoing production of ore.

When a mine development project moves into the production stage, the capitalization of certain mine construction costs ceases and costs are either regarded as inventory or expensed, except for capitalizable costs related to mining asset additions or improvements, mine development or mineable reserve development. It is also at this point that depreciation or depletion commences.



*Assessing Units-of-Production Depletion*

Estimated recoverable reserves are used in determining the depletion of mine assets. This results in a depletion charge proportional to the depletion of the anticipated remaining mine life. Each item's life, which is assessed annually, has regard to both physical life limitations and to present assessments of economically recoverable reserves of the mine property at which the asset is located. The calculations require the use of estimates of future capital expenditure. The Group uses the tons of ore produced as the basis for depletion. Any change in estimates is accounted for prospectively.

*Determining Whether Significant Influence Exists*

The Parent Company recognized its ownership interest in THNC and CBNC as investments in associates. In accordance with the provisions of PAS 28 (2011), *Investments in Associates and Joint Ventures*, the existence of significant influence by an entity is usually evidenced in one or more of the following ways:

- Representation on the BOD or equivalent governing body of the investee;
- Participation in policy-making processes, including participation in decisions about dividends or other distributions;
- Material transactions between the entity and its investee;
- Interchange of managerial personnel; or
- Provision of essential technical information.

Due to the nature of the Parent Company's involvement in THNC and CBNC and other various factors, the Parent Company assessed that significant influence exists (see Note 10).

*Determining Capitalizability of Geothermal Exploration and Evaluation Assets and Deferred Mine Exploration Costs*

Careful judgment by management is applied when deciding whether the recognition requirements for geothermal exploration and evaluation assets and deferred mine exploration costs relating to the Group's geothermal and mining projects have been met. Capitalization of these costs is based, to a certain extent, on management's judgment of the degree to which the expenditure may be associated with finding specific geothermal and ore reserve. This is necessary as the economic success of the exploration is uncertain and may be subject to future technical problems at the time of recognition. Judgments are based on the information available at the end of each financial reporting period.

*Determining Applicability of IFRIC 12, Service Concession Arrangements on the Solar Energy Service Contract (SESC)*

An arrangement would fall under IFRIC 12 if the two conditions below are met:

- a) the grantor controls or regulates the services that the operator must provide using the infrastructure, to whom it must provide them, and at what price, and
- b) the grantor controls any significant residual interest in the property at the end of the concession term through ownership, beneficial entitlement or otherwise.

The infrastructure used for its entire useful life ('whole of life assets') is within the scope of IFRIC 12 if the arrangement meets the conditions in (a).

However, based on management's judgment, the SESC entered into by Jobin is outside the scope of IFRIC 12 since Jobin controls the significant residual interest in the properties at the end of the concession term through ownership.



### Estimates and Assumptions

The key estimates and assumptions concerning the future and other key sources of estimation uncertainty as at the end of the financial reporting period, that have the most significant risk of causing a material adjustment to the carrying amounts of assets within the next financial year are as follows:

#### *Estimating Ore Reserves*

Ore reserves are estimates of the amount of ore that can be economically and legally extracted from the Group's mining properties. The Group estimates its ore reserves based on information compiled by appropriately qualified persons relating to the geological data on the size, depth and shape of the ore body, and requires complex geological judgments to interpret the data. The estimation of recoverable reserves is based upon factors such as estimates of foreign exchange rates, commodity prices, future capital requirements, and production costs along with geological assumptions and judgments made in estimating the size and grade of the ore body. Changes in the reserve or resource estimates may impact upon the carrying values of property and equipment, provision for mine rehabilitation and decommissioning, recognition of deferred income tax assets and depreciation and depletion charges.

The Group also makes estimates and assumptions regarding a number of economic and technical factors, such as production rates, grades, production and transport costs and prices. These economic and technical estimates and assumptions may change in the future in ways that affect the quality and quantity of the reserves. The Group reviews and updates estimates as required, but at least annually, to reflect actual production, new exploration data or developments and changes in other assumptions or parameters. These estimates will change from time to time to reflect mining activities, analyses of new engineering and geological data, changes in ore reserve and mineral resource holdings, modifications of mining plans or methods, changes in nickel or limestone prices or production costs and other factors.

#### *Estimating Recoverability of Geothermal Exploration and Evaluation Assets and Deferred Mine Exploration Costs*

The application of the Group's accounting policy for geothermal exploration and evaluation assets and deferred mine exploration costs requires judgment in determining whether it is likely that future economic benefits are certain, which may be based on assumptions about future events or circumstances. Estimates and assumptions made may change if new information becomes available. If, after explorations costs are capitalized, information becomes available suggesting that the recovery of expenditure is unlikely, the amount capitalized is written off in the consolidated statement of income in the period when the new information becomes available. An impairment loss is recognized when the carrying value of those assets is not recoverable and exceeds their fair value.

The carrying values of geothermal exploration and evaluation assets amounted to ₱1,784.2 million and ₱1,775.8 million as at December 31, 2017 and 2016, respectively (see Note 11).

Deferred mine exploration costs, included in "Other noncurrent assets" in the consolidated statements of financial position, as at December 31, 2017 and 2016 amounted to ₱1,229.4 million and ₱1,218.3 million, respectively (net of allowance for impairment losses of ₱143.6 million and ₱142.3 million as at December 31, 2017 and 2016, respectively; see Note 13). The Group has directly written-off deferred mine exploration costs amounting to nil, ₱2.3 million and ₱5.5 million in 2017, 2016 and 2015, respectively (see Note 31).





*Estimating Allowance for Impairment Losses on Property and Equipment*

The Group assesses impairment on property and equipment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

The factors that the Group considers important which could trigger an impairment review include the following:

- Significant underperformance relative to expected historical or projected future operating results;
- Significant changes in the manner of use of the acquired assets or the strategy for overall business; and
- Significant negative industry or economic trends.

In determining the present value of estimated future cash flows expected to be generated from the continued use of the assets, the Group is required to make estimates and assumptions that can materially affect the consolidated financial statements.

These assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss would be recognized whenever evidence exists that the carrying value is not recoverable. For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

An impairment loss is recognized and charged to earnings if the discounted expected future cash flows are less than the carrying amount. Fair value is estimated by discounting the expected future cash flows using a discount factor that reflects the market rate for a term consistent with the period of expected cash flows. As at December 31, 2017 and 2016, the Group provided an allowance for impairment losses on property and equipment amounting to nil and ₱12.8 million, respectively. The impairment is related to dump trucks which has become inoperational in 2016. In 2017, machinery and equipment, including the said dump trucks, were sold, thus the Group reversed the previously recognized allowance for impairment losses related to these assets (see Notes 9 and 31).

The carrying values of property and equipment amounted to ₱15,388.3 million and ₱15,566.4 million as at December 31, 2017 and 2016, respectively (see Note 9).

*Estimating Allowance for Impairment Losses on Trade and Other Receivables*

The Group evaluates specific accounts where the Group has information that certain customers are unable to meet their financial obligations. The Group assesses individually the receivables based on factors that affect its collectibility. Factors such as the Group's length of relationship with the customers, the customer's current credit status, and probability of insolvency and significant financial difficulties of customers are considered to ascertain the amount of allowances that will be recorded in the receivables account. These allowances are re-evaluated and adjusted as additional information is received.

In addition to specific allowance against individually significant loans and receivables, the Group also makes a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. This collective allowance is based on any deterioration in the Group's assessment of the accounts since their inception. The Group's assessments take into consideration factors such as any deterioration in country risk and industry, as well as identified structural weaknesses or deterioration in cash flows.



The carrying values of trade and other receivables amounted to ₱905.1 million and ₱1,145.3 million as at December 31, 2017 and 2016, respectively (net of allowance for impairment losses of ₱45.9 million and ₱45.7 million as at December 31, 2017 and 2016, respectively; see Note 5).

*Estimating Allowance for Impairment Losses on Inventories*

The Group maintains allowance for inventory losses at a level considered adequate to reflect the excess of cost of inventories over their NRV. NRV tests are performed at least annually and represent the estimated future sales price of the product based on prevailing spot metals prices at the end of the financial reporting period, less estimated costs to complete production and bring the product to sale. Stockpiles are measured by estimating the number of tonnes added and removed from the stockpile and the number of contained nickel ore ounces based on assay data. Stockpile tonnages are verified by periodic surveys. NRV test for materials and supplies is also performed annually and it represents the current replacement cost. Increase in the NRV of inventories will increase the cost of inventories but only to the extent of their original production costs.

As at December 31, 2017 and 2016, inventories carried at lower of cost and NRV amounted to ₱3,502.4 million and ₱3,210.8 million, respectively (net of allowance for inventory losses of ₱85.6 million and ₱84.4 million as at December 31, 2017 and 2016, respectively; see Note 6).

*Estimating Recoverability of Long-term Stockpile Inventory*

The determination of the Group's long-term stockpile inventory include among others, projected revenues and operating and delivering costs from the sale of the long-term stockpile. Actual results that differ from the Group's assumptions generally affect the Group's recognized expense. The long-term stockpile inventory is carried at the lower of cost and NRV. An allowance for inventory losses is recognized when the carrying value of the asset is not recoverable and exceeds the NRV. Long-term stockpile inventory - net of current portion amounted to ₱167.6 million and ₱367.2 million as at December 31, 2017 and 2016, respectively (see Note 12).

*Estimating Allowance for Impairment Losses on AFS Financial Assets*

The Group treats AFS financial assets as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "Significant" or "Prolonged" requires judgment. The Group treats "Significant" generally as 20% or more of the original cost of investment, and "Prolonged" as greater than one (1) year. In addition, the Group evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and discount factors for unquoted equities in determining the amount to be impaired.

The Group treats unquoted AFS financial assets as impaired when there is objective evidence of impairment as a result of one or more events or loss events and that loss event has an impact on the estimated future cash flows of the AFS financial assets. An objective evidence may include information about significant changes with an adverse effect that have taken place in the market, technological, economic or legal environment in which the investees operate, and indicates that the cost of the investment in the equity instruments may not be recovered.

In 2017 and 2016, the Group recognized a provision for impairment losses on its quoted AFS financial assets amounting to ₱133.3 million and ₱119.2 million, respectively (see Note 31). The carrying values of AFS financial assets amounted to ₱6,658.4 million and ₱6,319.1 million as at December 31, 2017 and 2016, respectively (see Note 7).



*Estimating Useful Lives of Property and Equipment (except Land)*

The Group estimates the useful lives of property and equipment, except land, based on the period over which the assets are expected to be available for use. The estimated useful lives of property and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. In addition, estimation of the useful lives of property and equipment is based on collective assessment of industry practice, internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. There is no change in the estimated useful lives of property and equipment in 2017 and 2016.

The carrying values of property and equipment, except land, as at December 31, 2017 and 2016 amounted to ₱15,119.9 million and ₱15,298.0 million, respectively (net of accumulated depreciation, amortization and depletion of ₱9,837.8 million and ₱8,874.3 million and accumulated impairment losses of nil and ₱12.8 million as at December 31, 2017 and 2016, respectively; see Note 9).

*Estimating Allowance for Impairment Losses on Investments in Associates*

Impairment review on investments in associates are performed when events or changes in circumstances indicate that the carrying value exceeds its fair value. If any such indication exists and where the carrying value exceeds the estimated recoverable amount, the investment is written down to its recoverable amount. Management has determined that there are no events or changes in circumstances in 2017 and 2016 that may indicate that the carrying value of investments in associates may not be recoverable. No impairment loss was recognized on investments in associates in 2017 and 2016. The carrying values of the Group's investments in associates amounted to ₱2,952.1 million and ₱2,582.1 million as at December 31, 2017 and 2016, respectively (see Note 10).

*Estimating Allowance for Impairment Losses on Nonfinancial Other Assets*

The Group provides allowance for impairment losses on nonfinancial other assets when they can no longer be realized. The amounts and timing of recorded expenses for any period would differ if the Group made different judgments or utilized different estimates. An increase in allowance for impairment losses would increase recorded expenses and decrease other assets.

The carrying values of nonfinancial prepayments and other current assets amounted to ₱919.3 million and ₱946.4 million as at December 31, 2017 and 2016, respectively, while nonfinancial other noncurrent assets amounted to ₱2,673.1 million and ₱2,559.8 million as at December 31, 2017 and 2016, respectively (see Notes 8 and 13).

The allowance for impairment losses on the Group's nonfinancial prepayments and other current assets amounted to ₱55.3 million and ₱71.5 million as at December 31, 2017 and 2016, respectively (see Note 8). The allowance for impairment losses on the Group's nonfinancial other noncurrent assets as at December 31, 2017 and 2016 amounted to ₱249.4 million and ₱253.1 million, respectively (see Note 13).

*Estimating Provision for Mine Rehabilitation and Decommissioning*

The Group assesses its provision for mine rehabilitation and decommissioning annually. Significant estimates and assumptions are made in determining the provision for mine rehabilitation as there are numerous factors that will affect the provision. These factors include



estimates of the extent and costs of rehabilitation activities, 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.

The provision at the end of the financial reporting period represents management's best estimate of the present value of the future rehabilitation costs required. Changes to estimated future costs are recognized in the consolidated statement of financial position by adjusting the rehabilitation asset and liability. For closed sites, changes to estimated costs are recognized immediately in the consolidated statement of income.

Provision for mine rehabilitation and decommissioning amounted to ₱388.8 million and ₱442.5 million as at December 31, 2017 and 2016, respectively (see Note 16).

#### *Determining Pension Benefits*

The cost of defined benefit retirement as well as the present value of the pension liability is determined using actuarial valuations. The actuarial valuation involves making various assumptions, as described in Note 35. These include 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 pension liability are highly sensitive to changes in these assumptions. 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 pension liability. All assumptions are reviewed at each end of the financial reporting period. While management believes that its assumptions are reasonable and appropriate, significant differences in actual experience or significant changes in the assumptions may materially affect the Group's pension liability.

As at December 31, 2017 and 2016, pension asset included under "Other noncurrent assets" in the consolidated statements of financial position amounted to nil and ₱1.3 million, respectively, and pension liability amounted to ₱320.8 million and ₱332.3 million, respectively (see Notes 13 and 35).

#### *Estimating Fair Value of Share-based Payment Transactions*

The Parent Company's Executive Stock Option Plan (ESOP) grants qualified participants the right to purchase common shares of the Parent Company at a grant price. The ESOP recognizes the services received from the eligible employees and an equivalent adjustment to the equity account over the vesting period. The Parent Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant.

This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield. The assumptions and models used for estimating the fair value of share-based payment transactions are disclosed in Note 19. While management believes that the estimates and assumptions used are reasonable and appropriate, significant differences in actual experience or significant changes in the estimates and assumptions may no longer affect the stock compensation costs charged to operations.

The cost of share-based payment plan recognized as expense in 2017, 2016 and 2015, with a corresponding charge to the equity account, amounted to ₱11.0 million, ₱25.7 million and



₱57.8 million, respectively (see Notes 19 and 27). As at December 31, 2017 and 2016, the balance of the cost of share-based payment plan in the equity section of the consolidated statements of financial position amounted to ₱137.6 million and ₱126.6 million, respectively (see Note 19).

*Assessing Recoverability of Deferred Income Tax Assets*

The Group reviews the carrying amounts of deferred income tax assets at each end of the financial reporting period and reduces the amounts to the extent that it is no longer probable that sufficient future taxable income will be available to allow all or part of the deferred income tax assets to be utilized. The Group has deferred income tax assets amounting to ₱333.1 million and ₱370.1 million as at December 31, 2017 and 2016, respectively (see Note 36).

As at December 31, 2017 and 2016, the Group has temporary difference amounting to ₱1,381.6 million and ₱998.4 million, respectively, for which no deferred income tax assets were recognized because it is more likely than not that the carryforward benefits will not be realized in the future (see Note 36).

*Determining Fair Values of Financial Instruments*

Where the fair values of financial assets and 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, volatility and correlation. Certain financial assets and liabilities were initially recorded at its fair value (see Note 38).

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**4. Cash and Cash Equivalents**

|                             | 2017              | 2016       |
|-----------------------------|-------------------|------------|
| Cash on hand and with banks | <b>₱955,114</b>   | ₱1,213,398 |
| Cash under managed funds    | <b>177,014</b>    | 188,508    |
| Short-term cash investments | <b>8,513,804</b>  | 8,246,037  |
|                             | <b>₱9,645,932</b> | ₱9,647,943 |

Cash with banks and under managed funds earn interest at the prevailing bank deposit rates. Cash equivalents are short-term cash investments that are made for varying periods of up to three (3) months depending on the immediate cash requirements of the Group and earn interest at the respective short-term cash investment rates. The carrying value of cash and cash equivalents approximates their fair value as of the end of the financial reporting period.

The Group has United States dollar (US\$) denominated cash and cash equivalents amounting to US\$134.4 million, equivalent to ₱6,711.4 million, and US\$131.1 million, equivalent to ₱6,518.8 million, as at December 31, 2017 and 2016, respectively (see Note 37).

Interest income earned from cash and cash equivalents amounted to ₱134.2 million, ₱73.8 million and ₱107.5 million in 2017, 2016 and 2015, respectively (see Note 29).



**5. Trade and Other Receivables**

|   | <b>2017</b>     | 2016       |
|---|-----------------|------------|
| Trade (see Note 34)                               | <b>₱660,883</b> | ₱865,608   |
| Current portion of loan receivable (see Note 39a) | <b>94,203</b>   | 98,161     |
| Interest receivable                               | <b>53,619</b>   | 47,317     |
| Advances to officers and employees                | <b>48,845</b>   | 51,357     |
| Receivable from CBNC (see Note 34)                | <b>40,679</b>   | 47,570     |
| Amounts owed by related parties (see Note 34)     | <b>7,351</b>    | 6,489      |
| Others  | <b>45,417</b>   | 74,515     |
|   | <b>950,997</b>  | 1,191,017  |
| Less allowance for impairment losses              | <b>45,872</b>   | 45,746     |
|   | <b>₱905,125</b> | ₱1,145,271 |

The movements of allowance for impairment losses follows:

| <b>2017</b>                         | <b>Trade</b>   | <b>Others</b> | <b>Total</b>   |
|-------------------------------------|----------------|---------------|----------------|
| <b>Balances at January 1</b>        | <b>₱41,029</b> | <b>₱4,717</b> | <b>₱45,746</b> |
| <b>Foreign exchange adjustments</b> | <b>126</b>     | <b>–</b>      | <b>126</b>     |
| <b>Provisions</b>                   | <b>–</b>       | <b>–</b>      | <b>–</b>       |
| <b>Balances at December 31</b>      | <b>₱41,155</b> | <b>₱4,717</b> | <b>₱45,872</b> |

| 2016                         | Trade   | Others | Total   |
|------------------------------|---------|--------|---------|
| Balances at January 1        | ₱17,323 | ₱2,188 | ₱19,511 |
| Foreign exchange adjustments | 1,274   | –      | 1,274   |
| Provisions (see Note 31)     | 22,432  | 2,529  | 24,961  |
| Balances at December 31      | ₱41,029 | ₱4,717 | ₱45,746 |

Trade receivables and receivable from CBNC are noninterest-bearing and are generally on seven (7) to thirty (30)-days' term, except for the usage fee billed to THNC which is collected on a semi-annual basis.

Loan receivable represents the loan agreement executed by CMC and East Coast Mineral Resources Co., Inc. (East Coast), which will be settled based on the agreed repayment terms (see Note 39a).

Interest receivable is derived from short-term cash investments placed in various local/foreign banks, which are collectible upon maturity, from AFS debt securities and long-term negotiable instrument which are collectible, monthly, quarterly or semi-annually, and from loan issued to East Coast which is collectible based on the agreed repayment terms.

Advances to officers and employees are noninterest-bearing and are generally subject to liquidation or collectible through salary deduction.

Amounts owed by related parties are noninterest-bearing with no fixed maturities and are generally collectible on demand.

Other receivables include advances to third party companies which are noninterest-bearing, with no fixed maturities and are generally collectible on demand. These also include despatch receivables which are generally on seven (7) to thirty (30)-days' terms.



The Group has US\$ denominated trade and other receivables amounting to US\$11.5 million, equivalent to ₱576.2 million, and US\$14.8 million, equivalent to ₱735.7 million, as at December 31, 2017 and 2016, respectively (see Note 37).

## 6. Inventories

|  | 2017              | 2016              |
|--|-------------------|-------------------|
| Beneficiated nickel ore and limestone - at cost                | ₱2,432,633        | ₱2,291,470        |
| Beneficiated nickel ore - at NRV                               | 434,178           | 362,363           |
| Materials and supplies:  |                   |                   |
| At NRV   | 210,612           | 242,395           |
| At cost  | 212,980           | 138,814           |
| Current portion of long-term stockpile inventory (see Note 12) | 212,011           | 175,796           |
|  | <b>₱3,502,414</b> | <b>₱3,210,838</b> |

The movements of allowance for impairment losses on inventories follows:

| 2017                            | Beneficiated<br>nickel ore | Materials<br>and supplies | Total   |
|---------------------------------|----------------------------|---------------------------|---------|
| <b>Balances at January 1</b>    | ₱74,345                    | ₱10,036                   | ₱84,381 |
| <b>Provisions</b> (see Note 31) | -                          | 7,348                     | 7,348   |
| <b>Reversals</b> (see Note 31)  | (6,104)                    | -                         | (6,104) |
| <b>Balances at December 31</b>  | ₱68,241                    | ₱17,384                   | ₱85,625 |

| 2016                    | Beneficiated<br>nickel ore | Materials<br>and supplies | Total    |
|-------------------------|----------------------------|---------------------------|----------|
| Balances at January 1   | ₱94,419                    | ₱10,036                   | ₱104,455 |
| Provisions              | -                          | -                         | -        |
| Reversals (see Note 31) | (20,074)                   | -                         | (20,074) |
| Balances at December 31 | ₱74,345                    | ₱10,036                   | ₱84,381  |

As at December 31, 2017 and 2016, the cost of beneficiated nickel ore and limestone provided with allowance for impairment losses amounted to ₱2,954.1 million and ₱2,904.0 million, respectively, while the cost of materials and supplies provided with allowance for impairment losses amounted to ₱441.0 million and ₱391.2 million, respectively.

Costs of inventories charged as expense amounted to ₱6,410.6 million, ₱6,228.8 million and ₱6,655.7 million in 2017, 2016 and 2015, respectively (see Notes 21, 22, 24, 26 and 31).



7. AFS Financial Assets

|                             | 2017              | 2016       |
|-----------------------------|-------------------|------------|
| Quoted instruments:         |                   |            |
| Debt securities             | ₱5,097,660        | ₱4,513,565 |
| Equity securities           | 1,354,174         | 1,599,263  |
| Unquoted equity instruments | 206,586           | 206,250    |
|                             | <b>6,658,420</b>  | 6,319,078  |
| Less noncurrent portion     | 732,738           | 746,793    |
| Current portion             | <b>₱5,925,682</b> | ₱5,572,285 |

AFS financial assets pertain to investments in common and preferred shares of various local and foreign public and private companies, mutual funds, golf club shares and debt securities which are either unquoted or with quoted market prices. Quoted instruments are carried at fair market value as at the end of the financial reporting period. Unquoted equity instruments are carried at cost as at the end of the financial reporting period, since the fair values of these investments cannot be reliably measured.

The movements in AFS financial assets follows:

|   | 2017              | 2016        |
|---|-------------------|-------------|
| Balances at January 1                                       | ₱6,319,078        | ₱5,831,037  |
| Additions   | 5,234,667         | 8,651,980   |
| Disposals   | (4,957,281)       | (8,308,106) |
| Effect of changes in foreign exchange rate<br>(see Note 31) | 1,033             | 113,263     |
| Net valuation gains on AFS financial assets                 | 194,243           | 153,124     |
|   | <b>6,791,740</b>  | 6,441,298   |
| Less:   |                   |             |
| Provision for impairment losses (see Note 31)               | 133,320           | 119,220     |
| Write-off (see Note 31)                                     | -                 | 3,000       |
| Balances at December 31                                     | <b>₱6,658,420</b> | ₱6,319,078  |

The movements in “Net valuation gains on AFS financial assets” presented as a separate component of equity follows:

|   | 2017            | 2016       |
|---|-----------------|------------|
| Balances at January 1   | ₱12,954         | (₱134,467) |
| Movements recognized in equity:   |                 |            |
| Gains recognized in equity  | 208,579         | 141,409    |
| Reclassification adjustments for expense<br>(income) included in the consolidated<br>statements of income (see Notes 29 and 30) | (14,336)        | 11,715     |
| Income tax effect   | (41,132)        | (3,035)    |
| Valuation gains taken into the consolidated<br>statements of comprehensive income - net of<br>tax                               | 153,111         | 150,089    |
| Less share of NCI in gains recognized in equity   | 2,130           | 2,668      |
| Balances at December 31   | <b>₱163,935</b> | ₱12,954    |





As at December 31, 2017 and 2016, quoted and unquoted debt and equity securities amounting to ₱5,925.7 million and ₱5,572.3 million, respectively, were classified as current based on management's intention to dispose the instruments within one (1) year from the end of the financial reporting period.

The noncurrent portion of AFS financial assets amounted to ₱732.7 million and ₱746.8 million as at December 31, 2017 and 2016, respectively. The Group has no intention to dispose its unquoted equity shares within the next year.

Dividend income from AFS equity securities amounted to ₱37.0 million, ₱35.1 million and ₱25.8 million in 2017, 2016 and 2015, respectively, of which ₱15.3 million in 2017 and 2016 and ₱7.6 million in 2015 relates to dividends coming from investments in unquoted equity securities (see Note 31), while interest income from AFS debt securities amounted to ₱135.6 million, ₱121.8 million and ₱99.3 million in 2017, 2016 and 2015, respectively (see Note 29).

The valuation gains of ₱153.1 million and ₱150.1 million taken into the consolidated statements of comprehensive income is inclusive of share of NCI amounting to a valuation gains of ₱2.1 million and ₱2.7 million as at December 31, 2017 and 2016, respectively.

In 2017, 2016 and 2015, the Group sold some of its AFS financial assets at a gain of ₱14.3 million, at a loss of ₱11.7 million and at a gain of ₱86.3 million, respectively (see Notes 29 and 30).

In 2017 and 2016, the Group recognized a provision for impairment losses on its AFS equity security amounting to ₱133.3 million and ₱119.2 million, respectively. Also, the Group has written-off AFS financial assets amounting to nil and ₱3.0 million in 2017 and 2016, respectively. In 2015, there were no provision for impairment losses recognized and no AFS financial assets were written-off (see Note 31).

The Group has US\$ denominated AFS financial assets amounting to US\$56.9 million, equivalent to ₱2,841.7 million, and US\$53.4 million, equivalent to ₱2,657.5 million, as at December 31, 2017 and 2016, respectively (see Note 37).

## 8. Prepayments and Other Current Assets

|   | 2017            | 2016     |
|---|-----------------|----------|
| Advances and deposits to suppliers and contractors  | <b>₱574,876</b> | ₱579,085 |
| Input VAT (net of allowance for impairment losses of ₱54.8 million and ₱71.0 million as at December 31, 2017 and 2016, respectively; see Note 13) | <b>103,563</b>  | 138,125  |
| Tax credit certificates (net of allowance for impairment losses of ₱0.5 million as at December 31, 2017 and 2016)                                 | <b>79,384</b>   | 27,460   |
| Prepaid rent and others   | <b>70,585</b>   | 54,774   |
| Prepaid taxes   | <b>64,569</b>   | 119,257  |
| Prepaid insurance   | <b>26,308</b>   | 27,730   |
|   | <b>₱919,285</b> | ₱946,431 |



Advances and deposits to suppliers and contractors represent payments made in advance to suppliers and contractors which will be offset against future billings upon the delivery of goods and/or completion of services. This includes the advances made to Asiacrest Marketing Corporation which is related to the Engineering Procurement Construction (EPC) Contract for the 100MW solar power plant in Subic. As at December 31, 2017, there was a pending case against Asiacrest and First Integrated Bonding and Insurance Co., the surety which secured Asiacrest's performance of its obligation, jointly and severally liable to the extent of the value of the performance bond, for the breach of EPC contract.

Input VAT represents the VAT passed on from purchases of applicable goods and services which can be recovered as tax credit against future output VAT from the sale of goods and services of the Group.

Tax credit certificates are tax refunds received by the Group.

Prepaid taxes represent certificates of creditable withholding taxes for services rendered to other parties which can be recovered as tax credits against certain future tax liabilities of the Group.

Prepayments are amortized within three (3) to twelve (12) months at the end of the financial reporting period.



## 9. Property and Equipment

|  | 2017                          |  |                               |                                  |                                       |                   |                             |                    |
|--|-------------------------------|--|-------------------------------|----------------------------------|---------------------------------------|-------------------|-----------------------------|--------------------|
|  | Land and Land<br>Improvements | Mining<br>Properties and<br>Development<br>Costs | Machinery<br>and<br>Equipment | Buildings<br>and<br>Improvements | Transmission Lines<br>and Substations | Solar Farm        | Construction<br>In-progress | Total              |
| <b>Cost:</b>   |                               |  |                               |                                  |                                       |                   |                             |                    |
| Balances at January 1  | ₱292,343                      | ₱774,649   | ₱10,583,221                   | ₱3,369,082                       | ₱849,472                              | ₱1,469,457        | ₱7,115,313                  | ₱24,453,537        |
| Additions  | -                             | -  | 576,405                       | 60,314                           | 15,556                                | 537,427           | 304,756                     | 1,494,458          |
| Disposals  | -                             | -  | (528,705)                     | (13,306)                         | -                                     | -                 | -                           | (542,011)          |
| Transfers/reclassification   | -                             | -  | 45,736                        | 111,795                          | -                                     | (47,704)          | (219,945)                   | (110,118)          |
| Adjustment for capitalized cost of mine<br>rehabilitation and<br>decommissioning (see Note 16) | -                             | (69,820)   | -                             | -                                | -                                     | -                 | -                           | (69,820)           |
| Capitalized borrowing cost   | -                             | -  | -                             | -                                | -                                     | -                 | -                           | -                  |
| <b>Balances at December 31</b>   | <b>292,343</b>                | <b>704,829</b>                                   | <b>10,676,657</b>             | <b>3,527,885</b>                 | <b>865,028</b>                        | <b>1,959,180</b>  | <b>7,200,124</b>            | <b>25,226,046</b>  |
| <b>Accumulated depreciation, amortization and<br/>depletion:</b>                               |                               |  |                               |                                  |                                       |                   |                             |                    |
| Balances at January 1  | 5,329                         | 250,642  | 7,141,484                     | 1,421,187                        | 16,215                                | 39,430            | -                           | 8,874,287          |
| Depreciation, amortization and<br>depletion (see Note 28)                                      | 2,411                         | 28,999   | 1,031,141                     | 267,342                          | 27,567                                | 122,585           | -                           | 1,480,045          |
| Disposals  | -                             | -  | (503,979)                     | (12,566)                         | -                                     | -                 | -                           | (516,545)          |
| Capitalized depreciation   | -                             | -  | -                             | -                                | -                                     | -                 | -                           | -                  |
| <b>Balances at December 31</b>   | <b>7,740</b>                  | <b>279,641</b>                                   | <b>7,668,646</b>              | <b>1,675,963</b>                 | <b>43,782</b>                         | <b>162,015</b>    | <b>-</b>                    | <b>9,837,787</b>   |
| <b>Allowance for impairment losses:</b>  |                               |  |                               |                                  |                                       |                   |                             |                    |
| Balances at January 1  | -                             | -  | 12,825                        | -                                | -                                     | -                 | -                           | 12,825             |
| Reversal of allowance for impairment<br>losses (see Note 31)                                   | -                             | -  | (12,825)                      | -                                | -                                     | -                 | -                           | (12,825)           |
| <b>Balances at December 31</b>   | <b>-</b>                      | <b>-</b>   | <b>-</b>                      | <b>-</b>                         | <b>-</b>                              | <b>-</b>          | <b>-</b>                    | <b>-</b>           |
| <b>Net book values</b>   | <b>₱284,603</b>               | <b>₱425,188</b>                                  | <b>₱3,008,011</b>             | <b>₱1,851,922</b>                | <b>₱821,246</b>                       | <b>₱1,797,165</b> | <b>₱7,200,124</b>           | <b>₱15,388,259</b> |



|  | 2016                          |  |                               |                                  |                                       |            |                             |             |
|--|-------------------------------|--|-------------------------------|----------------------------------|---------------------------------------|------------|-----------------------------|-------------|
|  | Land and Land<br>Improvements | Mining<br>Properties and<br>Development<br>Costs | Machinery<br>and<br>Equipment | Buildings<br>and<br>Improvements | Transmission Lines<br>and Substations | Solar Farm | Construction<br>In-progress | Total       |
| Cost:  |                               |  |                               |                                  |                                       |            |                             |             |
| Balances at January 1  | ₱292,209                      | ₱511,033   | ₱9,631,174                    | ₱3,173,757                       | ₱–                                    | ₱–         | ₱7,762,984                  | ₱21,371,157 |
| Additions  | 134                           | –  | 601,305                       | 37,802                           | 108,854                               | 48,737     | 2,593,048                   | 3,389,880   |
| Disposals  | –                             | –  | (108,694)                     | –                                | –                                     | –          | –                           | (108,694)   |
| Transfers/reclassification   | –                             | –  | 459,436                       | 157,523                          | 740,618                               | 1,360,064  | (3,240,719)                 | (523,078)   |
| Adjustment for capitalized cost of mine<br>rehabilitation and decommissioning<br>(see Note 16) | –                             | 263,616  | –                             | –                                | –                                     | –          | –                           | 263,616     |
| Capitalized borrowing cost (see Note 15)   | –                             | –  | –                             | –                                | –                                     | 60,656     | –                           | 60,656      |
| Balances at December 31  | 292,343                       | 774,649  | 10,583,221                    | 3,369,082                        | 849,472                               | 1,469,457  | 7,115,313                   | 24,453,537  |
| Accumulated depreciation, amortization and<br>depletion:                                       |                               |  |                               |                                  |                                       |            |                             |             |
| Balances at January 1  | 2,924                         | 234,488  | 6,053,868                     | 1,170,282                        | –                                     | –          | –                           | 7,461,562   |
| Depreciation, amortization and depletion<br>(see Note 28)                                      | 2,405                         | 16,154   | 1,189,465                     | 250,900                          | 16,215                                | –          | –                           | 1,475,139   |
| Disposals  | –                             | –  | (102,544)                     | –                                | –                                     | –          | –                           | (102,544)   |
| Capitalized depreciation (see Note 28)   | –                             | –  | 695                           | 5                                | –                                     | 39,430     | –                           | 40,130      |
| Balances at December 31  | 5,329                         | 250,642  | 7,141,484                     | 1,421,187                        | 16,215                                | 39,430     | –                           | 8,874,287   |
| Allowance for impairment losses (see Note 31)  | –                             | –  | 12,825                        | –                                | –                                     | –          | –                           | 12,825      |
| Net book values  | ₱287,014                      | ₱524,007   | ₱3,428,912                    | ₱1,947,895                       | ₱833,257                              | ₱1,430,027 | ₱7,115,313                  | ₱15,566,425 |

Construction in progress includes the costs incurred to date for the Biliran Geothermal Project, which management assessed to be completed in 2021.

Pier facilities (included under “Buildings and improvements”) with a carrying value of nil and ₱37.6 million as at December 31, 2017 and 2016, respectively, were mortgaged as collateral for the long-term debt of RTN (see Note 15).

The carrying value of the 7.14 MW Sta. Rita Solar Power Plant that was pledged as collateral for Jobin’s borrowing with Land Bank of the Philippines (LBP) amounted to ₱538.5 million and ₱638.9 million as at December 31, 2017 and 2016, respectively (see Note 15).

Depreciation on the excess of the fair value of the assets acquired from RTN over their corresponding book values transferred to retained earnings amounted to ₱0.4 million in 2017, 2016 and 2015.

The average capitalization rate in 2016 is 4.99% (see Note 15).



## 10. Investments in Associates

|      | 2017              | 2016              |
|------|-------------------|-------------------|
| THNC | <b>₱2,083,079</b> | ₱1,825,096        |
| CBNC | <b>869,053</b>    | 756,991           |
|      | <b>₱2,952,132</b> | <b>₱2,582,087</b> |

The movements in investments in associates follows:

|   | 2017              |                  |                   | 2016        |           |             |
|---|-------------------|------------------|-------------------|-------------|-----------|-------------|
|   | THNC              | CBNC             | Total             | THNC        | CBNC      | Total       |
| Balances at January 1   | <b>₱1,974,700</b> | <b>₱724,410</b>  | <b>₱2,699,110</b> | ₱4,443,075  | ₱724,410  | ₱5,167,485  |
| Disposal  | -                 | -                | -                 | (2,468,375) | -         | (2,468,375) |
|   | <b>1,974,700</b>  | <b>724,410</b>   | <b>2,699,110</b>  | 1,974,700   | 724,410   | 2,699,110   |
| Accumulated equity in net earnings (losses):  |                   |                  |                   |             |           |             |
| Balances at January 1   | <b>(467,168)</b>  | <b>(155,746)</b> | <b>(622,914)</b>  | (827,611)   | (52,408)  | (880,019)   |
| Equity in net income (losses)   | <b>95,865</b>     | <b>102,107</b>   | <b>197,972</b>    | (310,364)   | (103,338) | (413,702)   |
| Disposal  | -                 | -                | -                 | 670,807     | -         | 670,807     |
|   | <b>(371,303)</b>  | <b>(53,639)</b>  | <b>(424,942)</b>  | (467,168)   | (155,746) | (622,914)   |
| Share in cumulative translation adjustment:   |                   |                  |                   |             |           |             |
| Balances at January 1   | <b>317,564</b>    | <b>188,327</b>   | <b>505,891</b>    | 427,427     | 49,194    | 476,621     |
| Movements   | <b>162,118</b>    | <b>9,955</b>     | <b>172,073</b>    | 126,798     | 139,133   | 265,931     |
| Reclassification adjustments for income included in the consolidated statements of income (see Note 31) | -                 | -                | -                 | (236,661)   | -         | (236,661)   |
|   | <b>479,682</b>    | <b>198,282</b>   | <b>677,964</b>    | 317,564     | 188,327   | 505,891     |
| Balances at December 31   | <b>₱2,083,079</b> | <b>₱869,053</b>  | <b>₱2,952,132</b> | ₱1,825,096  | ₱756,991  | ₱2,582,087  |

The share in cumulative translation adjustment of associates is gross of deferred income tax liability of ₱113.8 million and ₱96.6 million as at December 31, 2017 and 2016, respectively (see Note 36).

### **THNC**

THNC, a private entity that is not listed on any public exchange, was incorporated and registered with the Philippine SEC on August 22, 2008. THNC is engaged in the manufacture and export of nickel/cobalt mixed sulfide, nickel hydroxide and any and all ingredient and products and by-products, wherein TMC has a Nickel Ore Supply Agreement to supply all of the limonite ore requirements of the Taganito High Pressure Acid Leach (HPAL) facility. TMC also provides services related to the handling, hauling and transportation of materials required in the processing operations of THNC. THNC started commercial operations in October 2013.

The Parent Company, together with Sumitomo Metal Mining Co., Ltd. (SMM) and Mitsui and Co., Ltd. (Mitsui) signed a Stockholders' Agreement on September 15, 2010, dividing the ownership of THNC, into 22.5%, 62.5% and 15.0%, respectively.

On November 4, 2010, pursuant to the terms of the Stockholders' Agreement, the Parent Company entered into a subscription agreement with THNC for the subscription of 921,375,000 common shares for a total amount of US\$102.4 million or ₱4,443.1 million which is equivalent to 22.5% interest in THNC.



On October 17, 2016, the Parent Company sold a portion of its shareholdings in THNC, equivalent to 511,875,000 shares or 12.5% interest in THNC, to SMM for US\$42.0 million, which is equivalent to ₱2,037.2 million (see Note 39o). A net gain of ₱239.6 million was recognized on the sale of its investment interest in THNC in 2016 (see Note 31). As at December 31, 2017 and 2016, the Parent Company's equity interest in THNC is 10%. Due to the nature of the Parent Company's involvement in THNC, the Parent Company evaluated various factors and assessed that significant influence exists.

THNC's financial statements are stated in US\$ and translated at the closing rate of US\$1 = ₱49.93 and US\$1 = ₱49.72 as at December 31, 2017 and 2016, respectively, for assets and liabilities accounts, historical rates for equity accounts and average rate of US\$1 = ₱50.40 and US\$1 = ₱47.48, respectively, for the statement of income accounts for the years then ended.

The following are the summarized financial information of THNC as at December 31, 2017 and 2016:

|                        | 2017                | 2016         |
|------------------------|---------------------|--------------|
| Current assets         | <b>₱7,295,491</b>   | ₱7,058,636   |
| Noncurrent assets      | <b>75,123,509</b>   | 75,549,097   |
| Current liabilities    | <b>(28,105,542)</b> | (6,144,555)  |
| Noncurrent liabilities | <b>(35,863,707)</b> | (59,036,694) |
| Net assets             | <b>₱18,449,751</b>  | ₱17,426,484  |

|                   | 2017                | 2016         |
|-------------------|---------------------|--------------|
| Income            | <b>₱17,693,870</b>  | ₱12,004,941  |
| Expenses          | <b>(16,735,220)</b> | (12,998,338) |
| Net income (loss) | <b>₱958,650</b>     | (₱993,397)   |

**CBNC**

CBNC, a private entity that is not listed on any public exchange, was incorporated and registered with the Philippine SEC on April 4, 2002. CBNC is engaged in the manufacture and export of nickel/cobalt mixed sulfide wherein RTN has a Nickel Ore Supply Agreement to supply all of the limonite ore requirements of the Coral Bay Hydro Metallurgical Processing Plant (HPP) facility. The agreement provides that it will terminate until the earlier of the cessation of operations at the Coral Bay HPP facility and exhaustion of the limonite ore reserves at the Rio Tuba mine. RTN also supplies limestone and provide ancillary services to Coral Bay HPAL facility.

The Parent Company acquired its 10% equity interest in CBNC by way of property dividend distributed by RTN in March 2014. In accordance with the provisions of PAS 28 (2011), *Investment in Associates and Joint Ventures*, and due to the nature of the Parent Company's involvement in CBNC, the Parent Company evaluated various factors and assessed that significant influence exists.

CBNC's financial statements are stated in US\$ and translated at the closing rate of US\$1 = ₱49.93 and US\$1 = ₱49.72 as at December 31, 2017 and 2016, respectively, for assets and liabilities accounts, historical rates for equity accounts and average rate of US\$1 = ₱50.40 and US\$1 = ₱47.48, respectively, for the statement of income accounts for the years then ended.



The following are the summarized financial information of CBNC as at December 31, 2017 and 2016:

|                        | 2017               | 2016               |
|------------------------|--------------------|--------------------|
| Current assets         | <b>₱6,472,570</b>  | ₱4,497,923         |
| Noncurrent assets      | <b>21,688,174</b>  | 23,029,484         |
| Current liabilities    | <b>(1,007,843)</b> | (1,538,386)        |
| Noncurrent liabilities | <b>(195,318)</b>   | (152,068)          |
| <b>Net assets</b>      | <b>₱26,957,583</b> | <b>₱25,836,953</b> |

|                          | 2017                | 2016                |
|--------------------------|---------------------|---------------------|
| Income                   | <b>₱11,429,382</b>  | ₱8,467,035          |
| Expenses                 | <b>(10,408,307)</b> | (9,500,415)         |
| <b>Net income (loss)</b> | <b>₱1,021,075</b>   | <b>(₱1,033,380)</b> |

#### 11. Geothermal Exploration and Evaluation Assets

|  | 2017              | 2016              |
|--|-------------------|-------------------|
| Balances at January 1                    | <b>₱1,775,799</b> | ₱1,290,603        |
| Additions                                | <b>21,776</b>     | 463,184           |
| Reversal                                 | <b>(13,392)</b>   | -                 |
| Capitalized borrowing cost (see Note 15) | -                 | 22,012            |
| <b>Balances at December 31</b>           | <b>₱1,784,183</b> | <b>₱1,775,799</b> |

Geothermal exploration and evaluation assets represent the accumulated costs incurred in connection with the exploration and development activities for the Montelago Geothermal Project. The recovery of these costs depends upon determination of technical feasibility, success of exploration activities and discovery of geothermal resource that can be produced in commercial quantities.

The reversal of ₱13.4 million pertains to the refund made by Iceland Drilling Corporation (IDC) as a result of the termination of the Well Services Master Agreement (WSMA) with the latter. IDC was initially engaged to drill twelve (12) geothermal wells in Oriental Mindoro, however, the WSMA was pre-terminated after IDC completed the drilling of two (2) geothermal wells.

As at December 31, 2017 and 2016, no allowance for impairment losses was recognized on geothermal exploration and evaluation assets.

#### 12. Long-term Stockpile Inventory

The long-term stockpile inventory pertains to low grade ore extracted from RTN's minesite. This amount was not recognized in RTN's books but was recognized by the Parent Company when it acquired the controlling interest in RTN in August 2006. The low grade ore inventory was initially recognized at fair value. The fair value of the long-term stockpile inventory was computed using the present value of the estimated future cash flows of RTN which it will derive from the long-term Nickel Ore Supply Agreement with CBNC (see Note 34a). Subsequently, this fair value represented the cost of the long-term stockpile inventory.



The cost of the long-term stockpile inventory is periodically charged to cost of sale of ore based on the actual tonnage delivered to CBNC from the long-term stockpile. The cost of long-term stockpile inventory amounting to ₱163.5 million, ₱201.6 million and ₱208.7 million were charged to “Cost of sale of ore” in 2017, 2016 and 2015, respectively (see Note 21).

A portion amounting to ₱212.0 million and ₱175.8 million, representing the estimated costs of the long-term stockpile inventory that will be delivered to CBNC in the next financial reporting period, were shown as part of “Inventories” as at December 31, 2017 and 2016, respectively (see Note 6).

The carrying value of long-term stockpile inventory - net of current portion amounted to ₱167.6 million and ₱367.2 million as at December 31, 2017 and 2016, respectively.

### 13. Other Noncurrent Assets

|  | 2017              | 2016              |
|--|-------------------|-------------------|
| Deferred mine exploration costs (see Note 32)              | ₱1,229,432        | ₱1,218,332        |
| Input VAT - net of current portion                         | 797,685           | 823,164           |
| Loan receivable - net of current portion<br>(see Note 39a) | 767,641           | 830,514           |
| Mine rehabilitation funds                                  | 392,450           | 302,864           |
| Advances to claimowners (see Note 39e)                     | 144,839           | 184,839           |
| Project development costs                                  | 112,670           | 22,687            |
| Deposit for aircraft acquisition                           | 97,781            | 97,781            |
| Advance royalties  | 55,904            | 55,904            |
| Long-term negotiable instruments                           | 40,000            | 30,000            |
| Social development management program funds                | 37,764            | 57,164            |
| Investment properties                                      | 30,623            | 30,623            |
| Pension asset (see Note 35)                                | -                 | 1,294             |
| Others   | 23,259            | 18,239            |
|  | <b>3,730,048</b>  | <b>3,673,405</b>  |
| Less allowance for impairment losses                       | 249,352           | 253,057           |
|  | <b>₱3,480,696</b> | <b>₱3,420,348</b> |

The movements of allowance for impairment losses follows:

| 2017                            | Deferred mine<br>exploration costs | Input VAT       | Total           |
|---------------------------------|------------------------------------|-----------------|-----------------|
| <b>Balances at January 1</b>    | <b>₱142,345</b>                    | <b>₱110,712</b> | <b>₱253,057</b> |
| <b>Reversals</b> (see Note 31)  | -                                  | <b>(21,209)</b> | <b>(21,209)</b> |
| <b>Reclass</b> (see Note 8)     | -                                  | <b>16,271</b>   | <b>16,271</b>   |
| <b>Provisions</b> (see Note 31) | <b>1,233</b>                       | -               | <b>1,233</b>    |
| <b>Write-off</b>                | -                                  | -               | -               |
| <b>Balances at December 31</b>  | <b>₱143,578</b>                    | <b>₱105,774</b> | <b>₱249,352</b> |





| 2016                     | Deferred mine<br>exploration costs | Input VAT | Total    |
|--------------------------|------------------------------------|-----------|----------|
| Balances at January 1    | ₱146,908                           | ₱89,503   | ₱236,411 |
| Reversals                | –                                  | –         | –        |
| Reclass                  | –                                  | –         | –        |
| Provisions (see Note 31) | 460                                | 21,209    | 21,669   |
| Write-off                | (5,023)                            | –         | (5,023)  |
| Balances at December 31  | ₱142,345                           | ₱110,712  | ₱253,057 |

Deferred mine exploration costs include mining rights of ₱945.6 million as at December 31, 2017 and 2016.

Input VAT represents the VAT passed on from purchases of applicable goods and services. Input VAT, in excess of output tax, can be recovered as tax credit against future tax liability of the Group. The noncurrent portion of input VAT pertains to the unamortized portion of input VAT on purchase of capital goods spread evenly over the life of the capital goods or five (5) years, whichever is shorter. The balance is recoverable in future periods.

Loan receivable represents the loan agreement executed by CMC and East Coast, which will be settled based on the agreed repayment terms (see Note 39a).

MRF, which includes the Final Mine Rehabilitation and Decommissioning Fund, is the amount deposited in local bank accounts established by the Group in compliance with the requirements of the Philippine Mining Act of 1995 as amended by DENR Administrative Order No. 2005-07. The MRF is earmarked for physical and social rehabilitation of areas and communities affected by mining activities and for research on the social, technical and preventive aspects of rehabilitation. Any disbursement in the MRF should be authorized by the MRF Committee, the external overseeing body charged with the duties of managing, operating, monitoring and looking after the safety of the MRF. The MRF earns interest at the respective bank deposit rates. Interest income earned from MRF amounted to ₱3.1 million, ₱1.9 million and ₱1.5 million in 2017, 2016 and 2015, respectively (see Note 29).

Advances to claimowners represent advance royalty payments to East Coast, La Salle Mining Exploration Company (La Salle), Kepha Mining Exploration Company (Kepha) and Ludgoron Mining Corporation (Ludgoron; see Note 39e).

Project development cost pertains to the development cost incurred for various projects of EPI and Jobin.

Deposit for aircraft acquisition pertains to advance payments made by RTN to World Aviation Corporation in 2013, for an absolute and exclusive right to purchase an aircraft which is exercisable within twelve (12) years.

Advance royalties pertain to royalty payments to claimowners.

The long-term negotiable instruments that will mature in 2019 and 2023 earn interest at 5.25% per annum (p.a.) and 3.87% p.a., respectively. Interest income from long-term negotiable instruments amounted to ₱1.3 million in 2017, 2016 and 2015 (see Note 29).



The SDMP funds shall be used for the sustainable development of the host and neighboring communities of the mine site. The programs are intended for health, education, livelihood, public utilities and socio-cultural preservation. Its implementation is under the audit, monitoring and evaluation of the Mines and Geosciences Bureau (MGB). Interest income earned from SDMP funds amounted to ₱0.1 million, ₱0.2 million and ₱0.1 million in 2017, 2016 and 2015, respectively (see Note 29).

Investment properties consist of parcels of land located in Surigao City, which is intended for leasing to THNC in the future, and parcels of land located in Manggahan, Pasig and Cainta, Rizal.

As at December 31, 2017 and 2016, the carrying values of the Group's investment properties amounted to ₱30.6 million and the fair value of the land amounted to ₱53.0 million. In 2017, 2016 and 2015, no income was earned and no direct expenses, other than real property tax, were incurred related to the investment properties.

Others include various security deposits, deposit to suppliers and restricted cash.

#### 14. Trade and Other Payables

|   | 2017              | 2016       |
|---|-------------------|------------|
| Trade (see Note 34)                           | <b>₱870,835</b>   | ₱790,425   |
| Amounts owed to related parties (see Note 34) | <b>5,343,367</b>  | 5,310,193  |
| Dividends payable                             | <b>636,450</b>    | 325,187    |
| Accrued expenses:                             |                   |            |
| Third parties                                 | <b>398,558</b>    | 227,824    |
| Related party (see Note 34)                   | <b>21,086</b>     | 33,262     |
| Government payables:                          |                   |            |
| Withholding taxes payable                     | <b>140,497</b>    | 115,292    |
| Excise taxes and royalties payable            | <b>69,804</b>     | 72,308     |
| Output VAT                                    | <b>5,367</b>      | 5,055      |
| Documentary stamp taxes (DST) payable         | <b>1,355</b>      | 17,141     |
| Fringe benefit taxes (FBT) payable            | <b>565</b>        | 15,857     |
| Retention fees payable                        | <b>19,134</b>     | 44,629     |
| Interest payable (see Note 34)                | <b>11,533</b>     | 30,511     |
| Others  | <b>51,390</b>     | 28,999     |
|   | <b>₱7,569,941</b> | ₱7,016,683 |

Trade, accrued expenses and other payables are noninterest-bearing and are generally settled within one (1) year. Trade payables relate to payables to suppliers in the ordinary course of business. Accrued expenses substantially consist of contractor's fees, trucking and stevedoring services, hauling and rental expenses, guarantee service fees and others which are usual in the business operations of the Group.

Amounts owed to related parties pertain to advances received from Orka Geothermal Investments Pte. Ltd. (OGI), Biliran Geothermal Holdings Incorporated (BGHI) and SMM. Amounts owed to OGI pertain to funds used in the drilling operations of BGI and purchases paid by OGI in behalf of BGI. Amounts owed to BGHI pertain mainly to the amount originally payable to OGI but were sold by the latter to the former in 2014. Part of this amount pertains also to miscellaneous expenses paid by BGHI in behalf of BGI. Amounts owed to SMM pertain to the advances made to CExCI.



Dividends payable refers to the cash dividends declared by TMC and RTN to Pacific Metals Co., Ltd. (PAMCO) and Sojitz Corporation (Sojitz) in December 2017 and 2016 and payable in January of the following year. The amount is net of final withholding tax.

Government payables include withholding taxes which are normally settled within fifteen (15) days after the end of each financial reporting month and FBT which are normally settled within fifteen (15) days after the end of the quarter on which the fringe benefits are granted to the recipients. Excise tax payable is settled within fifteen (15) days after the end of the quarter when the beneficiated nickel ore and limestone were shipped. Royalties are paid on or before the deadline agreed with the MGB or other parties. DST is normally settled within five (5) days after the close of the month when the taxable document was issued.

Retention fees payable pertains to the amount retained by the Group from its suppliers/contractors and will be paid after the completion of the construction of the projects.

Interest payable on loans is settled based on the agreed repayment terms.

The Group has US\$ denominated trade and other payables amounting to US\$30.6 million, equivalent to ₱1,527.8 million, and US\$29.9 million, equivalent to ₱1,488.6 million as at December 31, 2017 and 2016, respectively (see Note 37).

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## 15. Short-term and Long-term Debts

### *Short-term debt with Manta Equities Inc. (Manta)*

On June 8, 2015, EPI entered into a one (1) year loan agreement with Manta amounting to ₱180.0 million to finance the development expenses of EPI's geothermal power project (see Note 34). The loan bears an annual interest of 5%. The principal and interest is payable at the end of the loan agreement. On June 6, 2016, EPI and Manta extended the loan for another year or up to June 7, 2017 under the same terms of the original loan. The principal and interest was paid in June 2017.

Interest expense incurred in connection with the loans amounted to ₱4.3 million, ₱9.0 million, and ₱5.1 million in 2017, 2016 and 2015, respectively. Out of the total interest expense incurred in 2016, ₱3.0 million were capitalized as part of solar farm under "Property and equipment", ₱1.0 million as part of "Geothermal exploration and evaluation assets" and ₱0.7 million as part of project development costs under "Other noncurrent assets". There were no capitalized borrowing costs in 2017 and 2015 (see Notes 9, 11, 30 and 34).



*Long-term debts*

Long-term debts of the following subsidiaries are as follows:

|                          | 2017              | 2016       |
|--------------------------|-------------------|------------|
| EPI                      | <b>₱1,498,159</b> | ₱2,990,338 |
| TMC                      | <b>1,179,596</b>  | 1,261,645  |
| Jobin                    | <b>284,265</b>    | 297,526    |
| RTN                      | <b>22,369</b>     | 66,824     |
|                          | <b>2,984,389</b>  | 4,616,333  |
| Less noncurrent portion: |                   |            |
| TMC                      | <b>1,092,219</b>  | 1,174,635  |
| Jobin                    | <b>256,992</b>    | 280,811    |
| EPI                      | -                 | 2,990,338  |
| RTN                      | -                 | 22,275     |
|                          | <b>1,349,211</b>  | 4,468,059  |
| Current portion          | <b>₱1,635,178</b> | ₱148,274   |

EPI Loan

On July 15, 2015, Security Bank Corporation (SBC) approved the loan facility of EPI amounting to ₱3,000.0 million which will be used by EPI in funding its investments and working capital requirements. Staggered releases of loans are allowed up to August 31, 2016 with terms of up to three (3) years from date of every drawdown and payable upon maturity. In the event of default, the loans, together with accrued interest and any other sums payable under the promissory notes will immediately become due and payable.

The loans are secured by a continuing suretyship of the Parent Company. Under the Suretyship Agreement executed by and between the Parent Company and SBC on August 4, 2015, the Parent Company solidarily with EPI, guarantees and warrants to SBC, its assigns and successors-in-interest, prompt and full payment and performance of EPI's obligations to SBC (see Note 39q).

Details of the drawdowns received from the ₱3,000.0 million loan facility as at December 31, 2017 and 2016 are as follows:

| Drawdowns | Date               | Amount            | Debt Issue Costs | Stated Rate | Effective Rate | Term    |
|-----------|--------------------|-------------------|------------------|-------------|----------------|---------|
| First*    | August 5, 2015     | ₱510,000          | ₱2,551           | 4.60%       | 4.78%          | 3 years |
| Second    | September 21, 2015 | 1,200,000         | 6,000            | 4.60%       | 4.78%          | 3 years |
| Third**   | December 2, 2015   | 400,000           | 2,000            | 4.90%       | 5.08%          | 3 years |
| Fourth**  | February 9, 2016   | 200,000           | 1,000            | 4.90%       | 5.08%          | 3 years |
| Fifth**   | March 1, 2016      | 200,000           | 1,000            | 5.00%       | 5.18%          | 3 years |
| Sixth**   | March 1, 2016      | 200,000           | 1,000            | 4.85%       | 5.03%          | 3 years |
| Seventh** | May 12, 2016       | 150,000           | 751              | 4.85%       | 5.03%          | 3 years |
| Eight**   | May 25, 2016       | 140,000           | 701              | 4.85%       | 5.03%          | 3 years |
|           |                    | <b>₱3,000,000</b> | <b>₱15,003</b>   |             |                |         |

\*partial payment amounting to ₱210.0 million was made on September 29, 2017

\*\*prepaid on September 29, 2017

On September 29, 2017, EPI prepaid certain promissory notes totaling ₱1,500.0 million. There were no prepayment penalty charged by SBC and the terms of the unpaid promissory notes remain the same.



The carrying amount of long-term debt with SBC, net of unamortized debt issue cost, follows:

|                                  | 2017              | 2016       |
|----------------------------------|-------------------|------------|
| Loans payable                    | <b>₱1,500,000</b> | ₱3,000,000 |
| Less unamortized debt issue cost | <b>(1,841)</b>    | (9,662)    |
| Balances at December 31          | <b>₱1,498,159</b> | ₱2,990,338 |

Debt issue costs pertain to DST and other transaction costs incurred in connection with the availment of the loans. These are deducted from the amount of loans payable and are amortized using the EIR method.

The movements of the unamortized debt issue costs in 2017 and 2016 are as follows:

|   | 2017           | 2016    |
|---|----------------|---------|
| Balances at January 1                                   | <b>₱9,662</b>  | ₱9,664  |
| Additions   | -              | 4,452   |
| Amortization  | <b>(4,388)</b> | (4,454) |
| Reduction due to early payment of loan<br>(see Note 30) | <b>(3,433)</b> | -       |
| Balances at December 31                                 | <b>₱1,841</b>  | ₱9,662  |

Interest expense, including capitalized borrowing cost, in 2017 and 2016 are summarized below:

|                                  | 2017            | 2016     |
|----------------------------------|-----------------|----------|
| Interest on loans                | <b>₱116,603</b> | ₱141,805 |
| Amortization of debt issue costs | <b>4,388</b>    | 4,454    |
|                                  | <b>₱120,991</b> | ₱146,259 |

Interest expense capitalized as part of solar farm under “Property and equipment” and “Geothermal exploration and evaluation assets” amounted to ₱48.4 million and ₱21.0 million, respectively, in 2016. There were no capitalized borrowing costs in 2017 and 2015 (see Notes 9 and 11).

The Term Loan Agreement with SBC provides for restrictions with respect to creation or permission to exist any mortgage or pledge, lien or any encumbrance on all free assets owned or acquired by EPI. Also, the Term Loan Agreement restricts EPI to assume, guarantee, endorse or otherwise become directly or contingently liable in connection with any obligation of any other person, firm or corporation; participate or enter into any merger or consolidation; sell, lease, dispose or convey all or substantially all of EPI’s assets; make advances or loans to any of the affiliates, subsidiaries, stockholders, directors and officers except in compliance with formally established and existing fringe benefit program of EPI; suspend its business operation or dissolve its affairs; and to enter into any credit or loan agreement or arrangement with any creditor under such terms and conditions that would place SBC in an inferior position risk-wise, vis-a-vis such other creditors. Moreover, the Term Loan Agreement provides for certain conditions, which include, among others, prompt disclosure in writing of any material change in EPI’s financial position and conduct of its operations or any substantial change in its management or ownership, conduct operations in accordance with sound business practice, maintenance and preservation of corporate existence, and prompt payment of all taxes, assessment and other governmental charges due. As at December 31, 2017 and 2016, EPI has been compliant with the covenants contained in the loan facility and agreements.



#### TMC Loan

On October 4, 2010, TMC entered into an Omnibus Agreement with THNC, wherein the latter granted the former a total loan facility amounting to US\$35.0 million at a prevailing one hundred eighty (180)-day British Banker Association London Inter-Bank Offered Rate (LIBOR) plus 2% spread, to exclusively finance the construction of the pier facilities within the Taganito Special Economic Zone (TSEZ). The loan shall be drawn down in one or multiple times by July 31, 2011. As at December 31, 2017 and 2016, the total loan was fully drawn by TMC.

The interest on the loan is payable semi-annually, on October 10 and April 10. The total principal is payable in semi-annual installments of US\$0.9 million starting on October 10, 2011 up to April 10, 2031.

The Omnibus Agreement provides for restriction with respect to creation, assumption, incurrence and permission to exist any lien upon the pier facilities and all TMC's other real rights over the same except as permitted under the Omnibus Agreement. Also, the Omnibus Agreement provides for certain conditions which include, among others, maintenance and preservation of TMC's corporate existence, rights, privileges and licenses, prompt submission of written notice to THNC of any and all litigations and administrative arbitration proceedings before any Governmental authority affecting TMC, prompt payment of all amounts due under the loan documents and maintenance of all Governmental approvals necessary to perform the obligations. As at December 31, 2017 and 2016, TMC is in compliance with the restrictions.

Interest expense in 2017, 2016 and 2015 amounting to ₱42.6 million, ₱36.5 million and ₱31.1 million, respectively, were included in equipment operating cost under "Cost of services" (see Notes 22 and 34).

As at December 31, 2017 and 2016, the carrying amount of long-term debt with THNC amounted to ₱1,179.6 million and ₱1,261.6 million, respectively (see Note 34).

#### Jobin Loan

On April 26, 2016, Jobin entered into a twelve-year (12) term loan agreement with LBP amounting to ₱300.0 million to partially finance the construction and development of a 7.14 MW Sta. Rita Solar Power Plant and inter-connection assets located in SBFZ. The loan is subject to an interest based on the applicable benchmark rate (3-month PDST-R2) plus a minimum spread of 1.50% p.a., with a floor rate of 4.75% p.a., subject to quarterly repricing. The loan is payable in forty-four (44) equal quarterly payments, starting at the end of the fifth (5th) quarter from the date of the initial loan and interest is payable quarterly in arrears from the date of initial loan. Jobin is also required to pay gross receipt tax equal to 1% of each interest payment.

The loan shall be secured by the following:

- a) Chattel mortgage on the 7.14 MW Sta. Rita Solar Power Plant (see Note 9)
- b) Corporate guarantee of EPI
- c) Assignment of leasehold rights between Jobin and Subic Bay Metropolitan Authority (SBMA) on the lot at Mt. Sta. Rita, SBFZ, and 2,300 square meter (sq.m.) lot and 280 sq.m. building located near the National Grid Corporation of the Philippines (NGCP) facility, Subic Gateway Park, SBFZ
- d) Pledge of shares of stock of Jobin



The loan agreement contains positive, negative and financial covenants which include, among others, payment of interest, strict compliance with regulatory provisions regarding internal revenue taxes and environmental requirements, and the maintenance of certain financial and project ratios. As at December 31, 2017 and 2016, Jobin has been compliant with the covenants contained in the loan agreement.

The carrying amount of long-term debt with LBP, net of unamortized debt issue cost, follows:

|                                  | 2017            | 2016            |
|----------------------------------|-----------------|-----------------|
| Loans payable                    | P286,364        | P300,000        |
| Less unamortized debt issue cost | (2,099)         | (2,474)         |
| <b>Balances at December 31</b>   | <b>P284,265</b> | <b>P297,526</b> |

The movements of the unamortized debt issue cost in 2017 and 2016 are as follows:

|                                | 2017          | 2016          |
|--------------------------------|---------------|---------------|
| Balances at January 1          | P2,474        | P-            |
| Additions                      | -             | 2,702         |
| Amortization                   | (375)         | (228)         |
| <b>Balances at December 31</b> | <b>P2,099</b> | <b>P2,474</b> |

Interest expense, including capitalized borrowing cost, in 2017 and 2016 are summarized below:

|                                  | 2017           | 2016          |
|----------------------------------|----------------|---------------|
| Interest on loans                | P14,058        | P9,253        |
| Amortization of debt issue costs | 375            | 228           |
| <b></b>                          | <b>P14,433</b> | <b>P9,481</b> |

Interest expense capitalized as part of solar farm under “Property and equipment” amounted to P9.3 million in 2016 and nil in 2017 and 2015 (see Note 9).

#### RTN Loan

On November 25, 2002, RTN entered into an Omnibus Agreement with SMM, wherein the latter granted the former a loan facility amounting to US\$1.8 million at a prevailing one hundred eighty (180)-day LIBOR plus 2% spread, for the construction of the pier facilities.

In July 2003, an additional loan amounting to US\$0.2 million was granted by SMM. Starting 2003, the interest on the original and additional loans is payable semi-annually, on February 28 and August 31. The total principal is payable in twenty (20) equal semi-annual installments starting on February 28, 2004 up to August 31, 2013. In February 2007, RTN and SMM agreed to an additional loan facility amounting to US\$9.0 million. Of the total loan facility, the remaining US\$0.5 million was drawn in February and March 2008. The additional loan facility is payable in semi-annual installments starting on August 31, 2008 up to February 28, 2018.

In consideration, and to ensure payment of these loans, RTN will assign, transfer, and set over to SMM, absolutely and unconditionally, all of RTN’s rights, title, and interest over its future receivable from CBNC under the Throughput Agreements (see Note 39b). RTN also constituted a first ranking mortgage on the pier facilities. As at December 31, 2017 and 2016, the carrying value of pier facilities amounted to nil and P37.6 million, respectively (see Note 9).



The Omnibus Agreement provides for restrictions with respect to creation, assumption, incurrence and permission to exist any lien upon the pier facilities and all RTN's other real rights over the same except as permitted under the Omnibus Agreement. Also, the Omnibus Agreement provides for certain conditions which include, among others, maintenance and preservation of RTN's corporate existence, rights, privileges and licenses, prompt submission of written notice to SMM of any and all litigations or administrative or arbitration proceedings before any Governmental authority affecting RTN. As at December 31, 2017 and 2016, RTN is in compliance with the restrictions.

Interest expense amounted to ₱1.5 million, ₱2.4 million and ₱2.9 million in 2017, 2016 and 2015, respectively (see Notes 30 and 34).

As at December 31, 2017 and 2016, the carrying amount of long-term debt with SMM amounted to ₱22.4 million and ₱66.8 million, respectively (see Note 34).

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#### 16. Provision for Mine Rehabilitation and Decommissioning

|  | 2017            | 2016            |
|--|-----------------|-----------------|
| Balances at January 1  | ₱442,484        | ₱169,926        |
| Effect of change in estimate (see Note 9)  | (69,820)        | 263,616         |
| Accretion of interest on provision for mine rehabilitation and decommissioning (see Note 30) | 16,123          | 8,942           |
| Balances at December 31  | <u>₱388,787</u> | <u>₱442,484</u> |

Provision for mine rehabilitation and decommissioning pertains to the estimated decommissioning costs to be incurred in the future on the mined-out areas of the Group.

The Group makes a full provision for the future cost of rehabilitating mine site and related production facilities on a discounted basis on the development of mines or installation of those facilities. The rehabilitation provision represents the present value of rehabilitation costs. These provisions have been created based on the Group's internal estimates. Assumptions, based on the current economic environment, have been made which management believes are a reasonable basis upon which to estimate the future liability. These estimates are reviewed regularly to take into account any material changes to the assumptions. However, actual rehabilitation costs will ultimately depend upon future market prices for the necessary decommissioning works required which will reflect market conditions at the relevant time. Furthermore, the timing of rehabilitation is likely to depend on when the mine ceases to produce at economically viable rates. This, in turn, will depend upon future ore prices, which are inherently uncertain.





## 17. Long-term Payable

On December 14, 2015, CExCI and the stockholders of Newminco entered into a Share Purchase Agreement (SPA) wherein CExCI agreed to acquire 100% equity interest of Newminco, on a deferred payment basis, for a total consideration of ₱64.8 million.

Upon execution of the SPA, a downpayment of ₱30.8 million was paid and the remaining balance of ₱34.0 million, which is noninterest-bearing, is payable over a seven (7) year period. The total principal is payable in annual installment of ₱5.0 million starting in 2017 up to 2020 and annual installment of ₱7.0 million for the remaining term of the SPA. The unamortized discount on deferred payment, at 4.58% risk free rate, amounted to ₱3.8 million and ₱5.2 million as at December 31, 2017 and 2016, respectively.

The carrying amount of long-term payable, net of unamortized discount, amounted to ₱25.2 million and ₱28.8 million as at December 31, 2017 and 2016, respectively.

|                           | 2017          | 2016    |
|---------------------------|---------------|---------|
| Long-term payable         | ₱29,000       | ₱34,000 |
| Less unamortized discount | 3,832         | 5,154   |
|                           | <b>25,168</b> | 28,846  |
| Less noncurrent portion   | <b>20,168</b> | 23,846  |
| Current portion           | <b>₱5,000</b> | ₱5,000  |

In 2017, 2016 and 2015, the accretion of interest on long-term payable amounted to ₱1.3 million, ₱1.2 million and ₱0.1 million, respectively (see Note 30).

## 18. Equity

### Capital Stock

The capital structure of the Parent Company follows:

|  | 2017              | 2016       |
|--|-------------------|------------|
| Common stock - ₱0.50 par value                         |                   |            |
| Authorized - 19,265,000,000 shares in<br>2017 and 2016 |                   |            |
| Issued - 7,602,928,954 shares in 2017 and 2016         | <b>₱3,801,465</b> | ₱3,801,465 |
| Preferred stock - ₱0.01 par value                      |                   |            |
| Authorized and Issued - 720,000,000 shares             | <b>7,200</b>      | 7,200      |
|  | <b>₱3,808,665</b> | ₱3,808,665 |

Preferred share is voting, non-participating but with a fixed cumulative dividend rate of 7% p.a.

### Issued Capital Stock

Beginning November 22, 2010, the common shares of the Parent Company were listed and traded in PSE with an initial public offering of 304,500,000 common shares (consisting of 132,991,182 shares held in treasury and new common shares of 171,508,818) with an offer price of ₱15.00 per share, which is equivalent to ₱2.67 per share after the stock dividends.



As at December 31, 2017 and 2016, a total of 2,414,938,006 common shares or 32% and 2,217,481,524 common shares or 29%, respectively, of the outstanding common shares of the Parent Company are registered in the name of eighty-six (86) and eighty (80) shareholders, respectively, while the balance of 5,187,990,948 common shares or 68% and 5,385,447,430 common shares or 71%, respectively, are lodged with the Philippine Depository and Trust Corporation.

The movements in common stock follows:

|                                  | 2017                 |                   |
|----------------------------------|----------------------|-------------------|
|                                  | Number of<br>Shares  | Amount            |
| <b>Balances at January 1</b>     | <b>7,602,928,954</b> | <b>₱3,801,465</b> |
| <b>Exercise of stock options</b> | -                    | -                 |
| <b>Balances at December 31</b>   | <b>7,602,928,954</b> | <b>₱3,801,465</b> |

|   | 2016                |            |
|---|---------------------|------------|
|   | Number of<br>Shares | Amount     |
| Balances at January 1                   | 7,596,939,456       | ₱3,798,470 |
| Exercise of stock options (see Note 19) | 5,989,498           | 2,995      |
| Balances at December 31                 | 7,602,928,954       | ₱3,801,465 |

On June 16, 2010, the BOD and stockholders of the Parent Company approved the ESOP (2010 ESOP; the Plan). On December 20, 2010, the Plan was approved by the SEC. A total of 12.0 million shares of stock were reserved for issue under the Plan.

On March 24, 2014, the BOD of the Parent Company approved the adoption of a new ESOP (2014 ESOP; the New Plan) which was ratified by the Parent Company's stockholders on June 6, 2014. On November 21, 2014, the New Plan was approved by the SEC. A total of 32.0 million shares of stock were reserved for issue under the New Plan.

The basic terms and conditions of the stock option plans are disclosed in Note 19.

Additional Paid-In Capital

The movements in additional paid-in capital follows:

|   | 2017              | 2016              |
|---|-------------------|-------------------|
| Balances at January 1   | <b>₱8,300,002</b> | ₱8,284,767        |
| Dilution in NCI   | <b>(37,547)</b>   | -                 |
| Exercise of stock options   | -                 | 11,380            |
| Reclassification adjustment from cost of share-based<br>payment plan upon exercise of stock options | -                 | 3,855             |
| <b>Balances at December 31</b>  | <b>₱8,262,455</b> | <b>₱8,300,002</b> |



Dividends

Dividends declared and paid by the Parent Company follows:

| Year | Type of Dividend | Date of Declaration | Date of Record | Amount Declared | Dividend per Share | Date of Payment/Issuance |
|------|------------------|---------------------|----------------|-----------------|--------------------|--------------------------|
| 2017 | Cash Dividends   | March 15, 2017      | March 29, 2017 | ₱608,234        | ₱0.08              | April 11, 2017           |
| 2016 | Cash Dividends   | March 15, 2016      | March 31, 2016 | 607,755         | 0.08               | April 12, 2016           |
| 2015 | Cash Dividends   |                     |                |                 |                    |                          |
|      | Regular          | March 27, 2015      | April 15, 2015 | 2,657,120       | 0.70               | April 27, 2015           |
|      | Special          | March 27, 2015      | April 15, 2015 | 1,138,765       | 0.30               | April 27, 2015           |
|      | Stock Dividends  | June 5, 2015        | July 16, 2015  | 1,899,235       | 100%               | August 11, 2015          |

Appropriated Retained Earnings

On November 5, 2013, the Parent Company's BOD approved the appropriation of retained earnings amounting to ₱1,000.0 million, for the construction, operation and maintenance of a bunker-fired diesel power station (see Note 39g). The project is expected to be completed in 2018.

On February 12, 2016, the BOD of HMC approved the appropriation of retained earnings amounting to ₱94.8 million as at December 31, 2015 for capital expenditures for the year 2016 mainly for acquisition of mining equipment. An additional appropriation amounting to ₱41.5 million was also approved for HMC's final mine rehabilitation fund.

On July 4, 2016, the BOD of TMC approved the reversal of ₱575.0 million appropriation following the completion and full operation of TMC's second conveyor system.

On November 7, 2016, the BOD of HMC approved the reversal of ₱136.3 million appropriation following the completion of the acquisition of mining equipment in 2016. On the same date, the BOD of HMC approved the appropriation of retained earnings amounting to ₱41.5 million for the final mine rehabilitation and decommissioning plan and ₱67.5 million for the capital expenditures for the year 2017.

On December 7, 2017, the BOD of HMC approved the reversal of the ₱109.0 million appropriation following the completion of the purchase of mining equipments and funding of the final mine rehabilitation fund. On the same date, the BOD of HMC approved the appropriation of retained earnings amounting to ₱95.6 million for HMC's capital expenditures for the year 2018.

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**19. Executive Stock Option Plan**

2014 ESOP

On March 24, 2014, the New Plan was approved by the Parent Company's BOD and was ratified by the stockholders on June 6, 2014. On November 21, 2014, the New Plan was approved by the SEC. The basic terms and conditions of the New Plan are as follows:

1. The New Plan covers up to 32.0 million shares allocated to the Parent Company's officers and the officers of the subsidiaries.
2. The eligible participants are the directors and officers of the Parent Company and its subsidiaries, specifically those with positions of Assistant Vice President and higher, including the Resident Mine Managers of the subsidiaries.



3. The exercise price is ₱25.52, which is equivalent to ₱8.51 after the effect of stock dividends.
4. The New Plan was partially granted on June 6, 2014 and January 13, 2015.
5. The term of the New Plan shall be five (5) years and the shares will vest to the participant at the rate of 25% after the first year of the New Plan or July 18, 2015.
6. The participant can exercise the vested options by giving notice within the term of the New Plan, and can opt to either purchase the shares at the exercise price or request the Parent Company to advance the purchase price and to sell the shares in which case the participant will receive the sales proceeds less the exercise price.

The fair values of the stock option are ₱7.53 and ₱8.42, which was estimated as at grant date, June 6, 2014 and January 13, 2015, respectively, using the Black Scholes-Merton model, taking into consideration the terms and conditions upon which the options were granted.

#### 2010 ESOP

On June 16, 2010, the Parent Company's BOD and stockholders approved the 2010 ESOP. On December 20, 2010, the Plan was approved by the SEC. The basic terms and conditions of the Plan are as follows:

1. The Plan covers up to 12.0 million shares allocated to the Parent Company's officers and the officers of the subsidiaries.
2. The eligible participants are the directors and officers of the Parent Company and its subsidiaries, specifically those with positions of Assistant Vice President and higher, including the Resident Mine Managers of the subsidiaries.
3. The exercise price is ₱13.50, which is equivalent to ₱2.40 after the effect of stock dividends.
4. The grant date of the Plan is January 3, 2011 as determined by the Compensation Committee.
5. The term of the Plan shall be six (6) years and the shares will vest to the participant at the rate of 25% per year after the first year of the Plan or December 21, 2011.
6. The participant can exercise the vested options by giving notice within the term of the Plan, and can opt to either purchase the shares at the exercise price or request the Parent Company to advance the purchase price and to sell the shares in which case the participant will receive the sales proceeds less the exercise price.

The stock option agreement was made and executed on January 3, 2011 between the Parent Company and the option grantees. The fair value of the stock options is ₱6.44, which was estimated as at grant date, January 3, 2011, using the Black Scholes-Merton model, taking into account the terms and conditions upon which the options were granted.

The following assumptions were used to determine the fair value of the stock options at effective grant date:

|                      | 2014 ESOP        |              | 2010 ESOP       |
|----------------------|------------------|--------------|-----------------|
|                      | January 13, 2015 | June 6, 2014 | January 3, 2011 |
| Grant date           | January 13, 2015 | June 6, 2014 | January 3, 2011 |
| Spot price per share | ₱15.63           | ₱28.55       | ₱15.00          |
| Exercise price       | ₱8.51            | ₱25.52       | ₱13.50          |
| Expected volatility  | 33.52%           | 33.28%       | 53.42%          |
| Option life          | 4.40 years       | 5.00 years   | 3.97 years      |
| Dividend yield       | 0.58%            | 3.88%        | 2.06%           |
| Risk-free rate       | 3.23%            | 3.30%        | 4.50%           |

The expected volatility reflects the assumption that the historical volatility over a period similar to the life of the options is indicative of future trends, which may also not necessarily be the actual outcome.



There have been no modifications or cancellations in 2017 and 2016.

The following table illustrates the number of stock options and its movements during the year:

|                         | Number of Options  |             | Weighted Average Exercise Price |       |
|-------------------------|--------------------|-------------|---------------------------------|-------|
|                         | 2017               | 2016        | 2017                            | 2016  |
| <i>2014 ESOP</i>        |                    |             |                                 |       |
| Balances at January 1   | <b>56,222,764</b>  | 57,442,278  | <b>₱8.51</b>                    | ₱8.51 |
| Forfeited               | <b>(1,195,612)</b> | (1,219,514) | <b>8.51</b>                     | 8.51  |
| Balances at December 31 | <b>55,027,152</b>  | 56,222,764  | <b>₱8.51</b>                    | ₱8.51 |
| <i>2010 ESOP</i>        |                    |             |                                 |       |
| Balances at January 1   | –                  | 5,989,498   | <b>₱–</b>                       | ₱2.40 |
| Exercised (see Note 18) | –                  | (5,989,498) | –                               | 2.40  |
| Balances at December 31 | –                  | –           | <b>₱–</b>                       | ₱–    |

On November 10, 2016 and June 2, 2015, the SEC approved the exemption from registration of 31,523,262 common shares and 11,625,987 common shares, respectively, which shall form part of the ESOP.

The number of exercisable vested stock options as at December 31, 2017 and 2016 are 41,270,374 common shares and 28,111,422 common shares, respectively.

In 2017 and 2016, the weighted average stock prices at exercise dates were nil and ₱7.87, respectively.

The movements in the cost of share-based payment plan included in equity are as follows:

|   | 2017            | 2016     |
|---|-----------------|----------|
| Balances at January 1   | <b>₱126,622</b> | ₱104,824 |
| Stock option expense (see Note 27)                              | <b>11,013</b>   | 25,653   |
| Cost of share-based payment recognized as capital upon exercise | –               | (3,855)  |
| Movements during the year                                       | <b>11,013</b>   | 21,798   |
| Balances at December 31   | <b>₱137,635</b> | ₱126,622 |

The weighted average remaining contractual life of options outstanding under the New Plan was approximately one and a half (1.5) years and two and a half (2.5) years as at December 31, 2017 and 2016, respectively.

In 2017, 2016 and 2015, the cost of share-based payment plan amounted to ₱11.0 million, ₱25.7 million and ₱57.8 million, respectively (see Note 27).



## 20. Earnings Per Share

The following reflects the income and share data used in the basic and diluted EPS computations:

|  | 2017                 | 2016          | 2015          |
|--|----------------------|---------------|---------------|
| Net income attributable to equity holders of the parent  | <b>₱2,770,768</b>    | ₱1,966,107    | ₱2,035,143    |
| Preferred stock dividends  | <b>504</b>           | 504           | 504           |
| Net income attributable to equity holders of the parent for basic earnings                           | <b>2,770,264</b>     | 1,965,603     | 2,034,639     |
| Dividends on dilutive potential ordinary shares  | -                    | -             | -             |
| Net income attributable to ordinary equity holders of the parent adjusted for the effect of dilution | <b>₱2,770,264</b>    | ₱1,965,603    | ₱2,034,639    |
| Weighted average number of common shares for basic EPS   | <b>7,602,928,954</b> | 7,597,438,581 | 7,594,355,243 |
| Effect of dilution from stock options  | -                    | -             | 14,097,601    |
| Weighted average number of common shares adjusted for the effect of dilution                         | <b>7,602,928,954</b> | 7,597,438,581 | 7,608,452,844 |
| Basic/Diluted EPS  | <b>₱0.36</b>         | ₱0.26         | ₱0.27         |

There have been no other transactions involving ordinary shares or potential ordinary shares between the end of the financial reporting period and the date of authorization of the consolidated financial statements.

## 21. Cost of Sale of Ore

|  | 2017              | 2016       | 2015       |
|--|-------------------|------------|------------|
| Production overhead                                    | <b>₱2,490,866</b> | ₱2,160,707 | ₱2,676,492 |
| Outside services                                       | <b>1,673,832</b>  | 1,592,452  | 1,753,513  |
| Personnel costs (see Note 27)                          | <b>972,142</b>    | 828,658    | 869,345    |
| Depreciation, amortization and depletion (see Note 28) | <b>939,804</b>    | 1,099,255  | 1,060,175  |
| Long-term stockpile inventory sold (see Note 12)       | <b>163,471</b>    | 201,625    | 208,714    |
|  | <b>6,240,115</b>  | 5,882,697  | 6,568,239  |
| Net changes in beneficiated nickel ore and limestone   | <b>(206,874)</b>  | 24,552     | (288,991)  |
|  | <b>₱6,033,241</b> | ₱5,907,249 | ₱6,279,248 |

Production overhead consists of fuel, oil and lubricants, materials and supplies, equipment rentals and other miscellaneous charges.



Outside services pertain to services offered by the contractors related to the mining activities of the Group. These services include, but are not limited to, hauling, stevedoring, maintenance, security and equipment rental.

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**22. Cost of Services**

|                               | 2017            | 2016     | 2015     |
|-------------------------------|-----------------|----------|----------|
| Depreciation (see Note 28)    | <b>₱106,032</b> | ₱110,733 | ₱127,814 |
| Personnel costs (see Note 27) | <b>101,470</b>  | 82,242   | 82,354   |
| Overhead                      | <b>69,063</b>   | 65,106   | 82,539   |
| Equipment operating cost      | <b>64,976</b>   | 55,873   | 52,083   |
| Outside services              | <b>9,798</b>    | 14,503   | 13,127   |
|                               | <b>₱351,339</b> | ₱328,457 | ₱357,917 |

Equipment operating cost includes interest expense amounting to ₱42.6 million, ₱36.5 million and ₱31.1 million in 2017, 2016 and 2015, respectively (see Note 15).

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**23. Cost of Power Generation**

|   | 2017            | 2016    | 2015 |
|---|-----------------|---------|------|
| Depreciation and amortization<br>(see Note 28)          | <b>₱154,024</b> | ₱18,673 | ₱-   |
| Purchased power (see Note 39g)                          | <b>33,092</b>   | 262     | -    |
| Overhead  | <b>29,477</b>   | 10,211  | -    |
| Distribution wheeling service<br>charges (see Note 39q) | <b>19,456</b>   | -       | -    |
| Personnel costs (see Note 27)                           | <b>10,461</b>   | 4,403   | -    |
| Outside services  | <b>10,135</b>   | 3,875   | -    |
| Materials and supplies                                  | <b>631</b>      | 871     | -    |
|   | <b>₱257,276</b> | ₱38,295 | ₱-   |

Overhead in cost of power generation consists of insurance, taxes and licenses, utilities and other miscellaneous charges.

Distribution wheeling service charges pertain to the payments made to Manila Electric Company (Meralco) and Leyte V Electric Cooperative (LEYECO V) for the conveyance of electricity through Meralco's and LEYECO V's distribution systems.



**24. Shipping and Loading Costs**

|   | 2017              | 2016       | 2015       |
|---|-------------------|------------|------------|
| Contract fees                               | <b>₱1,007,742</b> | ₱1,262,207 | ₱1,194,955 |
| Supplies and fuel, oil and lubricants       | <b>289,402</b>    | 249,714    | 284,023    |
| Depreciation and amortization (see Note 28) | <b>177,043</b>    | 152,124    | 127,280    |
| Other services and fees                     | <b>82,610</b>     | 98,193     | 90,097     |
| Personnel costs (see Note 27)               | <b>69,613</b>     | 61,311     | 61,588     |
|   | <b>₱1,626,410</b> | ₱1,823,549 | ₱1,757,943 |

**25. Excise Taxes and Royalties**

|                                   | 2017              | 2016       | 2015       |
|-----------------------------------|-------------------|------------|------------|
| Royalties (see Notes 39e and 39q) | <b>₱805,744</b>   | ₱735,224   | ₱793,690   |
| Excise taxes (see Note 39e)       | <b>297,942</b>    | 271,488    | 295,913    |
|                                   | <b>₱1,103,686</b> | ₱1,006,712 | ₱1,089,603 |

The implementation of Tax Reform for Acceleration and Inclusion (TRAIN) Act or RA 10963 will have an impact on the Group's excise taxes in the succeeding years as disclosed in Note 40.

**26. General and Administrative**

|   | 2017            | 2016     | 2015     |
|---|-----------------|----------|----------|
| Personnel costs (see Note 27)               | <b>₱353,527</b> | ₱307,726 | ₱295,670 |
| Outside services                            | <b>120,282</b>  | 118,668  | 93,496   |
| Taxes and licenses                          | <b>65,195</b>   | 90,504   | 158,376  |
| Depreciation and amortization (see Note 28) | <b>56,557</b>   | 51,493   | 78,820   |
| Transportation and travel                   | <b>42,097</b>   | 41,081   | 33,421   |
| Rentals                                     | <b>34,276</b>   | 59,143   | 28,513   |
| Repairs and maintenance                     | <b>21,186</b>   | 22,913   | 27,850   |
| Entertainment, amusement and recreation     | <b>18,700</b>   | 19,507   | 16,527   |
| Dues and subscription                       | <b>15,951</b>   | 16,235   | 13,039   |
| Publicity and promotion                     | <b>15,086</b>   | 10,115   | 8,828    |
| Communications, light and water             | <b>14,464</b>   | 10,759   | 9,637    |
| Donations                                   | <b>3,190</b>    | 18,886   | 37,920   |
| Others                                      | <b>102,642</b>  | 83,221   | 110,757  |
|   | <b>₱863,153</b> | ₱850,251 | ₱912,854 |

Other general and administrative expense is composed of other service fees and other numerous transactions with minimal amounts.





## 27. Personnel Costs

|  | 2017              | 2016              | 2015              |
|--|-------------------|-------------------|-------------------|
| Salaries, wages and employee benefits          | ₱1,412,942        | ₱1,198,056        | ₱1,190,967        |
| Pension cost (see Note 35)                     | 83,258            | 62,253            | 60,226            |
| Cost of share-based payment plan (see Note 19) | 11,013            | 25,653            | 57,764            |
|  | <b>₱1,507,213</b> | <b>₱1,285,962</b> | <b>₱1,308,957</b> |

The amounts of personnel costs are distributed as follows:

|  | 2017              | 2016              | 2015              |
|--|-------------------|-------------------|-------------------|
| Cost of:                                 |                   |                   |                   |
| Sale of ore (see Note 21)                | ₱972,142          | ₱828,658          | ₱869,345          |
| Services (see Note 22)                   | 101,470           | 82,242            | 82,354            |
| Power generation (see Note 23)           | 10,461            | 4,403             | -                 |
| General and administrative (see Note 26) | 353,527           | 307,726           | 295,670           |
| Shipping and loading costs (see Note 24) | 69,613            | 61,311            | 61,588            |
| Others                                   | -                 | 1,622             | -                 |
|  | <b>₱1,507,213</b> | <b>₱1,285,962</b> | <b>₱1,308,957</b> |

## 28. Depreciation, Amortization and Depletion

The amounts of depreciation, amortization and depletion expense, including capitalized depreciation, are distributed as follows:

|  | 2017              | 2016              | 2015              |
|--|-------------------|-------------------|-------------------|
| Cost of:                                 |                   |                   |                   |
| Sale of ore (see Note 21)                | ₱939,804          | ₱1,099,255        | ₱1,060,175        |
| Services (see Note 22)                   | 106,032           | 110,733           | 127,814           |
| Power generation (see Note 23)           | 154,024           | 18,673            | -                 |
| Shipping and loading costs (see Note 24) | 177,043           | 152,124           | 127,280           |
| General and administrative (see Note 26) | 56,557            | 51,493            | 78,820            |
| Others                                   | 46,585            | 82,991            | 45,898            |
|  | <b>₱1,480,045</b> | <b>₱1,515,269</b> | <b>₱1,439,987</b> |



## 29. Finance Income

|  | 2017            | 2016     | 2015     |
|--|-----------------|----------|----------|
| Interest income from:                                |                 |          |          |
| Cash and cash equivalents<br>(see Note 4)            | <b>₱134,248</b> | ₱73,846  | ₱107,469 |
| AFS financial assets<br>(see Note 7)                 | <b>135,557</b>  | 121,820  | 99,320   |
| Loans (see Note 39a)                                 | <b>27,145</b>   | 29,423   | 1,757    |
| MRF (see Note 13)                                    | <b>3,103</b>    | 1,921    | 1,454    |
| Long-term negotiable<br>instruments (see Note 13)    | <b>1,305</b>    | 1,260    | 1,260    |
| SDMP funds (see Note 13)                             | <b>148</b>      | 160      | 121      |
| Short-term cash investment                           | –               | –        | 1,159    |
| Cash held in escrow                                  | –               | –        | 235      |
| Others (see Note 35)                                 | <b>461</b>      | –        | 31       |
| Gain on sale of AFS financial<br>assets (see Note 7) | <b>14,336</b>   | –        | 86,250   |
| Accretion income                                     | –               | –        | 3,933    |
| Day 1 gain   | –               | –        | 2,123    |
|  | <b>₱316,303</b> | ₱228,430 | ₱305,112 |

## 30. Finance Expenses

|   | 2017            | 2016     | 2015     |
|---|-----------------|----------|----------|
| Interest expense on:  |                 |          |          |
| Long-term debts (see Notes 15<br>and 34)  | <b>₱136,890</b> | ₱79,493  | ₱28,623  |
| Pension (see Note 35)   | <b>17,907</b>   | 14,335   | 12,663   |
| Short-term debt (see Notes 15<br>and 34)  | <b>4,284</b>    | 4,234    | 5,066    |
| Long-term payable<br>(see Note 17)  | <b>1,322</b>    | 1,205    | 59       |
| Guarantee service fee<br>(see Notes 34 and 39f)   | <b>66,656</b>   | 100,009  | 124,194  |
| Accretion of interest on provision<br>for mine rehabilitation and<br>decommissioning<br>(see Note 16) | <b>16,123</b>   | 8,942    | 8,520    |
| Loss on:  |                 |          |          |
| Debt extinguishment<br>(see Note 15)  | <b>3,433</b>    | –        | –        |
| Sale of AFS financial<br>assets (see Note 7)  | –               | 11,715   | –        |
|   | <b>₱246,615</b> | ₱219,933 | ₱179,125 |

Interest expense amounted to a total of ₱203.0 million, ₱135.7 million and ₱77.5 million in 2017, 2016 and 2015, respectively, of which ₱42.6 million, ₱36.5 million and ₱31.1 million in 2017, 2016 and 2015, respectively, were included as part of equipment operating cost under “Cost of services” (see Note 22).



31. Other Income (Charges) - net

|   | 2017             | 2016            | 2015            |
|---|------------------|-----------------|-----------------|
| Reversals of allowance for<br>(provisions for) impairment<br>losses on: |                  |                 |                 |
| AFS financial assets<br>(see Note 7)                                    | (P133,320)       | (P119,220)      | P-              |
| Input VAT (see Notes 8 and 13)  | 21,209           | (21,494)        | (54,484)        |
| Property and equipment<br>(see Note 9)                                  | 12,825           | (12,825)        | -               |
| Materials and supplies<br>(see Note 6)                                  | (7,348)          | -               | 35,961          |
| Beneficiated nickel ore<br>inventory (see Note 6)                       | 6,104            | 20,074          | 13,239          |
| Deferred mine exploration costs<br>(see Note 13)                        | (1,233)          | (460)           | (1,233)         |
| Trade and other receivables<br>(see Note 5)                             | -                | (24,961)        | -               |
| Despatch (demurrage)  | (142,700)        | (106,971)       | 38,995          |
| Foreign exchange gains - net  | 80,295           | 363,241         | 322,963         |
| Special projects  | 62,732           | 81,681          | 52,477          |
| Dividend income (see Note 7)  | 36,967           | 35,117          | 25,827          |
| Management fee  | (22,171)         | (19,024)        | (13,622)        |
| Rent income   | 20,788           | 12,382          | 11,275          |
| Gain (loss) on:   |                  |                 |                 |
| Write-off of input VAT  | (12,504)         | (15)            | (8)             |
| Sale of property and equipment  | (4,508)          | 6,644           | 6,919           |
| Sale of interest in an associate<br>(see Note 10)                       | -                | 239,620         | -               |
| Write-off of advances to<br>claimowners (see Note 39e)                  | -                | (5,350)         | -               |
| Write-off of AFS financial<br>assets (see Note 7)                       | -                | (3,000)         | -               |
| Write-off of deferred mine<br>exploration costs<br>(see Note 39e)       | -                | (2,278)         | (5,461)         |
| Bargain purchase (see Note 32)  | -                | -               | 59,921          |
| Other services  | 1,466            | 2,383           | 2,864           |
| Issuance of fuel, oil and lubricants                                    | 1,419            | 33,018          | 29,874          |
| Casualty losses   | -                | -               | (2,516)         |
| Others - net (see Note 39g)   | (4,408)          | 14,978          | (29,447)        |
|   | <b>(P84,387)</b> | <b>P493,540</b> | <b>P493,544</b> |

Others include miscellaneous services provided to CBNC on per job order basis, net of related cost incurred and cost of testing and commissioning - net.



Breakdown of the foreign exchange gains (losses) - net follows:

|  | 2017            | 2016     | 2015     |
|--|-----------------|----------|----------|
| Realized foreign exchange gains - net                | <b>₱101,711</b> | ₱146,139 | ₱149,488 |
| Unrealized foreign exchange gains (losses) - net on: |                 |          |          |
| Cash and cash equivalents                            | <b>(22,430)</b> | 248,202  | 133,794  |
| Long-term debt                                       | <b>11,677</b>   | (61,379) | (65,212) |
| Trade and other receivables                          | <b>(6,565)</b>  | (760)    | (1,628)  |
| Trade and other payables                             | <b>(5,131)</b>  | (82,224) | 17,149   |
| AFS financial assets (see Note 7)                    | <b>1,033</b>    | 113,263  | 89,372   |
|  | <b>₱80,295</b>  | ₱363,241 | ₱322,963 |

### 32. Business Combination

#### *Loan Conversion and Additional Subscription to EPI*

On April 15, 2015, the Parent Company expressed its intention to exercise its conversion right on the entire second tranche loan of ₱446.0 million to 55% equity interest in EPI, which is equivalent to 312,888,889 common shares, subject to the SEC's approval of the increase in authorized capital stock of EPI.

On July 16, 2015, the Parent Company subscribed to an additional 11% equity interest in EPI, which is equivalent to 184,052,288 common shares, for a total consideration of ₱474.0 million, subject also to the approval of EPI's increase in authorized capital stock.

The increase in EPI's authorized capital stock was approved by the SEC on July 28, 2015 and the corresponding shares were subsequently issued to the Parent Company. The transaction was accounted for as an asset acquisition. At the time of acquisition, EPI has investments in the following subsidiaries.

|                       | % of Ownership |
|-----------------------|----------------|
| MEI                   | 100%           |
| MGPC                  | 100%           |
| BHI                   | 100%           |
| Mantex <sup>(a)</sup> | 50%            |

(a) Indirect ownership through MEI

The Parent Company's cost of investment in EPI consists of:

|   |                 |
|---|-----------------|
| Convertible loan including derivative asset | ₱450,506        |
| Additional capital infusion                 | 474,000         |
|   | <b>₱924,506</b> |



The consolidated amounts recognized as at July 28, 2015 for each major class of EPI and its subsidiaries' identifiable assets and liabilities follow:

|  | Fair Value       |
|--|------------------|
| <b>Assets</b>                                |                  |
| Cash   | P653,836         |
| Trade and other receivables                  | 30,593           |
| Prepayments and other current assets         | 54,697           |
| Property and equipment                       | 5,389            |
| Geothermal exploration and evaluation assets | 819,883          |
| Other noncurrent assets                      | 105,414          |
| <b>Total assets</b>                          | <b>1,669,812</b> |
| <b>Liabilities</b>                           |                  |
| Trade and other payables                     | 91,116           |
| Short-term debts                             | 285,000          |
| <b>Total liabilities</b>                     | <b>376,116</b>   |
| Net assets, including share of NCI           | 1,293,696        |
| Share of NCI                                 | 369,190          |
| <b>Net assets acquired</b>                   | <b>P924,506</b>  |

The fair value of trade and other receivables approximates its carrying amount since these are short-term in nature. None of the trade and other receivables has been impaired and it is expected that the full contractual amounts can be collected/recovered.

NCI have been measured at its proportionate share of the value of the net identifiable assets acquired and liabilities assumed.

The excess of the Group's cost of investment in EPI over its proportionate share in the underlying net assets at the date of acquisition amounting to P207.8 million was allocated to the "Geothermal exploration and evaluation assets" account in the consolidated statements of financial position.

From acquisition date to December 31, 2015, the amounts of revenue and net loss of EPI and its subsidiaries which were included in the consolidated statements of income for the year ended December 31, 2015 amounted to nil and P71.3 million, respectively. Had the acquisition of EPI and its subsidiaries occurred at the beginning of the year, the Group's revenue and net income for the year ended December 31, 2015 would have decreased by nil and P344.3 million, respectively.

Cash flow on acquisition follows:

|  |                |
|--|----------------|
| Cash acquired from EPI and its subsidiaries                | P179,836       |
| Cash paid for drawdowns of second tranche convertible loan | 267,600        |
| <b>Net cash outflow</b>                                    | <b>P87,764</b> |



*Acquisition of Geogen*

On August 4, 2015, the Parent Company acquired 240,000,000 shares, or 100% interest, of Geogen for a total consideration of ₱484.8 million. On the same date, a Deed of Assignment of Receivables was also executed between the Parent Company and the previous shareholders of Geogen wherein the Parent Company paid the amount of ₱209.2 million representing the advances from stockholders of Geogen prior to acquisition. Geogen is the claimowner of the Isabela Nickel Project with an aggregate area of 2,392 hectares located in Dinapigue, Isabela covered by MPSA No. 258-2007-II.

The amounts recognized as at August 4, 2015 for each major class of Geogen's identifiable assets and liabilities follow:

|   | Fair Value      |
|---|-----------------|
| <b>Assets</b>   |                 |
| Cash  | ₱509            |
| Trade and other receivables                           | 402             |
| Prepayments and other current assets                  | 32,800          |
| Property and equipment                                | 28,992          |
| Deferred mine exploration costs                       | 852,840         |
| Other noncurrent assets                               | 35,533          |
| <b>Total assets</b>                                   | <b>951,076</b>  |
| <b>Liabilities</b>                                    |                 |
| Trade and other payables                              | 209,339         |
| Provision for mine rehabilitation and decommissioning | 31,989          |
| Deferred income tax liabilities                       | 164,262         |
| <b>Total liabilities</b>                              | <b>405,590</b>  |
| <b>Net assets acquired</b>                            | <b>₱545,486</b> |

Income from acquisition is computed as follows:

|  |                |
|--|----------------|
| Acquisition cost   | ₱485,565       |
| Less: Fair value of net identifiable assets and liabilities acquired | 545,486        |
| <b>Gain on bargain purchase (see Note 31)</b>                        | <b>₱59,921</b> |

From acquisition date to December 31, 2015, the amounts of revenue and net loss of Geogen which were included in the consolidated statements of income for the year ended December 31, 2015 amounted to nil and ₱14.9 million, respectively. Had the acquisition of Geogen occurred at the beginning of the year, the Group's revenue and net income for the year ended December 31, 2015 would have decreased by nil and ₱31.4 million, respectively.

Cash flow on acquisition follows:

|   |                 |
|---|-----------------|
| Cash acquired from Geogen                         | ₱509            |
| Cash paid for:                                    |                 |
| Acquisition of shares                             | ₱484,768        |
| Assignment of advances from previous shareholders | 209,232         |
| Others  | 797             |
| <b>Net cash outflow</b>                           | <b>₱694,288</b> |



*Acquisition of Jobin*

On July 16, 2015, EPI entered into a Deed of Assignment with the previous shareholders of Jobin and acquired 200,000 shares, or 100% interest, of Jobin for a total consideration of ₱0.2 million. Jobin is the holder of SESC No. 2013-10-039 and Wind Energy Service Contract (WESC) No. 2013-10-062 which both covers an area in the municipalities of Morong and Hermosa, Bataan. The transaction was accounted for as an asset acquisition.

The amounts recognized as at July 16, 2015 for each major class of Jobin's identifiable assets and liabilities follow:

|                            | Fair Value  |
|----------------------------|-------------|
| <b>Assets</b>              |             |
| Cash                       | ₱200        |
| Property and equipment     | 455         |
| <u>Total assets</u>        | <u>655</u>  |
| <b>Liabilities</b>         |             |
| Trade and other payables   | 455         |
| <u>Net assets acquired</u> | <u>₱200</u> |

The excess of the Group's cost of investment in Jobin over the underlying net assets at the date of acquisition amounting to ₱0.5 million was allocated to the "Property and equipment" account in the consolidated statements of financial position.

From acquisition date to December 31, 2015, the amounts of revenue and net loss of Jobin which were included in the consolidated statements of income for the year ended December 31, 2015 amounted to nil and ₱0.5 million, respectively, which also have the same impact had the acquisition of Jobin occurred at the beginning of the year.

Cash flow on acquisition follows:

|                           |           |
|---------------------------|-----------|
| Cash acquired from Jobin  | ₱200      |
| Cash paid for acquisition | 200       |
| <u>Net cash outflow</u>   | <u>₱-</u> |

*Acquisition of Newminco*

On December 14, 2015, CExCI entered into a SPA to acquire 100% equity interest of Newminco for a total consideration of ₱64.8 million.

CExCI acquired the shares of Newminco on a deferred payment basis and with the following terms: a downpayment of ₱30.8 million upon execution of the SPA while the remaining balance of ₱34.0 million, which is noninterest-bearing, is payable over a seven (7) year period.



The amounts recognized as at December 14, 2015 for each major class of Newminco's identifiable assets and liabilities follow:

|                                    | Fair Value     |
|------------------------------------|----------------|
| <b>Assets</b>                      |                |
| Cash                               | ₱68            |
| Deferred mine exploration cost     | 61,680         |
| <b>Total assets</b>                | <b>61,748</b>  |
| <b>Liabilities</b>                 |                |
| Trade and other payables           | 4,273          |
| Net assets, including share of NCI | 57,475         |
| Share of NCI                       | 857            |
| <b>Net assets acquired</b>         | <b>₱58,332</b> |

NCI have been measured at its proportionate share of the value of the net identifiable assets acquired and liabilities assumed.

The excess of the Group's cost of investment in Newminco over the underlying net assets at the date of acquisition amounting to ₱60.5 million was allocated to the deferred mine exploration costs account under "Other noncurrent assets" in the consolidated statements of financial position.

From acquisition date to December 31, 2015, the amounts of revenue and net loss of Newminco which were included in the consolidated statements of income for the year ended December 31, 2015 amounted to nil and ₱0.1 million, respectively. Had the acquisition of Newminco occurred at the beginning of the year, the Group's revenue and net income for the year ended December 31, 2015 would have decreased by nil and ₱0.3 million, respectively.

Cash flow on acquisition follows:

|                             |                |
|-----------------------------|----------------|
| Cash acquired from Newminco | ₱68            |
| Cash paid for acquisition   | 30,750         |
| <b>Net cash outflow</b>     | <b>₱30,682</b> |

*Acquisition of BGI*

On August 24, 2015, EPI and BHI entered into an Investment Agreement with OGI and BGHI to acquire 60% equity interest of BGI for ₱1.8 million, subject to the SEC's approval of the increase in authorized capital stock of BGI. The increase in authorized capital stock of BGI was approved by the SEC on December 17, 2015 and the corresponding shares were subsequently issued to BHI. BGI is the holder of GRESC No. 2010-02-010 which covers the geothermal field in Biliran, Leyte.





The transaction was accounted as an acquisition of a business. The fair values recognized as at December 17, 2015 for each major class of BGI's identifiable assets and liabilities follow:

|   | Fair Value       |
|---|------------------|
| <b>Assets</b>                           |                  |
| Cash                                    | ₱13,787          |
| Trade and other receivables             | 72,668           |
| Prepayments and other current assets    | 3,210            |
| Property and equipment                  | 4,798,021        |
| Other noncurrent assets                 | 254,327          |
| <b>Total assets</b>                     | <b>5,142,013</b> |
| <b>Liabilities</b>                      |                  |
| Trade and other payables                | 5,187,541        |
| Deferred income tax liabilities         | 87,485           |
| <b>Total liabilities</b>                | <b>5,275,026</b> |
| Net liabilities, including share of NCI | (133,013)        |
| Share of NCI                            | 134,858          |
| <b>Net assets acquired</b>              | <b>₱1,845</b>    |

The fair value of trade and other receivables approximates its carrying amounts since these are short-term in nature. None of the trade and other receivables has been impaired and it is expected that the full contractual amounts can be collected/recovered.

NCI have been measured at its proportionate share of the value of the net identifiable assets acquired and liabilities assumed.

The excess of the Group's cost of investment in BGI over its proportionate share in the underlying net assets at the date of acquisition amounting to ₱291.6 million was allocated to the construction in-progress account under "Property and equipment" in the consolidated statements of financial position.

From acquisition date to December 31, 2015, the amounts of revenue and net income of BGI which were included in the consolidated statements of income for the year ended December 31, 2015 amounted to nil and ₱15.3 million, respectively. Had the acquisition of BGI occurred at the beginning of the year, the Group's revenue and net income for the year ended December 31, 2015 would have decreased by nil and ₱240.6 million, respectively.

Cash flow on acquisition follows:

|                        |                |
|------------------------|----------------|
| Cash acquired from BGI | ₱13,787        |
| Cash paid              | 1,845          |
| <b>Net cash inflow</b> | <b>₱11,942</b> |



### 33. Material Partly-Owned Subsidiaries

Financial information of subsidiaries that have material NCI are provided below:

Proportion of equity interest held by NCI:

|     | Principal Place of Business | 2017   | 2016   |
|-----|-----------------------------|--------|--------|
| RTN | Philippines                 | 40.00% | 40.00% |
| TMC | Philippines                 | 35.00% | 35.00% |

Equity attributable to material NCI:

|     | 2017       | 2016       |
|-----|------------|------------|
| RTN | ₱1,044,560 | ₱1,258,862 |
| TMC | 2,272,090  | 2,358,964  |

Net income attributable to material NCI:

|     | 2017     | 2016     |
|-----|----------|----------|
| RTN | ₱627,293 | ₱479,779 |
| TMC | 609,792  | 474,045  |

Other comprehensive income (loss) attributable to material NCI:

|     | 2017     | 2016      |
|-----|----------|-----------|
| RTN | (₱1,836) | (₱12,973) |
| TMC | 2,959    | (3,614)   |

The summarized financial information of these subsidiaries are based on amounts before inter-company eliminations.

The summarized statements of comprehensive income for the years ended December 31, 2017 and 2016 follows:

|   | 2017        |             | 2016        |             |
|---|-------------|-------------|-------------|-------------|
|   | RTN         | TMC         | RTN         | TMC         |
| Revenues                                | ₱4,757,156  | ₱6,195,462  | ₱4,267,185  | ₱5,425,636  |
| Cost of sale of ore and services        | (2,012,921) | (2,433,283) | (2,057,373) | (2,284,077) |
| Operating expenses                      | (629,908)   | (1,294,798) | (619,109)   | (1,332,357) |
| Other income (charges) - net            | 93,467      | (25,657)    | 132,235     | 115,776     |
| Finance income (expense) - net          | 21,442      | 21,580      | (14,595)    | 15,837      |
| Income before income tax                | 2,229,236   | 2,463,304   | 1,708,343   | 1,940,815   |
| Provision for income tax                | (661,003)   | (721,040)   | (508,895)   | (586,400)   |
| Net income                              | 1,568,233   | 1,742,264   | 1,199,448   | 1,354,415   |
| Other comprehensive income (loss) - net | (4,591)     | 8,453       | (32,434)    | (10,327)    |
| Total comprehensive income - net        | ₱1,563,642  | ₱1,750,717  | ₱1,167,014  | ₱1,344,088  |
| Attributable to NCI                     | ₱625,457    | ₱612,751    | ₱466,806    | ₱470,431    |
| Dividends paid to NCI                   | 840,000     | 700,000     | 240,000     | 437,500     |



The summarized statements of financial position as at December 31, 2017 and 2016 follows:

|  | RTN                |            | TMC                |             |
|--|--------------------|------------|--------------------|-------------|
|  | 2017               | 2016       | 2017               | 2016        |
| Current assets                           | <b>₱3,305,371</b>  | ₱3,098,888 | <b>₱4,955,468</b>  | ₱4,733,096  |
| Noncurrent assets                        | <b>868,882</b>     | 1,227,396  | <b>4,419,776</b>   | 4,620,249   |
| Current liabilities                      | <b>(1,415,649)</b> | (955,737)  | <b>(1,491,234)</b> | (1,098,052) |
| Noncurrent liabilities                   | <b>(147,204)</b>   | (223,391)  | <b>(1,392,323)</b> | (1,515,396) |
| <b>Total equity</b>                      | <b>₱2,611,400</b>  | ₱3,147,156 | <b>₱6,491,687</b>  | ₱6,739,897  |
| Attributable to equity holders of parent | <b>₱1,566,840</b>  | ₱1,888,294 | <b>₱4,219,597</b>  | ₱4,380,933  |
| NCI                                      | <b>1,044,560</b>   | 1,258,862  | <b>2,272,090</b>   | 2,358,964   |

The summarized cash flow information for the years ended December 31, 2017 and 2016 follows:

|  | RTN                |            | TMC                |             |
|--|--------------------|------------|--------------------|-------------|
|  | 2017               | 2016       | 2017               | 2016        |
| Operating  | <b>₱2,011,056</b>  | ₱1,029,588 | <b>₱2,312,124</b>  | ₱1,902,424  |
| Investing  | <b>(44,057)</b>    | (185,034)  | <b>(330,555)</b>   | (396,836)   |
| Financing  | <b>(1,516,581)</b> | (389,281)  | <b>(1,872,703)</b> | (1,610,633) |
| Net increase (decrease) in cash and cash equivalents | <b>₱450,418</b>    | ₱455,273   | <b>₱108,866</b>    | (₱105,045)  |

### 34. Related Party Transactions

Related party relationships exist when one party has the ability to control, directly or indirectly through one or more intermediaries, the other party or exercise significant influence over the other party in making financial and operating decisions. Such relationship also exist between and/or among entities which are under common control with the reporting enterprise, or between and/or among the reporting enterprise and their key management personnel, directors, or its stockholders.

Set out on next page are the Group's transactions with related parties in 2017, 2016 and 2015, including the corresponding assets and liabilities arising from the said transactions as at December 31, 2017 and 2016.



|   | Amount            |            |            | Trade and Other Receivables (see Note 5) |          | Trade and Other Payables (see Note 14) |        | Amounts Owed by Related Parties (see Note 5) |      | Amounts Owed to Related Parties (see Note 14) |      | Short-term and Long-term Debts (see Note 15) |        | Terms   | Conditions              |
|---|-------------------|------------|------------|--|----------|--|--------|--|------|---|------|--|--------|---|-------------------------|
|   | 2017              | 2016       | 2015       | 2017                                     | 2016     | 2017                                   | 2016   | 2017   | 2016 | 2017  | 2016 | 2017   | 2016   |   |                         |
| <i>Stockholders</i>   |                   |            |            |  |          |  |        |  |      |   |      |  |        |   |                         |
| <b>PAMCO</b>  |                   |            |            |  |          |  |        |  |      |   |      |  |        |   |                         |
| Sale of ore (see Note 39d)  | <b>₱2,480,426</b> | ₱2,333,894 | ₱2,853,830 | <b>₱113,209</b>                          | ₱266,297 | <b>₱141</b>                            | ₱-     | <b>₱-</b>                                    | ₱-   | <b>₱-</b>                                     | ₱-   | <b>₱-</b>                                    | ₱-     | Ninety percent (90%) upon receipt of documents and ten percent (10%) after the final dry weight and applicable assay have been determined; noninterest-bearing    | Unsecured; no guarantee |
| Draft survey fee  | <b>602</b>        | 483        | 359        | -  | -        | -                                      | 95     | -  | -    | -   | -    | -  | -      | Payable on demand; noninterest-bearing  | Unsecured; no guarantee |
| Despatch income   | <b>6,153</b>      | 1,309      | 7,228      | <b>405</b>                               | -        | -                                      | -      | -  | -    | -   | -    | -  | -      | Collectible on demand; noninterest-bearing  | Unsecured; no guarantee |
| Other service fee   | <b>99</b>         | -          | 224        | -  | -        | -                                      | -      | -  | -    | -   | -    | -  | -      | Collectible upon billing; noninterest-bearing   | Unsecured; no guarantee |
| <b>SMM/ Sumitomo Metal Mining Philippine Holdings Corporation</b> |                   |            |            |  |          |  |        |  |      |   |      |  |        |   |                         |
| Sale of ore   | -                 | -          | 438,851    | -  | -        | -                                      | -      | -  | -    | -   | -    | -  | -      | Collectible upon billing; noninterest-bearing   | Unsecured; no guarantee |
| Guarantee service fee (see Notes 30 and 39f)                      | <b>66,656</b>     | 100,009    | 124,194    | -  | -        | <b>21,086</b>                          | 33,262 | -  | -    | -   | -    | -  | -      | Every twenty first (21st) of February, March, August and September  | Unsecured               |
| Short-term advances   | <b>29,269</b>     | 1,250      | 1,250      | -  | -        | -                                      | -      | -  | -    | <b>28,000</b>                                 | -    | -  | -      | Collectible upon billing; noninterest-bearing   | Unsecured; no guarantee |
| Loan facility   | -                 | -          | -          | -  | -        | -                                      | -      | -  | -    | -   | -    | <b>22,369</b>                                | 66,824 | Principal is payable in semi-annual installments, interest is based on one hundred eighty (180)-day British Banker Association LIBOR plus two percent (2%) spread | Secured; with guarantee |
| Interest expense on long-term debt (see Notes 15 and 30)          | <b>1,466</b>      | 2,383      | 2,861      | -  | -        | <b>182</b>                             | 447    | -  | -    | -   | -    | -  | -      | Payable semi-annually on February 28 and August 31  | Secured; with guarantee |
| <b>Nickel Asia Holdings Inc.</b>                                  |                   |            |            |  |          |  |        |  |      |   |      |  |        |   |                         |
| Short-term advances   | <b>1</b>          | -          | 14         | -  | -        | -                                      | -      | -  | -    | -   | -    | -  | -      | Collectible upon billing; noninterest-bearing   | Unsecured; no guarantee |
| Dividends   | <b>504</b>        | 504        | 504        | -  | -        | -                                      | -      | -  | -    | -   | 504  | -  | -      | Payable on demand   | Unsecured; no guarantee |

(Forward)



|   | Amount    |           |           | Trade and Other Receivables (see Note 5) |         | Trade and Other Payables (see Note 14) |       | Amounts Owed by Related Parties (see Note 5) |      | Amounts Owed to Related Parties (see Note 14) |      | Short-term and Long-term Debts (see Note 15) |         | Terms  | Conditions              |
|---|-----------|-----------|-----------|--|---------|--|-------|--|------|---|------|--|---------|--|-------------------------|
|   | 2017      | 2016      | 2015      | 2017                                     | 2016    | 2017                                   | 2016  | 2017   | 2016 | 2017  | 2016 | 2017   | 2016    |  |                         |
| <i>With Common Stockholders</i>                           |           |           |           |  |         |  |       |  |      |   |      |  |         |  |                         |
| <b>Manta</b>  |           |           |           |  |         |  |       |  |      |   |      |  |         |  |                         |
| Rentals, dues and utilities                               | ₱28,626   | ₱27,657   | ₱26,687   | ₱-                                       | ₱-      | ₱193                                   | ₱25   | ₱-   | ₱-   | ₱-  | ₱-   | ₱-   | ₱-      | Payable upon billing; noninterest-bearing                            | Unsecured; no guarantee |
| Rental deposits   | 10,205    | 10,184    | 10,163    | -  | -       | -                                      | -     | -  | -    | -   | -    | -  | -       | Collectible upon end of the lease; noninterest-bearing               | Unsecured; no guarantee |
| Short-term advances                                       | -         | -         | 3         | -  | -       | -                                      | -     | -  | -    | -   | -    | -  | -       | Collectible upon billing; noninterest-bearing                        | Unsecured; no guarantee |
| Loan facility   | -         | -         | 180,000   | -  | -       | -                                      | -     | -  | -    | -   | -    | -  | 180,000 | Principal is payable at the end of loan agreement; interest is at 5% | Unsecured; no guarantee |
| Interest expense on short-term debt (see Notes 15 and 30) | 4,284     | 4,234     | 5,066     | -  | -       | -                                      | 5,066 | -  | -    | -   | -    | -  | -       | Interest is payable at the end of loan agreement                     | Unsecured; no guarantee |
| Sale of power (see Note 39p)                              | 28,165    | 243       | -         | 2,506                                    | 243     | -                                      | -     | -  | -    | -   | -    | -  | -       | Collectible upon billing; noninterest-bearing                        | Unsecured; no guarantee |
| <i>Associates</i>   |           |           |           |  |         |  |       |  |      |   |      |  |         |  |                         |
| <b>CBNC</b>   |           |           |           |  |         |  |       |  |      |   |      |  |         |  |                         |
| Sale of ore   | 1,319,472 | 1,064,817 | 1,347,290 | 102,830                                  | 136,957 | -                                      | -     | -  | -    | -   | -    | -  | -       | Seven (7) to thirty (30) days; noninterest-bearing                   | Unsecured; no guarantee |
| Materials handling  | 162,627   | 139,921   | 196,179   | 28,187                                   | 28,881  | -                                      | -     | -  | -    | -   | -    | -  | -       | Collectible on demand; noninterest-bearing                           | Unsecured; no guarantee |
| Infralease and throughput                                 | 63,251    | 52,092    | 50,640    | 30,936                                   | 35,191  | -                                      | -     | -  | -    | -   | -    | -  | -       | Collectible at the end of February and August; noninterest-bearing   | Unsecured; no guarantee |
| Other income  | 52,531    | 95,637    | 49,402    | 9,743                                    | 12,379  | -                                      | -     | -  | -    | -   | -    | -  | -       | Collectible on demand; noninterest-bearing                           | Unsecured; no guarantee |
| Short-term advances                                       | -         | -         | 544       | -  | -       | -                                      | -     | -  | -    | -   | -    | -  | -       | Collectible upon billing; noninterest-bearing                        | Unsecured; no guarantee |
| <b>THNC</b>   |           |           |           |  |         |  |       |  |      |   |      |  |         |  |                         |
| Sale of ore   | 1,574,639 | 915,150   | 1,114,844 | 168,162                                  | 102,193 | -                                      | -     | -  | -    | -   | -    | -  | -       | 30 days term, noninterest-bearing                                    | Unsecured; no guarantee |
| Rendering of service (see Note 39b)                       | 139,819   | 133,241   | 129,202   | 33,433                                   | 33,474  | -                                      | -     | -  | -    | -   | -    | -  | -       | Semi-annual term; noninterest-bearing                                | Unsecured; no guarantee |
| Materials handling (see Note 34a)                         | 287,750   | 225,298   | 270,185   | 28,418                                   | 37,110  | -                                      | -     | -  | -    | -   | -    | -  | -       | Collectible on demand; noninterest-bearing                           | Unsecured; no guarantee |
| Rental income (see Note 39m)                              | 6,703     | 6,703     | 6,703     | -  | -       | -                                      | -     | -  | -    | -   | -    | -  | -       | Collectible on demand; noninterest-bearing                           | Unsecured; no guarantee |
| Rental deposit payable                                    | -         | -         | -         | -  | -       | 3,352                                  | 3,352 | -  | -    | -   | -    | -  | -       | Collectible upon end of the lease term; noninterest-bearing          | Unsecured; no guarantee |

(Forward)



|  | Amount |        |        | Trade and Other Receivables (see Note 5) |          | Trade and Other Payables (see Note 14) |         | Amounts Owed by Related Parties (see Note 5) |        | Amounts Owed to Related Parties (see Note 14) |            | Short-term and Long-term Debts (see Note 15) |            | Terms   | Conditions                |
|--|--------|--------|--------|--|----------|--|---------|--|--------|---|------------|--|------------|---|---------------------------|
|  | 2017   | 2016   | 2015   | 2017                                     | 2016     | 2017                                   | 2016    | 2017   | 2016   | 2017  | 2016       | 2017   | 2016       |   |                           |
| <b>THNC</b>  |        |        |        |  |          |  |         |  |        |   |            |  |            |   |                           |
| Loan facility  | ₱-     | ₱-     | ₱-     | ₱-                                       | ₱-       | ₱-                                     | ₱-      | ₱-   | ₱-     | ₱-  | ₱-         | ₱1,179,596                                   | ₱1,261,645 | Principal is payable in semi-annual installments, interest is based on one hundred eighty (180)-day British Banker Association LIBOR plus two percent (2%) spread | Unsecured; with guarantee |
| Interest expense on long-term debt (see Notes 15 and 22) | 42,645 | 36,474 | 31,118 | -  | -        | 7,656                                  | 7,592   | -  | -      | -   | -          | -  | -          | Payable semi-annually on April 10 and October 10  | Unsecured; no guarantee   |
| Rendering of other service                               | 4,170  | 863    | 2,208  | -  | -        | -                                      | -       | -  | -      | -   | -          | -  | -          | Collectible upon billing; noninterest-bearing   | Unsecured; no guarantee   |
| Short-term advances                                      | 20,651 | 19,945 | 21,484 | -  | -        | -                                      | -       | 6,666  | 5,842  | -   | -          | -  | -          | Collectible upon billing; noninterest-bearing   | Unsecured; no guarantee   |
| <i>Affiliates</i>  |        |        |        |  |          |  |         |  |        |   |            |  |            |   |                           |
| <b>OGI</b>   |        |        |        |  |          |  |         |  |        |   |            |  |            |   |                           |
| Short-term advances                                      | -      | -      | -      | -  | -        | -                                      | -       | -  | -      | 1,121,062                                     | 1,115,384  | -  | -          | Collectible upon billing; noninterest-bearing   | Unsecured; no guarantee   |
| <b>Orka Geothermal Holdings, Inc.</b>                    |        |        |        |  |          |  |         |  |        |   |            |  |            |   |                           |
| Short-term advances                                      | 38     | -      | -      | -  | -        | -                                      | -       | 666  | 628    | -   | -          | -  | -          | Collectible upon billing; noninterest-bearing   | Unsecured; no guarantee   |
| <b>BGHI</b>  |        |        |        |  |          |  |         |  |        |   |            |  |            |   |                           |
| Short-term advances                                      | -      | -      | -      | -  | -        | -                                      | -       | 19   | 19     | 4,194,305                                     | 4,194,305  | -  | -          | Collectible upon billing; noninterest-bearing   | Unsecured; no guarantee   |
|  |        |        |        | ₱517,829                                 | ₱652,725 | ₱32,610                                | ₱49,839 | ₱7,351                                       | ₱6,489 | ₱5,343,367                                    | ₱5,310,193 | ₱1,201,965                                   | ₱1,508,469 |   |                           |



Terms and Conditions of Transactions with Related Parties

All sales to and purchases from related parties are made at prevailing market prices. Outstanding balances as at December 31, 2017 and 2016 pertain to the extension and receipt of advances to and from related parties and these are unsecured, short-term, interest-free and settlement occurs in cash. Except for the guarantee on CBNC, THNC and EPI's Loan Obligations (see Note 39f and 39q), there have been no guarantees received or provided for any related party receivables or payables, respectively. This assessment is undertaken at each end of the financial reporting period through the examination of the financial position of the related party and the market in which the related party operates.

a. Sales and Service Agreements

Nickel Ore Sale Agreements with PAMCO

The Group supplies saprolite ore to PAMCO. PAMCO is a stockholder of the Parent Company, RTN and TMC. All sales made to PAMCO are transacted at prevailing market prices. Under the terms of the agreement, the base price of the ore products for a specific shipment shall be based on London Metal Exchange (LME). Effective April 2014, ore sales to PAMCO are benchmarked to China prices on the basis of a negotiated price per wet metric ton (WMT) of ore. PAMCO shall pay the Group 80% to 90% of the provisional invoice amount upon receipt of the required documents and pay the final payment of each shipment after the final dry weight and applicable assay have been determined. Outstanding balances as at December 31, 2017 and 2016 are unsecured, interest-free and settlement occurs in cash. Receivable from PAMCO is included as part of "Trade and other receivables" and is expected to be collected subsequently.

Nickel Ore Sale Agreement with PAMCO and Sojitz

RTN supplies saprolite ore to PAMCO under a sale agreement, which shall continue to be valid and in effect until December 2020, wherein PAMCO appointed Sojitz as agent. PAMCO owns 36% and Sojitz owns 4% of the outstanding capital stock of RTN.

Nickel Ore Sale Agreement with SMM

On April 1, 2011, RTN and SMM entered into an agreement to supply nickel ore to the latter. The agreement shall be valid from April 2011 and shall continue to be valid and in effect until December 2015. The Nickel Ore Sale Agreement with SMM was not renewed in 2016.

Nickel Ore Supply Agreement with CBNC

RTN entered into an agreement with CBNC to supply all of the limonite ore requirements for the Coral Bay HPP facility until the earlier of the cessation of operations at the Coral Bay HPP facility and exhaustion of the limonite ore reserves at the Rio Tuba mine. RTN has also entered into an agreement with CBNC to supply limestone and provide ancillary services to the Coral Bay HPAL facility. CBNC is the owner of the Coral Bay HPP facility. Receivable from CBNC is included as part of "Trade and other receivables" and is expected to be collected subsequently.

Nickel Ore Supply Agreement with THNC

TMC entered into an agreement with THNC covering the sale of its ore products. Under the terms of the agreement, the base price of the ore products for a specific shipment shall be based on LME.



Service Agreements with CBNC

RTN entered into various service agreements with CBNC pertaining to materials handling and others.

Materials Handling Agreement with THNC

On October 7, 2013, TMC and THNC executed an agreement wherein TMC will render services related to the handling, hauling and transport of cargo for THNC. THNC shall compensate TMC based on the prices stipulated in the agreement which are determined on the basis of the weight of the cargo. Payment is collected within fifteen (15) days from receipt of TMC's billing.

b. Stockholder Agreements

THNC Stockholder's Agreement

On September 15, 2010, NAC, SMM and Mitsui executed a Stockholders Agreement, pursuant to which the parties formed a joint venture company, THNC, to build and operate a plant in Barangay Taganito, Claver, Surigao del Norte for the purpose of producing and selling nickel-cobalt mixed sulfide to be used in the production of electrolytic nickel and electrolytic cobalt.

Pursuant to the Stockholders Agreement, SMM granted THNC a non-exclusive license of technology owned by SMM to produce the products and has undertaken to provide technical assistance to THNC. The Parent Company has undertaken to cause TMC to supply THNC with nickel ore and limestone and to further cause TMC to make available to THNC the use of the land and infrastructure necessary for the production of the products while Mitsui shall assist THNC in procuring materials and equipment necessary for the mine's operations. The Stockholders Agreement shall terminate upon the dissolution of THNC.

The Parent Company, along with the other stockholders of THNC, also agreed to make loans to THNC or guarantee the repayment of THNC's loan obligations in accordance with the financial requirements of THNC, in proportion to their shareholding ratio in THNC.

In a separate agreement dated December 9, 2011, SMM agreed to assume the Parent Company's obligation to make loans to, or guarantee the repayment of THNC's loan obligations. The Parent Company, in consideration for this agreement, pays SMM an annual guarantee fee of 1% of THNC's outstanding loan obligations.

CBNC Stockholder Agreement

On July 1, 2002, RTN, together with the other stockholders of CBNC, agreed to make loans to CBNC or guarantee the repayment of CBNC's loan obligations in accordance with the financial requirements of CBNC, in proportion to their shareholding ratio in CBNC.

In a separate agreement dated October 22, 2002, SMM, which owns 54% of CBNC, agreed to assume RTN's obligation to make loans to, or guarantee the repayment of CBNC's loan obligations. RTN, in consideration for this agreement, pays SMM an annual guarantee fee of 1% of CBNC's outstanding loan obligations until August 2015.





c. Other Agreements

Funding Commitment with SMM

RTN's long-term debt was incurred to complete infrastructure projects to support the development of the Coral Bay HPAL facility. These projects included the causeway, trestles and dolphins in the Rio Tuba foreshore and offshore areas (see Note 15).

Funding Commitment with THNC

TMC as owner/developer of TSEZ incurred a long-term debt to finance the construction of the pier facilities that will be utilized to support the operations of the Taganito HPAL facility. These projects included the jetty, dolphins, rubber fender, jettybollard and other pier facilities in the Taganito foreshore and offshore areas (see Note 15).

d. Compensation of Key Management Personnel

The Group considers as key management personnel all employees holding managerial positions up to the chairman. The short-term benefits of key management personnel of the Group in 2017, 2016 and 2015 amounted to about ₱274.9 million, ₱236.7 million and ₱273.9 million, respectively, inclusive of cost of share-based payment of ₱11.0 million, ₱25.7 million and ₱57.8 million, respectively. The post-employment benefits of key management personnel of the Group amounted to ₱16.7 million, ₱15.5 million, and ₱9.0 million in 2017, 2016 and 2015, respectively.

e. Lease Agreement

On March 18, 2013, the Group entered into a lease agreement with Manta for its office and parking space. The lease agreement is effective for a period of five (5) years starting May 15, 2013 and is renewable subject to negotiation of the terms and conditions and mutual agreement of both parties. Rent expense pertaining to the lease amounted to ₱22.4 million, ₱21.5 million and ₱20.5 million in 2017, 2016 and 2015, respectively.

The future minimum rent payable under the lease as at December 31, 2017 and 2016 are as follows:

|   | 2017           | 2016    |
|---|----------------|---------|
| Within one (1) year                                 | <b>₱10,165</b> | ₱21,742 |
| After one (1) year but not more than five (5) years | –              | 10,165  |
|   | <b>₱10,165</b> | ₱31,907 |



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### 35. Pension Liability

The existing regulatory framework, RA 7641, *The Retirement Pay Law*, requires a provision for retirement pay to qualified private sector employees in the absence of any retirement plan in the entity, provided however that the employee's retirement benefits under any collective bargaining and other agreements shall not be less than those provided under the law. The law does not require minimum funding of the plan.

The following tables summarize the pension liability and pension asset recognized in the consolidated statements of financial position:

|                                      | 2017            | 2016            |
|--------------------------------------|-----------------|-----------------|
| <i>Funded pension liabilities:</i>   |                 |                 |
| TMC                                  | <b>₱172,704</b> | ₱163,898        |
| RTN                                  | <b>56,801</b>   | 64,060          |
| CMC                                  | <b>50,418</b>   | –               |
| NAC                                  | <b>39,496</b>   | –               |
| HMC                                  | <b>1,362</b>    | –               |
| <i>Unfunded pension liabilities:</i> |                 |                 |
| NAC                                  | –               | 54,096          |
| CMC                                  | –               | 50,266          |
|                                      | <b>₱320,781</b> | <b>₱332,320</b> |
| <i>Funded pension asset:</i>         |                 |                 |
| HMC (see Note 13)                    | <b>₱–</b>       | <b>₱1,294</b>   |



The following tables summarize the components of net pension costs recognized in the consolidated statements of income and the funded status and amounts recognized in the consolidated statements of financial position for the respective plans:

Changes in net defined benefit liability and fair value of pension assets in 2017, 2016 and 2015 are as follows:

|                                  | December 31, 2017                                     |                      |                 |                 |   |  |   |  |                         |           |                |                   |                  |                   |
|----------------------------------|---|----------------------|-----------------|-----------------|---|--|---|--|-------------------------|-----------|----------------|-------------------|------------------|-------------------|
|                                  | Net benefit cost in consolidated statements of income |                      |                 |                 | Remeasurements in other comprehensive income                      |  |   |  |                         |           |                |                   |                  | December 31, 2017 |
|                                  | January 1, 2017                                       | Current service cost | Net interest    | Subtotal        | Return on plan assets (excluding amount included in net interest) | Actuarial changes arising from demographic adjustments | Actuarial changes arising from experience adjustments | Actuarial changes arising from financial assumptions | Effect of asset ceiling | Subtotal  | Contributions  |                   |                  |                   |
| RTN                              | ₱440,039  | ₱29,925              | ₱24,994         | ₱54,919         | (₱33,912)   | ₱-   | ₱-  | ₱16,260  | (₱3,944)                | ₱-        | ₱12,316        | ₱-                | ₱473,362         |                   |
| TMC                              | 308,081   | 35,506               | 17,468          | 52,974          | (10,385)  | -  | -   | (798)  | (5,659)                 | -         | (6,457)        | -                 | 344,213          |                   |
| HMC                              | 31,022  | 4,978                | 1,812           | 6,790           | (1,025)   | -  | -   | 5,136  | 279                     | -         | 5,415          | -                 | 42,202           |                   |
| CMC                              | 50,266  | 4,989                | 2,790           | 7,779           | (3,629)   | -  | -   | 4,158  | (826)                   | -         | 3,332          | -                 | 57,748           |                   |
| NAC                              | 54,096  | 7,860                | 3,169           | 11,029          | -   | -  | (9,216)   | 4,117  | 287                     | -         | (4,812)        | -                 | 60,313           |                   |
| <b>Defined benefit liability</b> | <b>883,504</b>  | <b>83,258</b>        | <b>50,233</b>   | <b>133,491</b>  | <b>(48,951)</b>   | <b>-</b>   | <b>(9,216)</b>  | <b>28,873</b>  | <b>(9,863)</b>          | <b>-</b>  | <b>9,794</b>   | <b>-</b>          | <b>977,838</b>   |                   |
| RTN                              | (375,979)   | -                    | (21,727)        | (21,727)        | 33,912  | (5,757)  | -   | -  | -                       | -         | (5,757)        | (47,010)          | (416,561)        |                   |
| TMC                              | (144,183)   | -                    | (8,787)         | (8,787)         | 10,385  | 3,076  | -   | -  | -                       | -         | 3,076          | (32,000)          | (171,509)        |                   |
| HMC                              | (32,316)  | -                    | (2,112)         | (2,112)         | 1,025   | 1,269  | -   | -  | -                       | -         | 1,269          | (8,706)           | (40,840)         |                   |
| CMC                              | -   | -                    | -               | -               | -   | -  | -   | -  | -                       | -         | -              | (7,330)           | (7,330)          |                   |
| NAC                              | -   | -                    | -               | -               | -   | (9)  | -   | -  | -                       | -         | (9)            | (20,808)          | (20,817)         |                   |
| <b>Fair value of plan assets</b> | <b>(552,478)</b>                                      | <b>-</b>             | <b>(32,626)</b> | <b>(32,626)</b> | <b>45,322</b>   | <b>(1,421)</b>   | <b>-</b>  | <b>-</b>   | <b>-</b>                | <b>-</b>  | <b>(1,421)</b> | <b>(115,854)</b>  | <b>(657,057)</b> |                   |
| RTN                              | 64,060  | 29,925               | 3,267           | 33,192          | -   | (5,757)  | -   | 16,260   | (3,944)                 | -         | 6,559          | (47,010)          | 56,801           |                   |
| TMC                              | 163,898   | 35,506               | 8,681           | 44,187          | -   | 3,076  | -   | (798)  | (5,659)                 | -         | (3,381)        | (32,000)          | 172,704          |                   |
| HMC                              | (1,294)   | 4,978                | (300)           | 4,678           | -   | 1,269  | -   | 5,136  | 279                     | -         | 6,684          | (8,706)           | 1,362            |                   |
| CMC                              | 50,266  | 4,989                | 2,790           | 7,779           | (3,629)   | -  | -   | 4,158  | (826)                   | -         | 3,332          | (7,330)           | 50,418           |                   |
| NAC                              | 54,096  | 7,860                | 3,169           | 11,029          | -   | (9)  | (9,216)   | 4,117  | 287                     | -         | (4,821)        | (20,808)          | 39,496           |                   |
| <b>Pension liability</b>         | <b>₱331,026</b>                                       | <b>₱83,258</b>       | <b>₱17,607</b>  | <b>₱100,865</b> | <b>(₱3,629)</b>   | <b>(₱1,421)</b>  | <b>(₱9,216)</b>                                       | <b>₱28,873</b>                                       | <b>(₱9,863)</b>         | <b>₱-</b> | <b>₱8,373</b>  | <b>(₱115,854)</b> | <b>₱320,781</b>  |                   |



December 31, 2016

|                                  | Net benefit cost in consolidated statements of income |                      |              |          | Remeasurements in other comprehensive income |   |  |   |  |                         |          | December 31, 2016 |               |
|----------------------------------|---|----------------------|--------------|----------|--|---|--|---|--|-------------------------|----------|-------------------|---------------|
|                                  | January 1, 2016                                       | Current service cost | Net interest | Subtotal | Benefits paid                                | Return on plan assets (excluding amount included in net interest) | Actuarial changes arising from demographic adjustments | Actuarial changes arising from experience adjustments | Actuarial changes arising from financial assumptions | Effect of asset ceiling | Subtotal |                   | Contributions |
| RTN                              | ₱377,308  | ₱24,641              | ₱24,298      | ₱48,939  | (₱38,259)                                    | ₱-  | ₱-   | ₱22,841   | ₱29,210  | ₱-                      | ₱52,051  | ₱-                | ₱440,039      |
| TMC                              | 257,295   | 23,716               | 15,463       | 39,179   | (7,133)                                      | -   | -  | 5,972   | 12,768   | -                       | 18,740   | -                 | 308,081       |
| HMC                              | 28,781  | 4,167                | 1,851        | 6,018    | (214)  | -   | -  | (6,220)   | 2,657  | -                       | (3,563)  | -                 | 31,022        |
| Defined benefit liability        | 663,384   | 52,524               | 41,612       | 94,136   | (45,606)                                     | -   | -  | 22,593  | 44,635   | -                       | 67,228   | -                 | 779,142       |
| RTN                              | (359,130)   | -                    | (22,753)     | (22,753) | 38,259                                       | (5,716)   | -  | -   | -  | -                       | (5,716)  | (26,639)          | (375,979)     |
| TMC                              | (120,301)   | -                    | (7,917)      | (7,917)  | 7,133  | 6,902   | -  | -   | -  | -                       | 6,902    | (30,000)          | (144,183)     |
| HMC                              | (13,896)  | -                    | (1,478)      | (1,478)  | -  | 1,238   | -  | -   | -  | -                       | 1,238    | (18,180)          | (32,316)      |
| Fair value of plan assets        | (493,327)   | -                    | (32,148)     | (32,148) | 45,392                                       | 2,424   | -  | -   | -  | -                       | 2,424    | (74,819)          | (552,478)     |
| RTN                              | -   | -                    | -            | -        | -  | -   | -  | -   | -  | -                       | -        | -                 | -             |
| Restrictions on asset recognized | -   | -                    | -            | -        | -  | -   | -  | -   | -  | -                       | -        | -                 | -             |
| RTN                              | 18,178  | 24,641               | 1,545        | 26,186   | -  | (5,716)   | -  | 22,841  | 29,210   | -                       | 46,335   | (26,639)          | 64,060        |
| TMC                              | 136,994   | 23,716               | 7,546        | 31,262   | -  | 6,902   | -  | 5,972   | 12,768   | -                       | 25,642   | (30,000)          | 163,898       |
| HMC                              | 14,885  | 4,167                | 373          | 4,540    | (214)  | 1,238   | -  | (6,220)   | 2,657  | -                       | (2,325)  | (18,180)          | (1,294)       |
| Pension liability                | ₱155,172  | ₱48,357              | ₱9,091       | ₱57,448  | ₱-   | ₱1,186  | ₱-   | ₱28,813   | ₱41,978  | ₱-                      | ₱71,977  | (₱56,639)         | ₱227,958      |
| Pension liability (asset)        | ₱14,885   | ₱4,167               | ₱373         | ₱4,540   | (₱214)                                       | ₱1,238  | ₱-   | (₱6,220)  | ₱2,657   | ₱-                      | (₱2,325) | (₱18,180)         | (₱1,294)      |



December 31, 2015

|                                  | Net benefit cost in consolidated statements of income |                      |              |          | Remeasurements in other comprehensive income |   |  |   |  |                         |          | December 31, 2015 |               |
|----------------------------------|---|----------------------|--------------|----------|--|---|--|---|--|-------------------------|----------|-------------------|---------------|
|                                  | January 1, 2015                                       | Current service cost | Net interest | Subtotal | Benefits paid                                | Return on plan assets (excluding amount included in net interest) | Actuarial changes arising from demographic adjustments | Actuarial changes arising from experience adjustments | Actuarial changes arising from financial assumptions | Effect of asset ceiling | Subtotal |                   | Contributions |
| RTN                              | ₱383,979  | ₱24,560              | ₱22,117      | ₱46,677  | (₱58,943)                                    | ₱-  | ₱-   | ₱28,650   | (₱23,055)  | ₱-                      | ₱5,595   | ₱-                | ₱377,308      |
| TMC                              | 249,346   | 22,589               | 13,490       | 36,079   | (8,870)                                      | -   | -  | 1,048   | (20,308)   | -                       | (19,260) | -                 | 257,295       |
| HMC                              | 24,400  | 3,486                | 1,391        | 4,877    | (498)  | -   | -  | 3,369   | (3,367)  | -                       | 2        | -                 | 28,781        |
| Defined benefit liability        | 657,725   | 50,635               | 36,998       | 87,633   | (68,311)                                     | -   | -  | 33,067  | (46,730)   | -                       | (13,663) | -                 | 663,384       |
| RTN                              | (390,420)   | -                    | (21,560)     | (21,560) | 58,943                                       | 20,614  | -  | -   | -  | -                       | 20,614   | (26,707)          | (359,130)     |
| TMC                              | (112,844)   | -                    | (6,406)      | (6,406)  | 8,870  | 10,079  | -  | -   | -  | -                       | 10,079   | (20,000)          | (120,301)     |
| HMC                              | (4,201)   | -                    | (513)        | (513)    | 498  | 423   | -  | -   | -  | -                       | 423      | (10,103)          | (13,896)      |
| Fair value of plan assets        | (507,465)   | -                    | (28,479)     | (28,479) | 68,311                                       | 31,116  | -  | -   | -  | -                       | 31,116   | (56,810)          | (493,327)     |
| RTN                              | 351   | -                    | 20           | 20       | -  | -   | -  | -   | -  | (371)                   | (371)    | -                 | -             |
| Restrictions on asset recognized | 351   | -                    | 20           | 20       | -  | -   | -  | -   | -  | (371)                   | (371)    | -                 | -             |
| RTN                              | (6,090)   | 24,560               | 577          | 25,137   | -  | 20,614  | -  | 28,650  | (23,055)   | (371)                   | 25,838   | (26,707)          | 18,178        |
| TMC                              | 136,502   | 22,589               | 7,084        | 29,673   | -  | 10,079  | -  | 1,048   | (20,308)   | -                       | (9,181)  | (20,000)          | 136,994       |
| HMC                              | 20,199  | 3,486                | 878          | 4,364    | -  | 423   | -  | 3,369   | (3,367)  | -                       | 425      | (10,103)          | 14,885        |
| Pension liability                | ₱150,611  | ₱50,635              | ₱8,539       | ₱59,174  | ₱-   | ₱31,116   | ₱-   | ₱33,067   | (₱46,730)  | (₱371)                  | ₱17,082  | (₱56,810)         | ₱170,057      |



Changes in unfunded pension liability as at December 31, 2017, 2016 and 2015 are as follows:

| December 31, 2017        |   |                      |               |           |  |   |   |   |           |                   |
|--------------------------|---|----------------------|---------------|-----------|--|---|---|---|-----------|-------------------|
|                          | Net benefit cost in consolidated statements of income |                      |               |           | Remeasurements in other comprehensive income |   |   |   |           | December 31, 2017 |
|                          | January 1, 2017                                       | Current service cost | Interest cost | Subtotal  | Benefits paid                                | Actuarial changes arising from changes in demographic assumptions | Actuarial changes arising from experience adjustments | Actuarial changes arising from changes in financial assumptions | Subtotal  |                   |
| NAC                      | P-  | P-                   | P-            | P-        | P-   | P-  | P-  | P-  | P-        | P-                |
| CMC                      | -   | -                    | -             | -         | -  | -   | -   | -   | -         | -                 |
| <b>Pension liability</b> | <b>P-</b>   | <b>P-</b>            | <b>P-</b>     | <b>P-</b> | <b>P-</b>                                    | <b>P-</b>   | <b>P-</b>   | <b>P-</b>   | <b>P-</b> | <b>P-</b>         |

| December 31, 2016        |   |                      |               |                |  |   |   |   |                |                   |
|--------------------------|---|----------------------|---------------|----------------|--|---|---|---|----------------|-------------------|
|                          | Net benefit cost in consolidated statements of income |                      |               |                | Remeasurements in other comprehensive income |   |   |   |                | December 31, 2016 |
|                          | January 1, 2016                                       | Current service cost | Interest cost | Subtotal       | Benefits paid                                | Actuarial changes arising from changes in demographic assumptions | Actuarial changes arising from experience adjustments | Actuarial changes arising from changes in financial assumptions | Subtotal       |                   |
| NAC                      | P39,643   | P6,068               | P2,509        | P8,577         | (P1,411)                                     | P-  | P1,884  | P5,403  | P7,287         | P54,096           |
| CMC                      | 40,379  | 3,661                | 2,362         | 6,023          | (2,928)                                      | -   | 5,276   | 1,516   | 6,792          | 50,266            |
| <b>Pension liability</b> | <b>P80,022</b>  | <b>P9,729</b>        | <b>P4,871</b> | <b>P14,600</b> | <b>(P4,339)</b>                              | <b>P-</b>   | <b>P7,160</b>   | <b>P6,919</b>   | <b>P14,079</b> | <b>P104,362</b>   |

| December 31, 2015        |   |                      |               |                |  |   |   |   |                 |                   |
|--------------------------|---|----------------------|---------------|----------------|--|---|---|---|-----------------|-------------------|
|                          | Net benefit cost in consolidated statements of income |                      |               |                | Remeasurements in other comprehensive income |   |   |   |                 | December 31, 2015 |
|                          | January 1, 2015                                       | Current service cost | Interest cost | Subtotal       | Benefits paid                                | Actuarial changes arising from changes in demographic assumptions | Actuarial changes arising from experience adjustments | Actuarial changes arising from changes in financial assumptions | Subtotal        |                   |
| NAC                      | P34,850   | P5,709               | P1,979        | P7,688         | P-   | P-  | (P1,010)  | (P1,885)  | (P2,895)        | P39,643           |
| CMC                      | 39,787  | 3,882                | 2,145         | 6,027          | (295)  | (5,581)   | (2,086)   | 2,527   | (5,140)         | 40,379            |
| <b>Pension liability</b> | <b>P74,637</b>  | <b>P9,591</b>        | <b>P4,124</b> | <b>P13,715</b> | <b>(P295)</b>                                | <b>(P5,581)</b>   | <b>(P3,096)</b>                                       | <b>P642</b>   | <b>(P8,035)</b> | <b>P80,022</b>    |



The main categories of plan assets as a percentage of the fair value of total plan assets follow:

| <b>2017</b>                           | <b>NAC</b>     | <b>RTN</b>     | <b>TMC</b>     | <b>HMC</b>     | <b>CMC</b>     |
|---------------------------------------|----------------|----------------|----------------|----------------|----------------|
| <b>Fixed income securities</b>        | <b>24.02%</b>  | <b>14.23%</b>  | <b>72.38%</b>  | <b>84.19%</b>  | <b>0.00%</b>   |
| <b>Investments in shares of stock</b> | <b>28.82%</b>  | <b>36.21%</b>  | <b>5.97%</b>   | <b>7.81%</b>   | <b>0.00%</b>   |
| <b>Others</b>                         | <b>47.16%</b>  | <b>49.56%</b>  | <b>21.65%</b>  | <b>8.00%</b>   | <b>100.00%</b> |
|                                       | <b>100.00%</b> | <b>100.00%</b> | <b>100.00%</b> | <b>100.00%</b> | <b>100.00%</b> |

| <b>2016</b>                    | <b>NAC</b> | <b>RTN</b> | <b>TMC</b> | <b>HMC</b> | <b>CMC</b> |
|--------------------------------|------------|------------|------------|------------|------------|
| Fixed income securities        | –          | 62.87%     | 89.26%     | 61.29%     | –          |
| Investments in shares of stock | –          | 15.81%     | 7.10%      | 9.86%      | –          |
| Others                         | –          | 21.32%     | 3.64%      | 28.85%     | –          |
|                                | –          | 100.00%    | 100.00%    | 100.00%    | –          |

The overall expected rate of return on assets is determined based on the market expectations prevailing on that date, applicable to the period over which the obligation is to be settled.

The principal assumptions used in determining the pension asset (liability) for the Group's plans are shown below:

| <b>2017</b>                          | <b>NAC</b>   | <b>RTN</b>   | <b>TMC</b>    | <b>HMC</b>   | <b>CMC</b>   |
|--------------------------------------|--------------|--------------|---------------|--------------|--------------|
| <b>Discount rate</b>                 | <b>5.78%</b> | <b>5.77%</b> | <b>5.80%</b>  | <b>5.79%</b> | <b>5.79%</b> |
| <b>Expected salary increase rate</b> | <b>6.00%</b> | <b>5.00%</b> | <b>10.00%</b> | <b>5.00%</b> | <b>5.00%</b> |

| <b>2016</b>                   | <b>NAC</b> | <b>RTN</b> | <b>TMC</b> | <b>HMC</b> | <b>CMC</b> |
|-------------------------------|------------|------------|------------|------------|------------|
| Discount rate                 | 5.86%      | 5.68%      | 5.67%      | 5.84%      | 5.55%      |
| Expected salary increase rate | 6.00%      | 5.00%      | 10.00%     | 5.00%      | 5.00%      |

| <b>2015</b>                   | <b>NAC</b> | <b>RTN</b> | <b>TMC</b> | <b>HMC</b> | <b>CMC</b> |
|-------------------------------|------------|------------|------------|------------|------------|
| Discount rate                 | 6.33%      | 6.44%      | 6.01%      | 6.43%      | 5.85%      |
| Expected salary increase rate | 5.00%      | 5.00%      | 10.00%     | 5.00%      | 5.00%      |

Assumptions regarding future mortality rate are based on the 2001 CSO Table - Generational developed by the Society of Actuaries, which provides separate rates for males and females.

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

|                      | Increase<br>(decrease) | <b>2017</b>      | 2016      |
|----------------------|------------------------|------------------|-----------|
| Discount rates       | +100 basis points      | <b>(₱91,505)</b> | (₱86,125) |
|                      | -100 basis points      | <b>109,284</b>   | 103,294   |
| Salary increase rate | +100 basis points      | <b>₱96,704</b>   | ₱92,790   |
|                      | -100 basis points      | <b>(82,961)</b>  | (79,386)  |

As at March 14, 2018, the Group has not yet reasonably determined the amount of 2018 contributions to the retirement fund.



Shown below is the maturity analysis of the undiscounted benefit payments:

|                                    | 2017            | 2016            |
|------------------------------------|-----------------|-----------------|
| Within the next twelve (12) months | <b>₱159,662</b> | ₱97,299         |
| Between two (2) and five (5) years | <b>264,683</b>  | 234,266         |
| Between six (6) and ten (10) years | <b>539,429</b>  | 482,112         |
| <b>Total expected payments</b>     | <b>₱963,774</b> | <b>₱813,677</b> |

The weighted average duration of the pension liability as at December 31, 2017 and 2016 is 9.7 years and 10.5 years, respectively.

### 36. Income Taxes

The provision for current income tax shown in the consolidated statements of income includes the Regular Corporate Income Tax (RCIT) of TMC, RTN, NAC, HMC and CMC, Gross Income Tax (GIT) of TMC and RTN and Minimum Corporate Income Tax (MCIT) of EPI, MEI, BGI, Geogen, CExCI and Newminco in 2017, RCIT of TMC, RTN, NAC, HMC and CMC, GIT of TMC and RTN and MCIT of EPI, BGI and Geogen in 2016, RCIT of TMC, RTN, HMC, CMC and MEI, GIT of TMC and RTN and MCIT of NAC, Geogen and CExCI in 2015, as follows:

|          | 2017              | 2016              | 2015              |
|----------|-------------------|-------------------|-------------------|
| TMC      | <b>₱756,771</b>   | ₱574,908          | ₱583,088          |
| RTN      | <b>661,275</b>    | 517,143           | 635,063           |
| NAC      | <b>157,231</b>    | 65,226            | 13,562            |
| HMC      | <b>149,634</b>    | 120,875           | 173,753           |
| CMC      | <b>140,020</b>    | 163,235           | 197,325           |
| EPI      | <b>177</b>        | 108               | -                 |
| MEI      | <b>86</b>         | -                 | 2,937             |
| BGI      | <b>65</b>         | 30                | -                 |
| Geogen   | <b>34</b>         | 1                 | 20                |
| CExCI    | <b>13</b>         | -                 | 2                 |
| Newminco | <b>12</b>         | -                 | -                 |
|          | <b>₱1,865,318</b> | <b>₱1,441,526</b> | <b>₱1,605,750</b> |

All other companies under the Group were in a gross and/or net taxable loss positions in 2017, 2016 and 2015.





The reconciliation between the provisions for income tax computed at the statutory income tax rates and the provisions for income tax computed at the effective income tax rates as shown in the consolidated statements of income follows:

|   | 2017               | 2016       | 2015       |
|---|--------------------|------------|------------|
| Income tax at statutory rates from non-registered activities                                  | <b>₱2,666,111</b>  | ₱1,829,232 | ₱2,621,842 |
| Add (deduct) tax effects of:  |                    |            |            |
| Dividend income exempt from income tax  | <b>(1,014,489)</b> | (613,377)  | (903,049)  |
| Change in unrecognized deferred income tax assets   | <b>115,206</b>     | 135,853    | (2,481)    |
| Nondeductible expenses  | <b>74,853</b>      | 174,304    | 40,012     |
| Interest income subjected to final tax  | <b>(66,206)</b>    | (44,569)   | (48,214)   |
| Movements in deductible temporary differences for which deferred income taxes were recognized | <b>(52,812)</b>    | (41,874)   | (66,001)   |
| Expired net operating loss carry over (NOLCO) and excess of MCIT over RCIT                    | <b>23,021</b>      | 11,894     | 29,013     |
| Realized benefit from ESOP exercised  | -                  | (8,857)    | (10,207)   |
| Others  | <b>(10,463)</b>    | 5,098      | 4,807      |
|   | <b>1,735,221</b>   | 1,447,704  | 1,665,722  |
| Income tax at statutory rates from PEZA registered activities                                 | <b>651</b>         | (2,296)    | (2,168)    |
| Add (deduct) tax effects of:  |                    |            |            |
| Nondeductible expenses  | <b>1,056</b>       | 4,111      | 3,755      |
| Interest income subjected to final tax  | <b>(72)</b>        | (41)       | (23)       |
|   | <b>1,635</b>       | 1,774      | 1,564      |
| <b>Income tax at effective rates</b>  | <b>₱1,736,856</b>  | ₱1,449,478 | ₱1,667,286 |



The components of the Group's net deferred income tax assets and liabilities follow:

|  | 2017            | 2016     |
|--|-----------------|----------|
| <i>Deferred income tax assets:</i>                       |                 |          |
| <i>At 30%</i>  |                 |          |
| Provision for mine rehabilitation and decommissioning    | <b>₱116,636</b> | ₱132,745 |
| Pension costs  | <b>96,234</b>   | 101,277  |
| Cost of share-based payment plan                         | <b>40,665</b>   | 37,361   |
| Allowance for impairment losses on:                      |                 |          |
| Inventories  | <b>25,687</b>   | 25,314   |
| Trade and other receivables                              | <b>11,833</b>   | 11,787   |
| Property and equipment                                   | –               | 3,848    |
| Others   | <b>1,097</b>    | 7,459    |
| NOLCO  | <b>20,936</b>   | 36,022   |
| Unamortized past service cost                            | <b>16,815</b>   | 6,455    |
| Excess of MCIT over RCIT                                 | <b>34</b>       | 493      |
| Unrealized valuation losses on AFS financial assets      | –               | 3,024    |
| Accrued SDMP costs                                       | –               | 898      |
| <i>At 5%</i>   |                 |          |
| Deferred income  | <b>3,157</b>    | 3,369    |
|  | <b>₱333,094</b> | ₱370,052 |
|  | <b>2017</b>     | 2016     |
| <i>Deferred income tax liabilities:</i>                  |                 |          |
| <i>At 30%</i>  |                 |          |
| Fair value adjustment arising from business combination  | <b>₱251,590</b> | ₱251,590 |
| Asset revaluation surplus                                | <b>154,252</b>  | 157,406  |
| Undepleted asset retirement obligation                   | <b>72,267</b>   | 98,736   |
| Unrealized foreign exchange gains - net                  | <b>60,392</b>   | 141,884  |
| Long-term stockpile inventory                            | <b>50,884</b>   | 99,925   |
| Unrealized valuation gains on AFS financial assets       | <b>38,107</b>   | –        |
| Capitalized borrowing cost                               | <b>23,963</b>   | 24,659   |
| Unamortized debt issue costs                             | <b>1,378</b>    | 5,315    |
| <i>At 10%</i>  |                 |          |
| Share in cumulative translation adjustment (see Note 10) | <b>113,812</b>  | 96,605   |
| <i>At 5%</i>   |                 |          |
| Unrealized foreign exchange gains - net                  | <b>229</b>      | 347      |
|  | <b>₱766,874</b> | ₱876,467 |



The Group did not recognize net deferred income tax asset on the following temporary differences since the management believes that it is not probable that sufficient taxable profit will be available against which the benefits of the net deferred income tax assets can be utilized in the future.

|  | 2017              | 2016     |
|--|-------------------|----------|
| NOLCO                                    | <b>₱1,011,711</b> | ₱636,567 |
| Unrealized foreign exchange losses - net | <b>206,157</b>    | 202,293  |
| Allowance for impairment losses          | <b>158,910</b>    | 157,677  |
| Interest expense on long-term payable    | <b>2,587</b>      | 1,264    |
| Levelized rent expense                   | <b>909</b>        | 496      |
| Excess of MCIT over RCIT                 | <b>515</b>        | 143      |
| Others                                   | <b>802</b>        | -        |
|  | <b>₱1,381,591</b> | ₱998,440 |

As at December 31, 2017 and 2016, the Group, except for FEI, has NOLCO and excess of MCIT over RCIT that can be claimed as deduction from future taxable income and income tax liabilities, respectively, as follows:

| Year Incurred | Year of Expiration | NOLCO             |          | Excess of MCIT over RCIT |      |
|---------------|--------------------|-------------------|----------|--------------------------|------|
|               |                    | 2017              | 2016     | 2017                     | 2016 |
| 2017          | 2020               | <b>₱400,367</b>   | ₱-       | <b>₱388</b>              | ₱-   |
| 2016          | 2019               | <b>498,931</b>    | 499,023  | <b>139</b>               | 139  |
| 2015          | 2018               | <b>181,453</b>    | 181,720  | <b>22</b>                | 22   |
| 2014          | 2017               | -                 | 74,889   | -                        | 475  |
|               |                    | <b>₱1,080,751</b> | ₱755,632 | <b>₱549</b>              | ₱636 |

As at December 31, 2017 and 2016, FEI has NOLCO that can be claimed as deduction from future taxable income as follows:

| Year Incurred | Year of Expiration | 2017        | 2016   |
|---------------|--------------------|-------------|--------|
| 2017          | 2022               | <b>₱6</b>   | ₱-     |
| 2016          | 2021               | <b>134</b>  | 134    |
| 2015          | 2020               | <b>191</b>  | 191    |
| 2014          | 2019               | <b>146</b>  | 146    |
| 2013          | 2018               | <b>272</b>  | 272    |
| 2012          | 2017               | -           | 267    |
|               |                    | <b>₱749</b> | ₱1,010 |

The movements in NOLCO are as follows:

|                         | 2017              | 2016     |
|-------------------------|-------------------|----------|
| Balances at January 1   | <b>₱756,642</b>   | ₱294,397 |
| Additions               | <b>400,373</b>    | 499,157  |
| Expirations             | <b>(75,156)</b>   | (36,912) |
| Applications            | <b>(359)</b>      | -        |
| Balances at December 31 | <b>₱1,081,500</b> | ₱756,642 |



The movements in excess of MCIT over RCIT are as follows:

|                         | 2017         | 2016     |
|-------------------------|--------------|----------|
| Balances at January 1   | <b>₱636</b>  | ₱29,353  |
| Expirations             | <b>(475)</b> | (821)    |
| Additions               | <b>388</b>   | 139      |
| Applications            | -            | (28,035) |
| Balances at December 31 | <b>₱549</b>  | ₱636     |

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### 37. Financial Risk Management Objectives and Policies and Capital Management

The Group's main financial instruments are cash and cash equivalents, AFS financial assets and short-term and long-term debts. The main purpose of these financial instruments is to raise funds and maintain continuity of funding and financial flexibility for the Group. The Group has various other financial assets and liabilities such as trade and other receivables, loan receivable and long-term negotiable instruments which are under "Other noncurrent assets", trade and other payables and long-term payable which arise directly from its operations, investing and financing activities.

The main risks arising from the Group's financial instruments are credit risk, liquidity risk and market risk. The BOD reviews and approves policies for managing each of these risks and they are summarized below.

#### Credit Risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk primarily from its operating (primarily for trade receivables) and investing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments.

In managing credit risk on investments, capital preservation is paramount. The Group trades only with recognized, reputable and creditworthy third parties and/or transacts only with institutions and/or banks which have demonstrated financial soundness. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. Except for the impaired trade and other receivables, the Group assessed the loans and receivables as collectible and in good standing.

For investments in debt instruments, funds are invested in highly recommended, creditworthy debt instruments that provides satisfactory interest yield and capital appreciation. Investments in foreign and local equity funds are made in mutual funds with investments in A-rated companies, with good dividend track record as well as capital appreciation. The investment portfolio mix between debt and equities is reviewed regularly by the Chief Finance Officer and the Audit and Risk Committee.



*Credit Risk Exposure*

With respect to credit risk arising from cash and cash equivalents, trade and other receivables, AFS financial assets, and loan receivable and long-term negotiable instruments which are under “Other noncurrent assets”, the Group’s exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

*Credit Quality and Aging Analysis of Financial Assets*

The credit quality and aging analysis of the Group’s financial assets as at December 31, 2017 and 2016 are summarized in the following tables:

| <b>2017</b>                                 | <b>Neither<br/>Past Due Nor<br/>Impaired<br/>(High)</b> | <b>Past Due But<br/>Not Impaired<br/>(30-180 days)</b> | <b>Past Due and<br/>Individually<br/>Impaired</b> | <b>Total</b>       |
|---|---|--|---|--------------------|
| <b>Cash and cash equivalents</b>            | <b>₱9,639,181</b>                                       | <b>₱-</b>  | <b>₱-</b>   | <b>₱9,639,181</b>  |
| Cash with banks                             | 948,363   | -  | -   | 948,363            |
| Cash under managed funds                    | 177,014   | -  | -   | 177,014            |
| Short-term cash investments                 | 8,513,804   | -  | -   | 8,513,804          |
| <b>Trade and other receivables</b>          | <b>817,171</b>  | <b>39,232</b>  | <b>45,749</b>                                     | <b>902,152</b>     |
| Trade                                       | 602,348   | 17,383   | 41,152  | 660,883            |
| Current portion of loan<br>receivable       | 94,203  | -  | -   | 94,203             |
| Interest receivable                         | 53,619  | -  | -   | 53,619             |
| Receivable from CBNC                        | 18,830  | 21,849   | -   | 40,679             |
| Amounts owed by<br>related parties          | 7,351   | -  | -   | 7,351              |
| Others                                      | 40,820  | -  | 4,597   | 45,417             |
| <b>AFS financial assets</b>                 | <b>6,658,420</b>  | <b>-</b>   | <b>-</b>  | <b>6,658,420</b>   |
| Quoted debt securities                      | 5,097,660   | -  | -   | 5,097,660          |
| Quoted equity securities                    | 1,354,174   | -  | -   | 1,354,174          |
| Unquoted equity securities                  | 206,586   | -  | -   | 206,586            |
| <b>Other noncurrent assets</b>              | <b>807,641</b>  | <b>-</b>   | <b>-</b>  | <b>807,641</b>     |
| Loan receivable - net of<br>current portion | 767,641   | -  | -   | 767,641            |
| Long-term negotiable<br>instruments         | 40,000  | -  | -   | 40,000             |
|   | <b>₱17,922,413</b>                                      | <b>₱39,232</b>   | <b>₱45,749</b>                                    | <b>₱18,007,394</b> |



| 2016  | Neither<br>Past Due Nor<br>Impaired (High) | Past Due But<br>Not Impaired<br>(30-180 days) | Past Due and<br>Individually<br>Impaired | Total       |
|---|--|---|--|-------------|
| Cash and cash equivalents                   | ₱9,642,224                                 | ₱-  | ₱-                                       | ₱9,642,224  |
| Cash with banks                             | 1,207,679                                  | -   | -  | 1,207,679   |
| Cash under managed funds                    | 188,508                                    | -   | -  | 188,508     |
| Short-term cash investments                 | 8,246,037                                  | -   | -  | 8,246,037   |
| Trade and other receivables                 | 995,813                                    | 98,225  | 45,622                                   | 1,139,660   |
| Trade                                       | 740,581                                    | 83,998  | 41,029                                   | 865,608     |
| Current portion of loan<br>receivable       | 98,161                                     | -   | -  | 98,161      |
| Interest receivable                         | 47,317                                     | -   | -  | 47,317      |
| Receivable from CBNC                        | 33,343                                     | 14,227  | -  | 47,570      |
| Amounts owed by<br>related parties          | 6,489                                      | -   | -  | 6,489       |
| Others                                      | 69,922                                     | -   | 4,593                                    | 74,515      |
| AFS financial assets                        | 6,319,078                                  | -   | -  | 6,319,078   |
| Quoted debt securities                      | 4,513,565                                  | -   | -  | 4,513,565   |
| Quoted equity securities                    | 1,599,263                                  | -   | -  | 1,599,263   |
| Unquoted equity securities                  | 206,250                                    | -   | -  | 206,250     |
| Other noncurrent assets                     | 860,514                                    | -   | -  | 860,514     |
| Loan receivable - net of<br>current portion | 830,514                                    | -   | -  | 830,514     |
| Long-term negotiable<br>instrument          | 30,000                                     | -   | -  | 30,000      |
|   | ₱17,817,629                                | ₱98,225                                       | ₱45,622                                  | ₱17,961,476 |

*Credit Quality of Financial Assets*

The credit quality of financial assets is managed by the Group using internal credit ratings and is classified into three: High grade, which has no history of default; Standard grade, which pertains to accounts with history of one or two defaults; and Substandard grade, which pertains to accounts with history of at least three (3) payment defaults.

Accordingly, the Group has assessed the credit quality of the following financial assets classified as neither past due nor impaired:

- Cash and cash equivalents are placed in various foreign and local banks. Material amounts are held by local banks that have good reputation and with low probability of insolvency. The rest are held by various foreign banks having a Standard and Poor's (S&P) credit rating of at least A. Management assesses the quality of these assets as high grade.
- Trade receivables, loan receivable and receivable from CBNC pertain to receivables from customers or related parties which have good financial capacity and with which the Group has already established a long outstanding and good business relationship. Management assesses the quality of these assets as high grade. Trade and other receivables which are not foreseen to be collected are classified as substandard grade.
- Interest receivables derived from short-term cash investments placed in various foreign banks with S&P credit rating of at least A and with local banks with low probability of insolvency, are assessed as high grade. Interest receivable from AFS debt securities and long term



negotiable instruments are also assessed as high grade since these are invested in companies with good reputation and sound financial condition. Interest receivable from loans are also assessed as high grade since these are collectible from third parties which are capable of repaying the amount due.

- Amounts owed by related parties are advances that are due and demandable. The related parties are operating firms and/or capable of repaying the amount due. Management assesses the quality of these assets as high grade.
- Management assesses the quality of other receivables as standard grade since amounts are settled after due date.
- AFS financial assets in debt and equity securities are investments that can be traded and from companies with good financial capacity, making the investment secured and realizable. Management assesses the quality of these assets as high grade.
- Long-term negotiable instruments are investments placed in local banks with good financial capacity and with low probability of insolvency. Management assessed the quality of these assets as high grade.

#### Liquidity Risk

Liquidity risk arises from the possibility that the Group may encounter difficulties in raising funds to meet commitments from financial instruments.

The Group's objective is to maintain sufficient funding to finance its exploration, mining and power generation activities through internally generated funds, advances from related parties and borrowings from banks. Aside from yielding good returns, the Group ensures that investments have ample liquidity to finance operations and capital requirements. The Group considers its available funds and its liquidity in managing its long-term financial requirements. For its short-term funding, the Group's policy is to ensure that there are sufficient capital inflows to match repayments of short-term debt.

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

| <b>2017</b>                     | <b>On Demand</b>  | <b>Less Than<br/>Three (3) Months</b> | <b>Three (3) to<br/>Twelve (12)<br/>Months</b> | <b>More Than<br/>One (1) Year</b> | <b>Total</b>       |
|---------------------------------|-------------------|---------------------------------------|--|-----------------------------------|--------------------|
| <b>Trade and other payables</b> |                   |                                       |  |                                   |                    |
| Trade                           | ₱467,582          | ₱311,455                              | ₱91,798  | ₱–                                | ₱870,835           |
| Amounts owed to related parties | 5,343,367         | –                                     | –  | –                                 | 5,343,367          |
| Dividends payable               | –                 | 636,450                               | –  | –                                 | 636,450            |
| Accrued expenses                | 285,007           | 134,448                               | 189  | –                                 | 419,644            |
| Retention fees payable          | 19,134            | –                                     | –  | –                                 | 19,134             |
| Interest payable                | 11,533            | –                                     | –  | –                                 | 11,533             |
| Others                          | 41,046            | –                                     | –  | –                                 | 41,046             |
| <b>Long-term debts</b>          |                   |                                       |  |                                   |                    |
| Carrying amount                 | –                 | 29,187                                | 1,605,991                                      | 1,349,211                         | 2,984,389          |
| Unamortized debt issue cost     | –                 | –                                     | 1,841  | 2,099                             | 3,940              |
| <b>Long-term payable</b>        |                   |                                       |  |                                   |                    |
| Carrying amount                 | –                 | –                                     | 5,000  | 20,168                            | 25,168             |
| Unamortized discount            | –                 | –                                     | –  | 3,832                             | 3,832              |
| <b>Short-term debt</b>          |                   |                                       |  |                                   |                    |
|                                 | –                 | –                                     | –  | –                                 | –                  |
|                                 | <b>₱6,167,669</b> | <b>₱1,111,540</b>                     | <b>₱1,704,819</b>                              | <b>₱1,375,310</b>                 | <b>₱10,359,338</b> |



| 2016                            | On Demand         | Less Than<br>Three (3) Months | Three (3) to<br>Twelve (12)<br>Months | More Than<br>One (1) Year | Total              |
|---------------------------------|-------------------|-------------------------------|---------------------------------------|---------------------------|--------------------|
| <b>Trade and other payables</b> |                   |                               |                                       |                           |                    |
| Trade                           | ₱391,441          | ₱304,836                      | ₱94,148                               | ₱–                        | ₱790,425           |
| Amounts owed to related parties | 5,310,193         | –                             | –                                     | –                         | 5,310,193          |
| Dividends payable               | –                 | 325,187                       | –                                     | –                         | 325,187            |
| Accrued expenses                | 191,525           | 57,674                        | 11,887                                | –                         | 261,086            |
| Retention fees payable          | 44,629            | –                             | –                                     | –                         | 44,629             |
| Interest payable                | 30,511            | –                             | –                                     | –                         | 30,511             |
| Others                          | 14,336            | 1,766                         | –                                     | –                         | 16,102             |
| <b>Long-term debts</b>          |                   |                               |                                       |                           |                    |
| Carrying amount                 | –                 | 22,274                        | 126,000                               | 4,468,059                 | 4,616,333          |
| Unamortized debt issue cost     | –                 | –                             | –                                     | 12,136                    | 12,136             |
| <b>Long-term payable</b>        |                   |                               |                                       |                           |                    |
| Carrying amount                 | –                 | –                             | 5,000                                 | 23,846                    | 28,846             |
| Unamortized discount            | –                 | –                             | –                                     | 5,154                     | 5,154              |
| <b>Short-term debt</b>          |                   |                               |                                       |                           |                    |
|                                 | –                 | –                             | 180,000                               | –                         | 180,000            |
|                                 | <b>₱5,982,635</b> | <b>₱711,737</b>               | <b>₱417,035</b>                       | <b>₱4,509,195</b>         | <b>₱11,620,602</b> |

The tables below summarize the maturity profile of the Group's financial assets used to manage the liquidity risk of the Group as at December 31, 2017 and 2016.

| 2017                                     | On Demand          | Less Than<br>Three (3)<br>Months | Three (3) to<br>Twelve (12)<br>Months | More Than<br>One (1) Year | Total              |
|--|--------------------|----------------------------------|---------------------------------------|---------------------------|--------------------|
| <b>Cash and cash equivalents</b>         |                    |                                  |                                       |                           |                    |
| Cash on hand and with banks              | ₱955,114           | ₱–                               | ₱–                                    | ₱–                        | ₱955,114           |
| Cash under managed funds                 | 177,014            | –                                | –                                     | –                         | 177,014            |
| Short-term cash investments              | 8,513,804          | –                                | –                                     | –                         | 8,513,804          |
| <b>Trade and other receivables</b>       |                    |                                  |                                       |                           |                    |
| Trade                                    | 538,760            | 73,608                           | 7,363                                 | –                         | 619,731            |
| Current portion of loan receivable       | 1,884              | –                                | 92,319                                | –                         | 94,203             |
| Interest receivable                      | –                  | 52,595                           | 1,024                                 | –                         | 53,619             |
| Receivable from CBNC                     | 18,830             | 21,849                           | –                                     | –                         | 40,679             |
| Amounts owed by related parties          | 7,351              | –                                | –                                     | –                         | 7,351              |
| Others                                   | 31,827             | 8,993                            | –                                     | –                         | 40,820             |
| <b>AFS financial assets</b>              |                    |                                  |                                       |                           |                    |
| Quoted debt securities                   | 4,725,078          | –                                | –                                     | 372,582                   | 5,097,660          |
| Quoted equity securities                 | 1,120,776          | –                                | –                                     | 233,398                   | 1,354,174          |
| Unquoted equity securities               | 79,828             | –                                | –                                     | 126,758                   | 206,586            |
| <b>Other noncurrent assets</b>           |                    |                                  |                                       |                           |                    |
| Loan receivable - net of current portion | –                  | –                                | –                                     | 767,641                   | 767,641            |
| Long-term negotiable instruments         | –                  | –                                | –                                     | 40,000                    | 40,000             |
|  | <b>₱16,170,266</b> | <b>₱157,045</b>                  | <b>₱100,706</b>                       | <b>₱1,540,379</b>         | <b>₱17,968,396</b> |

| 2016                               | On Demand  | Less Than<br>Three (3) Months | Three (3) to<br>Twelve (12)<br>Months | More Than<br>One (1) Year | Total      |
|------------------------------------|------------|-------------------------------|---------------------------------------|---------------------------|------------|
| <b>Cash and cash equivalents</b>   |            |                               |                                       |                           |            |
| Cash on hand and with banks        | ₱1,213,398 | ₱–                            | ₱–                                    | ₱–                        | ₱1,213,398 |
| Cash under managed funds           | 188,508    | –                             | –                                     | –                         | 188,508    |
| Short-term cash investments        | 8,246,037  | –                             | –                                     | –                         | 8,246,037  |
| <b>Trade and other receivables</b> |            |                               |                                       |                           |            |
| Trade                              | 702,580    | 121,999                       | –                                     | –                         | 824,579    |
| Current portion of loan receivable | –          | –                             | 98,161                                | –                         | 98,161     |
| Interest receivable                | 9,782      | 36,812                        | 723                                   | –                         | 47,317     |
| Receivable from CBNC               | 14,227     | 33,343                        | –                                     | –                         | 47,570     |
| Amounts owed by related parties    | 6,489      | –                             | –                                     | –                         | 6,489      |
| Others                             | 50,698     | 19,224                        | –                                     | –                         | 69,922     |
| <b>AFS financial assets</b>        |            |                               |                                       |                           |            |
| Quoted debt securities             | 4,252,185  | –                             | –                                     | 261,380                   | 4,513,565  |
| Quoted equity securities           | 1,240,608  | –                             | –                                     | 358,655                   | 1,599,263  |
| Unquoted equity securities         | 79,492     | –                             | –                                     | 126,758                   | 206,250    |

(Forward)





| 2016                                     | On Demand   | Less Than<br>Three (3) Months | Three (3) to<br>Twelve (12)<br>Months | More Than<br>One (1) Year | Total       |
|--|-------------|-------------------------------|---------------------------------------|---------------------------|-------------|
| Other noncurrent assets                  |             |                               |                                       |                           |             |
| Loan receivable - net of current portion | ₱-          | ₱-                            | ₱-                                    | ₱830,514                  | ₱830,514    |
| Long-term negotiable instrument          | -           | -                             | -                                     | 30,000                    | 30,000      |
|  | ₱16,004,004 | ₱211,378                      | ₱98,884                               | ₱1,607,307                | ₱17,921,573 |

### Market Risk

Market risk is the risk of loss to future earnings, to fair values or to future cash flows that may result from changes in the price of a financial instrument. The value of a financial instrument may change as a result of changes in foreign currency exchanges rates, commodity prices, interest rates, equity prices and other market changes.

### *Foreign Currency Risk*

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign currency exchange rates.

Transactions with companies outside the Philippines and with CBNC and THNC for the sale of saprolite and limonite ore are carried out with currencies that management believes to be stable such as the US\$.

The Group has transactional currency exposures. Such exposure arises from cash and cash equivalents, trade and other receivables, AFS financial assets, trade and other payables and long-term debts. The Group did not seek to hedge the exposure on the change in foreign exchange rates between the US\$ and the Philippine peso. The Group does not generally believe that active currency hedging would provide long-term benefits to stockholders.

To mitigate the effects of foreign currency risk, the Group ensures timely follow-up and accelerates the collection of foreign currency-denominated receivables and the settlement of foreign currency-denominated payables and loans, whenever practicable. Also, foreign exchange movements are monitored on a daily basis.

The Group's foreign currency-denominated financial assets and liabilities and their Philippine peso equivalents as at December 31, 2017 and 2016 are as follows:

|                             | 2017           |                    | 2016           |                    |
|-----------------------------|----------------|--------------------|----------------|--------------------|
|                             | US\$<br>Amount | Peso<br>Equivalent | US\$<br>Amount | Peso<br>Equivalent |
| Financial assets:           |                |                    |                |                    |
| Cash and cash equivalents   | \$134,416      | ₱6,711,375         | \$131,107      | ₱6,518,810         |
| Trade and other receivables | 11,540         | 576,170            | 14,797         | 735,714            |
| AFS financial assets        | 56,915         | 2,841,746          | 53,448         | 2,657,495          |
|                             | \$202,871      | ₱10,129,291        | \$199,352      | ₱9,912,019         |
| Financial liabilities:      |                |                    |                |                    |
| Trade and other payables    | \$30,598       | ₱1,527,753         | \$29,940       | ₱1,488,594         |
| Long-term debts             | 24,073         | 1,201,965          | 26,719         | 1,328,469          |
|                             | \$54,671       | ₱2,729,718         | \$56,659       | ₱2,817,063         |

The exchange rate used for conversion of US\$1.00 to peso equivalent was ₱49.93 and ₱49.72 as at December 31, 2017 and 2016, respectively.



The sensitivity of all the Group's financial instruments to a reasonably possible change in the exchange rate, with all other variables held constant, in the Group's income before income tax (due to changes in fair value of monetary assets and liabilities) as at December 31, 2017 and 2016 follows:

|             | Peso Weakens<br>(Strengthens) | Sensitivity to<br>pretax income    |
|-------------|-------------------------------|------------------------------------|
| <b>2017</b> | <b>₱0.40</b><br><b>(0.70)</b> | <b>₱59,280</b><br><b>(103,740)</b> |
| 2016        | ₱1.00<br>(0.70)               | ₱142,693<br>(99,885)               |

There is no other impact on the Group's equity other than those already affecting the consolidated statements of income.

*Interest Rate Risk*

The Group's exposure to the risk of changes in market interest rate relates to AFS quoted fixed and floating debt instruments and floating-rate long-term debt.

Floating rate instruments expose the Group to cash flow interest rate risk, whereas, fixed interest rate instruments expose the Group to fair value risk. The Group regularly monitors the market interest rate movements and manages its interest rate risks by using a mix of fixed and variable rates.

The following tables set out the carrying amount, by maturity, of the Group's financial instrument that is exposed to cash flow interest rate risk:

| Long-term debt | <1 year           | 1-5 years       | >5 years        | Total             |
|----------------|-------------------|-----------------|-----------------|-------------------|
| <b>2017</b>    | <b>₱1,635,178</b> | <b>₱484,398</b> | <b>₱864,813</b> | <b>₱2,984,389</b> |
| 2016           | 148,274           | 3,495,399       | 972,660         | 4,616,333         |

Management believes that cash generated from operations is sufficient to pay for its obligations under the loan agreements as they fall due.

The sensitivity to a reasonably possible change in the interest rate (in basis points), with all other variables held constant, in the Group's income before income tax and equity as at December 31, 2017 and 2016 are as follows:

|                             | Change<br>in interest rate<br>(in basis points) | Sensitivity to<br>income before<br>income tax | Sensitivity<br>to equity |
|-----------------------------|---|---|--------------------------|
| <b>2017</b>                 |   |   |                          |
| <b>AFS financial assets</b> | <b>+100</b>                                     |   | <b>₱50,977</b>           |
|                             | <b>-100</b>                                     |   | <b>(50,977)</b>          |
| <b>Long-term debt</b>       | <b>+100</b>                                     | <b>(₱29,844)</b>                              |                          |
|                             | <b>-100</b>                                     | <b>29,844</b>                                 |                          |

(Forward)



|      |                      | Change<br>in interest rate<br>(in basis points) | Sensitivity to<br>income before<br>income tax | Sensitivity<br>to equity |
|------|----------------------|---|---|--------------------------|
| 2016 | AFS financial assets | +100  |   | ₱45,136                  |
|      |                      | -100  |   | (45,136)                 |
|      | Long-term debt       | +100  | (₱46,163)                                     |                          |
|      |                      | -100  | 46,163  |                          |

The impact on the Group's income before income tax is caused by changes in the interest of the floating-rate long-term debt, while the impact on the Group's equity is caused by the changes in the market value of AFS quoted debt due to interest rate movements. The impact on the Group's equity excludes the impact on transactions affecting the consolidated statement of income.

#### *Equity Price Risk*

Equity price risk is the risk to earnings or capital arising from changes in stock prices relating to its quoted equity securities. The Group's exposure to equity price risk relates primarily to its AFS financial assets on various stocks of listed companies.

The Group's policy is to maintain the risk to an acceptable level. Movement of share price is monitored regularly to determine impact on its financial position.

The table shows the sensitivity to a reasonably possible change in equity prices of AFS quoted equity instruments as at December 31, 2017 and 2016, except equity-linked investments.

The equity impact is arrived using the reasonably possible change of the relevant market indices and the specific adjusted beta of each stock the Group holds. Adjusted beta is the forecasted measure of the volatility of a security or a portfolio in comparison to the market as a whole.

|             | Average change<br>in market indices<br>(in percentage) | Sensitivity<br>to equity |
|-------------|--|--------------------------|
| <b>2017</b> | <b>12.36%</b>  | <b>₱31,258</b>           |
|             | <b>-12.36%</b>   | <b>(31,258)</b>          |
| 2016        | 18.34%   | ₱65,909                  |
|             | -18.34%  | (65,909)                 |

#### Capital Management

The Group considers its equity as capital. Its primary objective in capital management is to maintain a strong credit rating 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 issue new shares or declare dividend payments to shareholders. No changes were made in the objectives, policies or processes during the years ended December 31, 2017 and 2016.



The Group monitors capital using the debt-to-equity ratio, which is total liabilities divided by equity. The Group's policy is to keep the debt-to-equity ratio to not more than 1:1. Total liabilities include trade and other payables, income tax payable, other current liability, short-term and long-term debts, long-term payable, deferred income tax liabilities, provision for mine rehabilitation and decommissioning, pension liability and deferred income.

The Group considers the following as capital:

|   | 2017               | 2016        |
|---|--------------------|-------------|
| Capital stock                               | <b>₱3,808,665</b>  | ₱3,808,665  |
| Additional paid-in capital                  | <b>8,262,455</b>   | 8,300,002   |
| Share in cumulative translation adjustment  | <b>564,152</b>     | 409,286     |
| Net valuation gains on AFS financial assets | <b>163,935</b>     | 12,954      |
| Cost of share-based payment plan            | <b>137,635</b>     | 126,622     |
| Asset revaluation surplus                   | <b>32,097</b>      | 32,480      |
| Retained earnings:                          |                    |             |
| Unappropriated                              | <b>15,392,459</b>  | 13,221,526  |
| Appropriated                                | <b>1,095,583</b>   | 1,108,956   |
| NCI   | <b>3,761,207</b>   | 4,179,162   |
|   | <b>₱33,218,188</b> | ₱31,199,653 |

The table below shows the Group's debt-to-equity ratio as at December 31, 2017 and 2016.

|                            | 2017               | 2016        |
|----------------------------|--------------------|-------------|
| Total liabilities (a)      | <b>₱12,518,911</b> | ₱14,151,863 |
| Equity (b)                 | <b>33,218,188</b>  | 31,199,653  |
| Debt-to-equity ratio (a/b) | <b>0.38:1</b>      | 0.45:1      |

### 38. Financial Instruments

The following method and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate such values:

#### *Cash and Cash Equivalents*

The carrying amount of cash and cash equivalents approximates its fair value due to the short-term nature and maturity of these financial instruments.

#### *Trade and Other Receivables, Trade and Other Payables and Short-term Debt*

Similarly, the carrying amounts of trade and other receivables, trade and other payables and short-term debt approximate their fair values due to the short-term nature of these accounts.

#### *Loan Receivable*

The carrying amount of loan receivable, which is the transaction price, approximates its fair value.

#### *Long-term Negotiable Instruments*

The carrying amount of long-term negotiable instruments approximate their fair values since interest are earned based on long-term cash investment rates.



*AFS Financial Assets*

The fair values were determined by reference to market bid quotes as at the end of the financial reporting period. For unquoted equity securities for which no reliable basis of fair value measurement is available, these are carried at cost, less any impairment losses.

*Long-term Debts and Long-term Payable*

The fair values of long-term debts and long-term payable are based on the present value of future cash flows discounted using applicable risk free rates for similar types of loans adjusted for credit risk.

Fair Value Hierarchy

The Group uses the following hierarchy in determining and disclosing the fair value by valuation technique:

- Quoted prices in active markets for identical asset or liability (Level 1);
- Those involving inputs other than quoted prices included in Level 1 that are observable for the asset or liability; either directly (as prices) or indirectly (derived from prices; Level 2); and
- Those inputs for assets or liability that are not based on observable market data (unobservable inputs; Level 3).

|                                       | 2017              |           |           | 2016              |           |           |
|---------------------------------------|-------------------|-----------|-----------|-------------------|-----------|-----------|
|                                       | Level 1           | Level 2   | Level 3   | Level 1           | Level 2   | Level 3   |
| <b>Assets measured at fair value:</b> |                   |           |           |                   |           |           |
| <i>AFS financial assets</i>           |                   |           |           |                   |           |           |
| Debt securities                       | ₱5,097,660        | ₱-        | ₱-        | ₱4,513,565        | ₱-        | ₱-        |
| Equity securities                     | 1,354,174         | -         | -         | 1,599,263         | -         | -         |
|                                       | <b>₱6,451,834</b> | <b>₱-</b> | <b>₱-</b> | <b>₱6,112,828</b> | <b>₱-</b> | <b>₱-</b> |

As at December 31, 2017 and 2016, the fair value of the quoted debt and equity securities is the quoted market price at the close of the business (Level 1).

As at December 31, 2017 and 2016, there were no transfers between Level 1 and Level 2 fair value measurements and no transfers into and out of Level 3 fair value measurements.

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**39. Significant Agreements**

a. Loan Agreements

*EPI*

On August 22, 2014, the Parent Company and EPI executed a loan agreement amounting to ₱551.0 million which was drawn in two (2) tranches. The first and second tranche of the loans amounted to ₱105.0 million and ₱446.0 million, respectively.

The proceeds of the first tranche loan was used by EPI to fund the activities preparatory to drilling and for the drilling of the initial two (2) wells under the Montelago Geothermal Project, while the second tranche loan was used to fund the drilling costs and related activities (to include slim or other test holes) on the said initial two (2) wells.

At the option of the Parent Company, the entire second tranche loan, and not any smaller portion thereof, may be converted into shares of stock of EPI constituting 55% of its total issued and outstanding shares, at any time before the lapse of three hundred sixty five (365) days after drawdown of the entire second tranche loan.



The loan is subject to 2% interest p.a. The first tranche of the loan is payable one year after the first drawdown on the first tranche loan or upon sale of EPI's entire shareholdings in Occidental Mindoro Consolidated Power Corporation (OMCP), whichever is earlier. The second tranche loan is payable one year after the first drawdown on the second tranche loan unless the conversion right is exercised.

For and to secure the loan and the notes covering the same, EPI executed and delivered a Pledge Agreement covering its shares of stock in OMCP consisting of 100% of OMCP's issued and outstanding shares.

As at December 31, 2015, the entire first and second tranche loan amounting to ₱105.0 million and ₱446.0 million, respectively, were fully drawn by EPI.

On April 15, 2015, the Parent Company expressed its intention to exercise its conversion right on the entire second tranche loan of ₱446.0 million to 55% equity interest in EPI, which is equivalent to 312,888,889 common shares, subject to the SEC's approval of the increase in authorized capital stock of EPI.

On July 16, 2015, the Parent Company subscribed to an additional 11% equity interest in EPI, which is equivalent to 184,052,288 common shares, for a total consideration of ₱474.0 million, subject also to the approval of EPI's increase in authorized capital stock.

The increase in EPI's authorized capital stock was approved by the SEC on July 28, 2015 and the corresponding shares were subsequently issued to the Parent Company.

The first tranche loan, including interest, was paid by EPI in August 2015.

#### *East Coast*

In relation to the Supplemental Agreement executed by CMC and East Coast on December 18, 2015, CMC agreed to lend a loan of up to ₱1,000.0 million to East Coast which is subject to 3% interest p.a. The loan was issued in two tranches of ₱150.0 million in October 2015 and ₱850.0 million in December 2015. As payment for the loan, CMC shall deduct 50% of the commission and royalties, net of withholding tax and interest, each time a commission, royalty or additional royalty is paid by CMC to East Coast. The loan is secured by a Pledge Agreement between CMC and East Coast covering the latter's rights, interests, receivables, obligations, and liabilities over the MPSA on the Cagdianao property owned by East Coast (see Note 39e).

The current portion of loan receivable amounting to ₱94.2 million and ₱98.2 million was included under "Trade and other receivables", while the noncurrent portion amounting to ₱767.6 million and ₱830.5 million was included under "Other noncurrent assets" as at December 31, 2017 and 2016, respectively (see Notes 5 and 13). Interest income from the loan amounted to ₱27.1 million, ₱29.4 million and ₱1.8 million in 2017, 2016 and 2015, respectively (see Note 29).

#### b. Throughput Agreements

##### *THNC*

On October 4, 2010, TMC and THNC executed a Throughput Agreement wherein TMC will construct the pier facilities within the TSEZ pursuant to its role as Developer. The TSEZ is



located within the Surigao Mineral Reservation, an area declared for mineral development pursuant to Proclamation 391, under the supervision of the DENR that issued an “Order to Use Offshore Area” dated September 20, 2010 to TMC for the use of such portion of the Surigao Mineral Reservation for the construction of the pier facilities. In relation to this, THNC entered into a Registration Agreement with the PEZA to construct and operate a mineral processing plant within the TSEZ as an Ecozone Export Enterprise.

Under the agreement, TMC will make available the pier facilities and provide certain services to THNC in consideration for usage fees and service fees to be paid by the latter starting April 2011 until 2031, unless terminated earlier. The usage fee amounted to US\$1.3 million for each semi-annual period to be paid on or before October 10 and April 10.

THNC also agrees to pay service fee that will be agreed upon by both parties which shall be billed on a monthly basis.

Prior to the commencement date, THNC may also request TMC to use any part of the constructed pier facilities, which is ready for use, upon payment of reasonable compensation which shall be mutually agreed by TMC and THNC.

In 2017, 2016 and 2015, service revenues from usage of pier facilities of TMC amounted to ₱135.2 million, ₱127.9 million and ₱123.7 million, respectively (see Note 34).

#### *CBNC*

Under the agreement, CBNC shall pay RTN the price which consists of all its direct costs for the pier facilities which includes but not limited to, financial costs, maintenance costs and tax as well as indirect costs directly used for the pier facilities and the services as agreed by the parties. CBNC shall pay to RTN in US\$, as a part of such financial costs, the amounts to be paid by RTN to SMM such as interests and loan repayments pursuant to the Omnibus Agreement made and entered into by and between RTN and SMM. The agreement shall continue for twenty-five (25) years after November 25, 2002 unless terminated earlier.

#### c. Memorandum of Understanding (MOU)

On September 14, 2009, the Parent Company and TMC entered into a MOU with SMM. Pursuant to the terms thereof, the Parent Company and SMM will move ahead on a joint venture basis to build a nickel-cobalt processing plant (the Project) using the HPAL technology to be located within the TMC’s mine in Surigao del Norte, while TMC will supply low-grade nickel ore to the plant over the life of the Project. The estimated cost of the Project is US\$1,420.0 million, which further increased to US\$1,590.0 million, over a three-year construction period, which started in the last quarter of 2010. The plant will have an annual capacity of 51,000 dry metric tons of mixed nickel-cobalt sulfide over an estimated thirty (30) year project life. The MOU provides that the equity share of the Parent Company and SMM shall be 20%-25% and 75%-80%, respectively.

Following the MOU is the Taganito HPAL Stockholders Agreement (the Agreement) entered into by the Parent Company, SMM and Mitsui on September 15, 2010 stating that the Project will be undertaken by THNC, a company that will be jointly owned by the Parent Company, SMM and Mitsui with equity interest of 22.5%, 62.5% and 15.0%, respectively. Pursuant to the Agreement, SMM granted THNC a non-exclusive license of technology owned by SMM to produce the products and has undertaken to provide technical assistance to THNC. The Parent Company has undertaken to cause TMC to supply THNC with nickel ore and limestone and to further cause TMC to make available to THNC the use of the land and infrastructure



necessary for the production of the products while Mitsui shall assist THNC in procuring materials and equipment necessary for the plant's operations.

Pursuant to the sale of 12.5% equity interest of the Parent Company to SMM in October 2016, the shareholding ratio of the Parent Company and SMM is 10% and 75%, respectively, as at December 31, 2017 and 2016 (see Note 10).

The Agreement also sets forth the respective rights and obligations of the Parent Company, SMM and Mitsui, including their responsibilities in respect of financing the US\$1,420.0 million, which further increased to US\$1,590.0 million, project investment undertaken by THNC.

Also, under the Agreement, the Parent Company, SMM and Mitsui agreed to make loans to THNC or guarantee the repayment of THNC's obligations in accordance with the financial requirements of THNC and in proportion to their shareholding ratio in THNC.

Pursuant to the Agreement, the Parent Company, SMM and Mitsui extended loans to THNC amounting to a total of US\$939.5 million as at December 31, 2017 and US\$803.9 million as at December 31, 2016 to cover THNC's working capital requirement, loan repayments, capital investment and/or construction of tailings dam.

The Agreement shall terminate upon the dissolution of THNC.

d. Sales Agreements

*Nickel Ore Sale Agreement with PAMCO and Sojitz* (see Note 34a)

*Nickel Ore Supply and Service Agreement with CBNC* (see Note 34a)

*Nickel Ore Supply Agreement with THNC* (see Note 34a)

*Materials Handling Agreement with THNC* (see Note 34a)

*Nickel Ore Sale Agreement with SMM* (see Note 34a)

*Nickel Ore Supply Agreements with Chinese Customers*

HMC, CMC, RTN and TMC have ore supply agreements with a number of Chinese customers, each for a fixed tonnage at specific nickel grades and iron content.

The fixed tonnage of ore is generally the volume of expected delivery within a few months. Sale of ore to Chinese customers amounted to ₱9,391.3 million, ₱9,084.7 million and ₱8,629.3 million for the years ended December 31, 2017, 2016 and 2015, respectively.

*Nickel Ore Supply Agreements with Queensland Nickel Pty Ltd (QNI)*

RTN and CMC entered into agreements with QNI covering the sale of RTN and CMC's ore products at a fixed tonnage and specific nickel grade and iron content. Sale of ore to QNI amounted to nil in 2017, ₱68.9 million in 2016 and ₱271.0 million in 2015.

*Nickel Ore Supply Agreement with Mitsubishi Corporation RTM International Pte., Ltd. and Mitsubishi Corporation RTM Japan Ltd. (Mitsubishi)*

RTN, TMC and HMC entered into an agreement with Mitsubishi, a Singapore and Japan-





based corporations, covering the sale of its ore products. Under the terms of the agreement, the ore sales are benchmarked to China prices on the basis of a negotiated price per WMT of ore. Mitsubishi shall pay 85% of the provisional invoice amount upon receipt of the required documents and pay the final payment of each shipment after the final dry weight and applicable assay have been determined. Under the agreement, the end user of the material is PAMCO. Sale of ore to Mitsubishi amounted to ₱724.8 million, ₱257.8 million and nil in 2017, 2016 and 2015, respectively (see Note 34).

e. Mining Agreements

i. *MPSA*

RTN

On June 4, 1998, the Government approved the conversion of RTN's Mining Lease Contracts under the old mining regime into an MPSA with the Government pursuant to the Philippine Mining Act of 1995. The MPSA allows RTN to explore, develop and continue mining operations for nickel ore within the contract area covering 990 hectares in the Municipality of Bataraza, Southern Palawan Island. Under RTN's Environmental Compliance Certificate (ECC), however, 144 hectares of the contract area are excluded from mining operations, being located within an area classified as "core zone" where mining is prohibited under current regulations of the Palawan Council for Sustainable Development (PCSD).

On April 28, 2005, RTN and the Government entered into a second MPSA covering 85 hectares in the Municipality of Bataraza, which allows RTN to mine limestone in Sitio Gotok. Limestone being mined by RTN pursuant to this second MPSA is being sold to CBNC for the latter's Coral Bay HPAL plant and to a third party.

Under both MPSAs, RTN pays a 2% excise tax on gross revenues as provided in the Philippine National International Revenue Code as the Government's share in its output. Both MPSAs are valid for twenty-five (25) years from issuance and renewable for another term of not more than twenty-five (25) years at the option of RTN, with approval from the Government.

On June 20, 2003, RTN submitted an Application for MPSA covering previously approved Mining Lease Contracts over an area of 4,274 hectares within the Municipalities of Bataraza and Rizal. Most of the contract area is within the core zone and the application is pending.

On May 30, 2008, the PCSD issued a resolution interposing no objections to the revision by the Municipality of Bataraza of its Environmentally Critical Areas Network map that, among others, seeks to reclassify the core zone within the contract area into a mineral development area. The reclassification was approved by the Municipal Development Council of the Municipality of Bataraza on November 18, 2009, and subsequently approved by the Provincial Board on January 5, 2010.

On September 1, 2015, the Strategic Environmental Plan clearance was issued by PCSD to RTN which is a requirement in obtaining ECC approval from DENR. The processing of the Application for MPSA by the MGB is consequently under way.



### HMC

#### *Taganaan Nickel Project*

On July 25, 2008, the Government approved the conversion of HMC's Mining Lease Contract into an MPSA, which allows HMC to explore, develop and continue mining operations for nickel ore within the contract area covering 773.77 hectares in the Municipality of Taganaan, Surigao del Norte. Under the MPSA, HMC pays the Government a 2% excise tax and a 5% royalty on gross revenues, as the contract area is within the Surigao Mineral Reservation. The MPSA is valid for twenty-five (25) years from issuance and renewable at the option of HMC, with approval from the Government.

#### *Manicani Nickel Project*

On August 13, 1992, HMC and the Government entered into an MPSA, which allows HMC to explore, develop and mine nickel ore within the contract area covering 1,165 hectares in Manicani Island, Municipality of Guiuan, Eastern Samar. Under the MPSA, HMC shall pay the Government a 2% excise tax, a 1% royalty and 10% of its net revenues, defined as gross revenues less all cost items that are deductible for income tax purposes. The MPSA is valid for twenty-five (25) years from issuance and renewable at the option of HMC, with approval from the Government.

On August 2, 2004, the Regional Panel of Arbitrators of the MGB recommended the cancellation of the MPSA as a result of allegations by third parties against the operations of HMC. On September 4, 2009, the Mines and Adjudication Board of the DENR issued a decision setting aside the decision of the Panel of Arbitrators. Hence, the MPSA remains in effect. HMC is currently not conducting mining operations in Manicani.

On May 23, 2016, HMC applied for the renewal of its MPSA in Manicani which expired on August 13, 2017. HMC is yet to receive the confirmation from DENR.

### TMC

On July 28, 2008, the Government approved the conversion of TMC's Operating Contract into an MPSA, which allows TMC to explore, develop and continue mining operations for nickel ore within the contract area covering 4,584.51 hectares in the Municipality of Claver, Surigao del Norte. On June 18, 2009, the MPSA was amended, increasing the contract area to 4,862.71 hectares. The MPSA is valid until July 28, 2033.

Under the MPSA, TMC pays the Government a 2% excise tax and a 5% royalty, as the contract area is within the Surigao Mineral Reservation. The MPSA is valid for twenty-five (25) years from issuance and renewable at the option of TMC, with approval from the Government.

### Geogen

On July 30, 2007, the Platinum Group Metals Corporation (PGMC) and the Government entered into an MPSA, which allows PGMC to explore, develop and mine nickel ore within the contract area covering 2,392 hectares in the Municipality of Dinapigue, Province of Isabela.

On January 6, 2009, PGMC and Geogen executed a Deed of Assignment transferring to Geogen all the rights, title and interest in and into the MPSA over the contract area.

Under the MPSA, Geogen shall pay the Government a 2% excise tax. The MPSA is valid for twenty-five (25) years from issuance and renewable at the option of Geogen, with approval from the Government.



ii. *Operating Agreements*

TMC

*La Salle*

On December 18, 2006, TMC entered into an Operating Agreement with La Salle, the holder of an Application for MPSA covering 6,824 hectares in the Municipality of Gigaquit, Surigao del Norte. The Operating Agreement allows TMC to explore, develop and mine nickel ore and limestone once the MPSA is approved, and obliges it to assist La Salle in obtaining the MPSA and to comply with the terms thereof once issued.

The Operating Agreement specifies a royalty to La Salle of 5% for nickel ore and ₱10.00 per metric ton for limestone. Upon signing of the Operating Agreement, TMC made an advance royalty payment of ₱1.0 million repayable by deductions from future royalties at a rate of 25% per year over a period of four (4) years. As at December 31, 2017, the MPSA remains pending.

On January 11, 2016, TMC issued a Notice of Exclusion of the limestone deposit from the Operating Agreement to La Salle. In 2017, 2016 and 2015, TMC has written-off the deferred charges relating to the limestone development and exploration amounting to nil, ₱1.5 million and ₱5.5 million, respectively (see Note 31).

*Kepha*

On February 14, 2007, TMC entered into an Operating Agreement with Kepha, the holder of MPSA No. 284-2009-XII-SMR covering 6,980.75 hectares in the Municipality of Claver, Surigao del Norte. The Operating Agreement allows TMC to explore, develop and mine nickel ore and limestone and obliges it to comply with the terms of the MPSA.

The Operating Agreement specifies a royalty to Kepha of 5% for nickel ore and ₱10.00 per metric ton for limestone. Upon signing of the Operating Agreement, TMC made an advance royalty payment of US\$1.0 million and ₱6.3 million, repayable by deductions from future royalties at a rate of 10% per year over a period of ten (10) years.

On June 19, 2009, the MPSA was issued to Kepha. Under the terms thereof, upon the start of mining operations, TMC shall pay the Government a 2% excise tax and a 5% royalty, as the contract area is within the Surigao Mineral Reservation. The MPSA is valid for twenty-five (25) years from issuance and renewable at the option of Kepha, with approval from the Government. There were no drilling activities related to the Kepha project in 2017 and 2016.

On February 13, 2017, the DENR issued a show cause order directing Kepha to explain why its MPSA should not be cancelled for being allegedly within a watershed, which is protected under the Philippine Mining Act of 1995 and other existing applicable laws, rules and regulations. On February 24, 2017, Kepha replied to the letter stating that based on the MGB Region XIII's downloadable tenement map, the MPSA area is outside of any existing legally proclaimed watershed.

*Ludgoron*

On August 28, 2007, TMC entered into an Operating Agreement with Ludgoron, the holder of an MPSA with Government issued on July 27, 2007 covering a contract area of 3,248 hectares in the Municipality of Carrascal, Surigao del Sur. The Operating Agreement allows TMC to explore, develop and mine nickel ore and obliges it to comply with the terms of the MPSA.



Under the MPSA, upon the start of mining operations, TMC shall pay the Government a 2% excise tax and a 5% royalty, as the contract area is within the Surigao Mineral Reservation. The MPSA is valid for twenty-five (25) years from issuance and renewable at the option of Ludgoron, with approval from the Government.

Under the Operating Agreement, TMC shall pay Ludgoron a royalty of 5%. Upon signing of the Operating Agreement, TMC made an advance royalty payment of US\$1.0 million, repayable by deductions from future royalties at a rate of 10% per year over a period of ten (10) years. In 2009, an additional advances against royalties amounting to ₱10.0 million was made in order to allow Ludgoron to settle a claims conflict.

On October 10, 2014, TMC rescinded and terminated the Operating Agreement with Ludgoron. Ludgoron is obliged to return to TMC the amount of ₱66.8 million which represent advances to claimowners. Ludgoron already paid TMC an amount of ₱10.0 million and will pay additional ₱23.4 million upon approval of MGB of the transfer of the Operating Agreement to Kafugan Mining Incorporated. The remaining balance will be assumed and settled by Kepha as its own valid and legal obligation in due time.

On January 20, 2016, Ludgoron paid an additional ₱23.4 million in relation to the termination of the Operating Agreement with TMC.

#### CMC

##### *East Coast*

On November 19, 1997, CMC entered into a Memorandum of Agreement (MOA) with East Coast, the holder of an MPSA with the Government issued on the same date covering a contract area of 697.05 hectares in the Municipality of Cagdianao, Dinagat Islands. The MOA allows CMC to explore, develop and mine nickel ore and obliges it to comply with the terms of the MPSA.

The MOA expired on November 19, 2007 and was renewed for a period of ten (10) years. In consideration, East Coast was paid ₱100.0 million upon signing of the extension which was recorded as advances to claimowners, repayable over a ten (10) year period at a rate of ₱10.0 million per year. The MPSA is valid for twenty-five (25) years from issuance and renewable at the option of East Coast, with approval from the Government.

Under the MPSA, CMC pays the Government a 2% excise tax and a 5% royalty, as the contract area is within the Surigao Mineral Reservation.

On July 29, 2013, East Coast and CMC agreed to reduce for one (1) year period the marketing and royalty fees. Royalty payment to East Coast was reduced from 7% (net of withholding taxes) to 5% during the period. Advances against future royalties, to which the royalty payment shall be credited was also reduced from ₱10.0 million per year to ₱3.6 million and ₱6.4 million in 2013 and 2014, respectively. The repayment of advances at ₱10.0 million per year resumed in 2015 up to 2018.

Further, on December 18, 2015, CMC and East Coast executed a Supplemental Agreement to provide for the automatic renewal of the term of the MOA for another twenty-five (25) years after its expiration, or from 2022 to 2047. The MOA has not been terminated and continues to be in full force and effect subject to the supplemental terms agreed by CMC and East Coast. In consideration of the new term as well as the other conditions contained in the Supplemental



Agreement, CMC agreed to lend East Coast a loan of up to ₱1,000.0 million upon fulfillment of certain conditions and pay additional royalties amounting to ₱150.0 million (see Note 39a). Thereafter, CMC shall pay East Coast commission and royalties as follows:

- Commission equivalent to 3.5% on the gross sales amount of all nickel ore;
- Royalties equivalent to either 7% or 8.75% on the gross sales amount of all nickel ore depending on the monthly average LME nickel settlement price; and
- Additional royalty ranging from ₱10.0 million to ₱50.0 million depending on CMC's audited net income after tax less the additional royalty amount.

The commission expense related to East Coast that is reported under "Marketing" amounted to ₱78.7 million, ₱74.6 million and ₱98.6 million in 2017, 2016 and 2015, respectively.

#### *BOA Exploration Agreement*

On October 12, 2004, CMC executed a MOA with Norweah Metals and Minerals Company, Inc. (Norweah) for the exclusive rights to explore, develop, exploit and operate the mineral property subject of MPSA No. 241-2007 covering an area of 226.0235 hectares situated in Boa, Municipality of Cagdianao, Province of Dinagat Islands, Surigao del Norte. The MOA is effective for a ten (10) year period commencing on July 12, 2007, the date the MPSA was approved.

On October 5, 2016, CMC and Norweah entered into a Mutual Rescission of the MOA wherein the parties agreed to free each other from any and all of their respective obligations under the said MOA effective August 31, 2016. As a result, deferred mine exploration costs of ₱5.8 million (₱5.0 million of which was already provided with an allowance for impairment losses) was written off resulting in a loss of ₱0.8 million. Further, advances to claimowners related to the MOA amounting to ₱5.4 million was also written off (see Note 31).

#### Geogen

Geogen and NiHAO Mineral Resources International Inc. (NiHAO) entered into an Operating Agreement on June 13, 2012, under which NiHAO shall have the exclusive right to explore, operate, mine, develop and process minerals found within Geogen's mineral property.

Pursuant to the agreement, Geogen shall pay NiHAO an amount equivalent to 90% of the invoice value of the nickel ore sold by Geogen to third parties in consideration of the services to be performed by NiHAO. This agreement superseded the General Contractor Agreement entered into by NiHAO with Geogen on March 5, 2012. The General Contractor Agreement was executed to appoint NiHAO as Geogen's general contractor for the Isabela Nickel Project.

In connection to the acquisition of Geogen by NAC, NiHAO's operating rights over the Isabela Nickel Project will be converted into preferred shares of Geogen, which shares shall be entitled to dividends corresponding to 20% of operating income, net of income tax, subject to Shareholder's Agreement to be executed between NiHAO and Geogen. As at December 31, 2017, the Shareholder's Agreement is not yet executed.

#### f. Loan Guarantee/Substitution Agreement

##### *RTN*

Under a loan guarantee service agreement dated October 22, 2002 between RTN and SMM, the latter agreed to satisfy RTN's CBNC loan obligations in consideration of the payment by



RTN to SMM of an annual fee equal to 1% of the relevant outstanding amount.

The fee is payable every February 21 and August 20 of each year. In case of default, such loan guarantee service agreement will be terminated and RTN shall provide loans to CBNC or guarantee the repayment of CBNC's loans payable. Failure to provide such loans or guarantee shall be considered a default under the CBNC Stockholder Agreement. The loan guarantee service agreement has ended last August 20, 2015 due to full payment of the related loan obligation.

The loan guarantee service fee amounting to nil in 2017 and 2016 and ₱0.2 million in 2015 is recorded under "Finance expenses" in the consolidated statements of income (see Note 30).

#### *NAC*

Under a loan guarantee/substitution agreement dated December 9, 2011 between the Parent Company and SMM, the latter agreed to substitute for the Parent Company to make loans or guarantee the repayment of THNC pursuant to the Stockholders Agreement dated September 15, 2010.

In consideration of the loans and guarantee made by SMM, the Parent Company shall pay to SMM an annual fee equal to 1% of the relevant outstanding amount, which is payable every February 21 and August 21 of each year.

On January 26, 2015, December 18 and December 3, 2013, the Parent Company and SMM entered into another loan guarantee/substitution agreement with respect to the new loan agreement made and entered by THNC and SMM on August 4, 2014, December 3 and January 31, 2013, respectively. The annual fee is also equal to 1% of the relevant outstanding amount, which is payable every March 21 and September 21 of each year.

In case of default, such loan guarantee/substitution agreements will be terminated and the Parent Company shall provide loans to THNC or guarantee the repayment of THNC's loans payable. Failure to provide such loans or guarantee shall be considered a default under the Stockholders' Agreement.

The loan guarantee service fee amounting to ₱66.7 million, ₱100.0 million and ₱124.0 million in 2017, 2016 and 2015, respectively, is recorded under "Finance expenses" in the consolidated statements of income (see Note 30).

#### g. Power Supply Agreements (PSAs)

##### *Surigao Del Norte Electric Cooperative, Inc. (SURNECO)*

On October 31, 2013, the Parent Company and SURNECO signed a fifteen (15) year PSA. Under the terms of the PSA, the Parent Company has agreed to construct, operate, and maintain a 10 MW bunker-fired diesel power station under build-operate-transfer scheme and to supply electricity to SURNECO.

The total estimated cost to construct the 10 MW bunker-fired diesel power station is about ₱1,000.0 million, which was appropriated from its retained earnings (see Note 18).

The power plant underwent endurance test and commissioning from September 26 to October 12, 2016 to determine its readiness to operate and dispatch power to SURNECO through the grid's 69KV power system. Minor modifications were identified and incorporated



into the plant design. The impact of the earthquake in February 2017 in Surigao City partially affected the installation at the connection asset, hence, repairs were done. The power plant was finally re-connected to the grid in April 2017 and is awaiting for the Certificate of Compliance (COC) from the ERC.

However, while the application for COC is on process, ERC issued the PAO for six months from July 10, 2017 to January 9, 2018 and subsequently extended for another six months from January 10, 2018 to July 9, 2018.

As of this date, negotiation as to the date of commercial operations is ongoing.

Total income from and cost of power generation during testing and commissioning period amounted to ₱6.6 million and ₱18.2 million, respectively, in 2016 and nil in 2017 and 2015 (see Note 31).

#### *Palawan Electric Cooperative (PALECO)*

##### Bunker Supply

In July 2015, EPI and PALECO entered into a PSA for the supply of electricity, which will be generated from modular and land-based bunker-fired power stations, collectively the “Bunker Power Stations”, with a contracted capacity of 15 MW up to 25 MW.

Under the PSA, EPI shall design, develop, construct, complete, test and commission, operate and maintain the Bunker Power Stations, as well as all activities related or incidental thereto. Commencing on the completion date and continuing up to the 20th year from effective date, as defined in the PSA, PALECO shall pay EPI an amount equal to the summation of the Bunker Power Costs of the Generating Units plus Reserve Power Costs, plus any VAT and any other applicable taxes, fees, and charges. PALECO shall also pay EPI a payment security, as defined in the PSA. As at December 31, 2017, construction of the sub-transmission facility has yet to be approved by the ERC.

##### Solar Supply

In 2015, EPI entered in a PSA with PALECO for the construction and development of a 10 MW AC Solar Photovoltaic Power Station (the “Solar PV Power Station”). Under the PSA, EPI shall design, engineer, develop, construct, complete, test, commission, finance, operate and maintain the Solar PV Power Station and all activities related or incidental thereto of PALECO. All costs in connection with the building of the Solar PV Power Station shall be borne by EPI, and shall be responsible for arranging all necessary funding including any available preferential credit. During the commissioning date, PALECO shall put up, a commissioning output at a rate equivalent to the adjusted operation and maintenance component plus any VAT and any other applicable taxes, fees, and charges. Following the commercial operation date and continuing up to the 20th year from effective date, as defined in the PSA, PALECO shall pay EPI monthly fees equal to the capital recovery fee of the Solar PV Power Station plus fixed operations and maintenance fee and any VAT and any other applicable taxes. As at December 31, 2017, construction of the sub-transmission facility has yet to be approved by the ERC.

#### *Oriental Mindoro Electric Cooperative (ORMECO) and Occidental Mindoro Electric Cooperative (OMECO)*

In February 2014, EPI entered into separate PSAs with ORMECO and OMECO. Under the terms of the PSAs, EPI is committed to sell and deliver approximately 20 MW each of geothermal power from the project to ORMECO and OMECO for a period of twenty-five (25)



years. The PSAs are renewable upon the agreement of the parties and approval of the ERC.

On November 3, 2014 and December 1, 2014, EPI was granted by the ERC of the Final Authorities on the PSAs with OMECO and ORMECO, respectively. On November 24, 2014, EPI and MGPC entered into a Deed of Assignment for the transfer of EPI's rights and obligations under GRESC No. 2010-02-013 to MGPC.

On December 5, 2014, EPI requested from the DOE the approval of the transfer of GRESC No. 2010-02-013 or the Montelago Geothermal Energy Project to MGPC. On February 16, 2016, the DOE approved the said transfer.

In connection with the assignment of the service contract to MGPC, the refundable deposits pertaining to compliance with the PSAs with OMECO and ORMECO were transferred by EPI to MGPC being the Project Entity.

*TeaM (Philippines) Energy Corporation (TPEC)*

On December 28, 2016, MEI entered into an interim supply agreement with TPEC for the supply and delivery up to the Sual Plant Gate, the interim energy requirement of 3.0 MW at 100% load factor for MEI and to its contestable customers. MEI shall pay the amount billed on a monthly basis. The contract is from February 26, 2017 until February 25, 2019. On February 6, 2017, TPEC agreed to a reduction of contract capacity from 3.0 MW to 1.5 MW, subject to the payment of unwinding costs in the amount of \$53,000 or ₱2.6 million. MEI purchased power from TPEC amounting to ₱21.4 million in 2017 and nil in 2016 and 2015 which was wheeled and conveyed to the facilities of the MEI's customers (see Note 23).

h. Service Contracts

*Solar Energy Service Contract No. 2015-01-099*

On January 20, 2015, EPI entered into a SESC No. 2015-01-099 with the DOE which grant EPI the right to explore, develop and utilize the solar energy resources within the contract area of 324 hectares in the province of Pili, Camarines Sur.

Under the SESC, EPI assumes all the technical and financial risks without any guarantee from the Philippine Government and shall not be entitled to reimbursement for any expense incurred in connection with the SESC.

The SESC carries a non-extendible two (2) year period of pre-development stage, which involves the preliminary assessment and feasibility study. The SESC shall remain in force for the remainder of twenty-five (25) years from date of effectivity if the solar energy resources are discovered to be in commercial quantities. If EPI has not been in default of any material obligations under the SESC, the DOE may grant EPI an extension of the SESC for another twenty-five (25) years. The full recovery of the project development costs incurred in connection with the SESC is dependent upon the discovery of solar energy resources in commercial quantities from the contract area and the success of future development thereof. EPI has not yet started the exploration and pre-development activities.

*Solar Energy Service Contract No. 2013-10-039*

On October 31, 2013, Jobin entered into a SESC with the DOE. The SESC covers an area of approximately 2,997 hectares in the municipalities of Morong and Hermosa, in the province of Bataan. The SESC is for a period of twenty-five (25) years, inclusive of a two (2) year pre-





development stage, and renewable for another twenty-five (25) years. The government share under the SESC shall be 1% of the gross income from the sale of electricity generated from the solar energy operations.

On August 28, 2015, Jobin was granted a Certificate of Confirmation of Commerciality by the DOE for its 100.44 MW Sta. Rita Solar Power Project located in Mt. Sta Rita, SBFZ. The certificate converts the project's SESC from exploration/pre-development stage to the development/commercial stage.

On March 11, 2016, Jobin's Certificate of Confirmation of Commerciality originally rated for the 100.44 MW was amended by DOE to 7.14 MW and 92.86 MW Sta. Rita Solar Power Project Phase I and II, respectively.

*Wind Energy Service Contract No. 2013-10-062*

On October 31, 2013, Jobin entered into a WESC with the DOE. The WESC covers an area of approximately 2,997 hectares in the municipalities of Morong and Hermosa, in the province of Bataan. The WESC is for a period of twenty-five (25) years, inclusive of a three (3) year pre-development stage, and renewable for another twenty-five (25) years. The government share under the WESC shall be 1% of the gross income from the sale of electricity in the wind project.

*Geothermal Renewable Energy Service Contract No. 2014-02-054*

GRES No. 2010-02-013, which covers an approximate area of 3,914 hectares in the three barangays of Montelago, Montemayor and Melgar-B in Oriental Mindoro, involves the development of geothermal well clusters and a power plant. The steam extracted from the geothermal wells will power a geothermal power station with an output capacity of at least 20 MW. Once completed, the addition of geothermal power into the present mix of Mindoro's electricity sources will have a stabilizing effect on the grid where the entire island is located.

The Project is in the exploration stage as at December 31, 2017.

As RE Developer, EPI undertakes to provide financial, technical, or other forms of assistance with the DOE, and agrees to furnish the necessary services, technology, and financing for the geothermal operations. EPI shall assume all financial risks such that if no geothermal resources in commercial quantity is discovered and produced, EPI shall not be entitled to reimbursement for any expenses incurred in connection with the GRES.

Certificate of Registration No. 2014-02-054 shall remain in force for the remainder of twenty-five (25) years from date of effectivity if geothermal resources in commercial quantity are discovered during the pre-development stage, or any extension thereof. Moreover, if EPI has not been in default in its obligations under the GRES, the DOE may grant an additional extension of twenty-five (25) years, provided that the total term is not to exceed fifty (50) years from the date of effectivity.

On November 24, 2014, EPI and MGPC entered into a Deed of Assignment for the assignment of EPI's rights and obligations under the GRES to MGPC. On December 5, 2014, EPI applied with the DOE to transfer the GRES to MGPC. The DOE approved EPI's application on February 16, 2016 under Certificate of Registration No. 2016-02-060.



*Geothermal Renewable Energy Service Contract No. 2010-02-010*

By virtue of RA 9513 known as the Renewable Energy Act of 2008, on February 1, 2010, the DOE issued to BGI GRESC No. 2010-02-010, converting its Geothermal Services Contract (GSC-09) issued on July 10, 2008 for the exploration, development and exploitation of geothermal resources covering the geothermal field in Biliran Province (previously a municipality of Leyte). By virtue of such agreement, BGI is entitled to enjoy an income tax holiday for a period of seven (7) years from the start of its commercial operation, duty free importation of machinery for ten (10) years, and 0% VAT, among others.

*Geothermal Renewable Energy Service Contract No. 2017-03-056*

This GRESC is a spin-off of the above BGI GRESC, issued by the DOE, and delineates the northern area of the island province of Biliran as a separate BGI exclusive development zone with a greenfield status.

i. Sub-transmission Service Agreement (SSA) with PALECO

In 2015, EPI entered into a SSA with PALECO for the installation of 69kV sub-transmission facilities and associated components (substations), and the connection of said facilities to PALECO's distribution system for the delivery of reliable power supply to the municipalities of El Nido, Taytay, San Vicente and Roxas (the "Municipalities"). Under the SSA, EPI shall develop, design, construct, install, test and commission, and finance the sub-transmission lines and substations in the Municipalities. Commencing on the completion date and continuing up to the 20th year from effective date, as defined in the SSA, PALECO shall pay monthly fees as defined in the SSA, plus any VAT and any other applicable taxes, fees and charges. PALECO shall also pay EPI a payment security equivalent to one month fee, which shall be in the form of a thirty (30)-day revolving letter of credit from a financial institution and with a maturity of three hundred sixty five (365) days. As at December 31, 2017, ERC approval of the sub-transmission facility has not yet been acquired.

j. Assignment of GRESC from Constellation Energy Corp. (CEC) to EPI

On January 18, 2013, EPI entered into a MOA with CEC wherein the parties agreed that the former, eventually through a Project Company, shall develop and undertake the 20 MW Geothermal Power Plant Project (Project) initially developed by CEC by virtue of the GRESC No. 2010-02-013 granted by the DOE. On the same date, the parties entered into a Deed of Assignment for the assignment of CEC's rights and obligations under the GRESC to EPI.

In compliance with provisions of the MOA and Deed of Assignment:

- On January 25, 2013, EPI applied with the DOE to officially register EPI as RE Developer and effectively recognize EPI's ownership of the GRESC. The DOE approved EPI's application on February 14, 2014.
- On February 3, 2014, EPI was awarded the bid from and has signed the PSA with ORMECO. In the same period, the amount of US\$750,000 was paid to CEC.
- On November 3, 2014 and December 1, 2014, EPI was granted by the ERC Final Authority on the PSAs with OMECO and ORMECO, respectively. However, EPI filed a Motion because certain terms are not acceptable to EPI. As at December 31, 2017, the Motion is still pending with the ERC.
- On May 7, 2014, EPI incorporated MGPC as the Project Company.
- On September 21, 2015, EPI made an additional advance payment of US\$350,000 to CEC and the remaining balance as at December 31, 2016 is US\$1,400,000.



- On June 23, 2017, EPI, MGPC and CEC executed a MOA transferring to MGPC the obligation to pay the fees to CEC. Accordingly, of the remaining amount of US\$1,400,000, MGPC paid US\$525,000 to CEC in 2017 and the balance of US\$875,000 remains unpaid as at December 31, 2017.

k. Participation and Shareholder's Agreement

In May 2011, the Parent Company and SMM signed a Participation and Shareholder's Agreement containing terms of SMM's expected equity participation in CExCI. Under the terms of the Agreement, SMM will invest US\$1.5 million in CExCI for 25% equity. Once such funds have been exhausted, SMM has the option to invest US\$2.8 million for an additional 15% equity which would bring its total equity in CExCI to 40%. SMM did not exercise its option to make the additional investment and the said agreement was terminated.

CExCI has identified a new property for exploration and development in the province of Zambales under Newminco, which is prospective for gold and copper. In relation to this, SMM will put up an additional US\$2.8 million to increase its ownership from 25% to 40%.

On November 24, 2015, the shareholders of CExCI agreed to enter into a new Participation and Shareholder's Agreement to set out the rights and obligations of the shareholders in relation to the conduct of the business of CExCI. The new agreement also causes CExCI to convert the existing advances from shareholders amounting to ₱37.2 million into equity, based on the initial equity proportion of shareholders, by issuing shares out of the unissued authorized capital stock of CExCI at a premium. CExCI has filed the application for the conversion of advances into equity with the SEC. As at December 31, 2017, CExCI is still waiting for the SEC's approval of the conversion of advances into equity.

On December 18, 2015, the BOD of CExCI approved the increase in authorized capital stock of the latter. Upon approval of the SEC of the application for increase in authorized capital stock of CExCI, the additional investment of SMM amounting to US\$2.8 million, which is equivalent to ₱131.9 million, will be converted into equity. After the conversion, the Parent Company and SMM's equity in CExCI shall be 57% and 40%, respectively.

l. Marketing Agreement with Mitsubishi

RTN, TMC and HMC entered into a Marketing Agreement with Mitsubishi, wherein the latter will provide the services set forth below:

- a) To use its reasonable endeavors in collecting, studying and analyzing the market information related to nickel ore, iron ore, nickel pig iron, and stainless steel;
- b) To periodically report market information defined in the marketing agreement;
- c) To make efforts to introduce customers to RTN, TMC and HMC and provide support to the Group in negotiating the price and terms and conditions of sales contracts of the products by and between the Group and customers; and
- d) To monitor and assess trends of customers and support RTN, TMC and HMC to create an effective pricing strategy and marketing plan.

Marketing fees of 3.5% shall be charged to RTN, TMC and HMC based on the total amount of revenue on free-on-board price stated in the invoices issued by RTN, TMC and HMC to each customer.

Marketing fees charged by Mitsubishi amounted to ₱17.8 million, ₱21.3 million and ₱31.6 million in 2017, 2016 and 2015, respectively.



m. Lease Agreements

*Lease of Project Area from SBMA*

On April 29, 2015, Jobin entered into a fifty (50) year lease agreement with SBMA for the use of the 800 hectares project area of the solar and wind projects at Mt. Sta. Rita in Subic on a monthly lease payment amounting to ₱34,000 per MW installed on the leased area based on the allocation approved by the DOE.

Jobin also agreed to various investment and social commitments as follows:

- infuse an investment at around US\$200.0 million on the leased areas in the form of the lessee's machineries, equipment, parts, construction, labor and supplies within three (3) years from approval of capacity by the DOE or from October 29, 2015.
- introduce developments on the leased areas based on the annual work program approved by DOE.
- install utility post for the transmission lines from the leased areas to service substation of National Commission for Indigenous Peoples (NCIP) in coordination with Subic Enerzone Corp.
- compensate the Indigenous Cultural Community of Aeta for its share amounting to 5% of the monthly rental per MW installed by the lessee.
- build an access road from the leased area to the public road and renewable energy park for education and tourism.

On June 9, 2016, the agreement was amended and additional terms were added such as upon execution of member/affidavit of waiver and quitclaim of trees planted in the leased property, Jobin shall advance the amount of ₱7.02 million as compensation for the trees planted by the farmers/members of the Mabiga Community Farmers Association Inc. (MCFAI) within the initial 256 hectares of land in the leased property affected by the wind and solar project, wherein the amount paid in advance shall be considered as advanced rental payment and shall be deducted from Jobin's rental obligation in the future.

On March 21, 2017, the agreement was amended and additional conditions were added such as upon execution of member/affidavit of waiver and quitclaim of trees planted in the leased property, Jobin shall advance the amount of ₱2.7 million as compensation for the trees planted by the farmers/members of the MCFAI occupying the six (6) farm lots with a total area of 71.45 hectares in the leased property affected by the solar and wind project, wherein the said amount paid shall be considered advanced rental payment and shall be deducted from its rental obligation in the future

*Lease of NGCP Facility*

On September 18, 2015, Jobin entered into a fifty (50) year lease agreement with SBMA for the use of a 280 square meter (sq. m.) building and 2,300 sq. m. lot located near the NGCP Facility, Subic Gateway Park, SBFZ on a monthly rental of ₱0.03 million and ₱0.22 million, respectively.

The lease agreement are also subject to the following terms and condition:

- in addition to the monthly rental, Jobin shall pay 5% of the appraised value of the leased property as share of the Aeta Community for areas covered by Certificate of Ancestral Domain Title;
- Jobin is given a grace period of two (2) years (free of rent) between the period September 12, 2015 to September 11, 2017; and



- the lease agreement is subject to a 6% percent annual escalation beginning on the second year of the lease and imposable annually thereafter.

The future minimum rent payable under non-cancellable operating lease are as follows:

|   | 2017            | 2016     |
|---|-----------------|----------|
| One (1) year  | <b>₱3,109</b>   | ₱1,016   |
| After one (1) year but not more than five (5) years | <b>18,578</b>   | 17,527   |
| More than five (5) years                            | <b>759,365</b>  | 763,525  |
|   | <b>₱781,052</b> | ₱782,068 |

*Lease Agreement with THNC*

On October 31, 2013, TMC and THNC executed a lease agreement wherein TMC will lease the land within the TSEZ to the lessee. The TSEZ leased area of approximately 675 hectares is located at Barangays Taganito and Hayanggabon, Claver, Surigao del Norte. The duration of the lease agreement shall be for a period of twenty (20) years starting January 1, 2013, however, rental rate shall be annually agreed by both parties. TMC's rental income from the said lease amounted to ₱6.7 million in 2017, 2016 and 2015 (see Notes 31 and 34).

In the above lease agreement, it was agreed by TMC and THNC that the option fee of ₱83.8 million received in 2010 shall be treated as advance rental and deducted from the annual rental fee. The same shall be equally applied to each year of the lease term or ₱4.2 million each year of the twenty (20) year lease term.

As at December 31, 2017 and 2016, the carrying value of deferred income - net of current portion amounted to ₱58.7 million and ₱62.8 million, respectively.

*Lease Contract with the DENR*

TMC is a party to a lease contract dated April 10, 2003 with the DENR over a tract of foreshore land located at the Taganito mine comprising an area of approximately 12,000 sq. m. The foreshore lease has a term of twenty-five (25) years from the date of issue, unless terminated earlier. The DENR may renew the foreshore lease for another twenty-five (25) years, at its option. In accordance with the foreshore lease, TMC constructed permanent improvements appropriate for the wharf to facilitate the barging of mine ore to customers' vessels. Under the terms of the lease, if TMC uses or attempts to use the premises for other purposes, all rights and interests, including the improvements, will be forfeited in favor of the Government. Upon the termination of the lease or any extension, all improvements made by TMC will become the property of the Government.

n. PEZA and Board of Investments (BOI) Registration

*Registration with PEZA - TMC*

On December 21, 2009, Presidential Proclamation No. 1966 was issued creating and establishing the 680 hectare area situated in Taganito, Municipality of Claver, Province of Surigao Del Norte to be known as TSEZ. TMC is a PEZA-registered operator/developer of the economic zone as per Certificate of Registration No. EZ 10-01. The certificate of registration was signed on January 7, 2010.

Pursuant to TMC's registration with PEZA as an economic zone developer/operator, TMC is entitled to certain incentives in accordance with the provisions of RA No. 7916, otherwise known as "the Special Economic Zone Act of 1995", as amended.



Under PEZA Board Resolution No. 11-08 dated March 1, 2011, its directors approved TMC's application for extension of its existing TSEZ. On July 28, 2011, pursuant to the resolution, the Government issued Proclamation No. 211 designating parcels of land with an aggregate area of 7.5 hectares located at Barangay Taganito, municipality of Claver, Province of Surigao del Norte, for inclusion to the existing TSEZ.

On January 23, 2013, PEZA issued a Letter of Authority No. 13-0426 allowing TMC to allocate 1 hectare lot within the TSEZ located at Barangay Taganito, Claver, Surigao del Norte as relocation site for the residents along Hayanggabon River, Barangay Hayanggabon, Claver, Surigao del Norte.

On December 27, 2016, PEZA issued a certification entitling TMC qualification for the purpose of VAT zero-rating of its transactions with local suppliers of goods, properties and services and exemption from all national and local taxes and licenses except real property taxes on land owned by TMC and those required to be paid under the MPSA dated July 28, 2008. In lieu thereof, TMC shall pay 5% final tax on gross income. The certification is valid from January 1 to December 31, 2017 and renewable annually, unless otherwise revoked or suspended by PEZA prior to expiration of said period.

*Registration with PEZA - RTN*

On December 13, 2002, RTN registered with the PEZA as the developer/operator of Rio Tuba Processing Zone, located in Barangay Rio Tuba, Municipality of Bataraza, Palawan. The PEZA-registered activities are entitled to certain tax and nontax incentives. Starting 2003, such activities are already subject to 5% tax based on GIT in lieu of national and local taxes and licenses except those required to be paid under the MPSA dated June 4, 1998 executed by and between the DENR and RTN.

*Registration with SBMA - Jobin*

On January 20, 2011, Jobin was registered with the SBMA as a Subic Bay Freeport Enterprise, primarily to promote and undertake research, development, utilization, manufacture, sale, marketing, distribution and commercial application of new, renewable, non-conventional and environment-friendly energy sources and system at Mt. Sta. Rita, SBFZ. The SBMA-registered activities are entitled to certain tax and non-tax incentives. In lieu of paying the regular taxes, Jobin pays 5% final tax on gross income earned, subject to the condition that Jobin's income from sources within the Custom Territory should not exceed 30% of its total income from all sources. Otherwise, Jobin shall be subject to the income tax laws of the Custom Territory.

*BOI Certifications*

TMC, RTN, HMC and CMC received BOI certifications pursuant to Revenue Memorandum Order No. 9-2000 entitled "Tax Treatment of Sales of Goods, Properties and Services made by VAT-registered Suppliers to BOI registered Manufacturers-Exporters with 100% Export Sales". The certifications are valid from January 1 to December 31, 2017 and renewable annually, unless sooner revoked by the BOI Governing Board.

On April 29, 2014, BGI was registered with the BOI in accordance with the provision of the Omnibus Investment Code of 1987, as amended as a new RE developer of geothermal energy resources.

On August 27, 2014, MGPC was registered with the BOI as a RE developer of geothermal energy resources. The BOI has issued the certificate of registration of MGPC on October 7, 2016.



o. SPA with SMM

On September 15, 2016, the Parent Company and SMM executed a SPA wherein the latter agreed to purchase the Parent Company's 511,875,000 shares in THNC, representing 12.5% of the outstanding capital stock of THNC, at a purchase price of US\$42.0 million, which is equivalent to ₱2,037.2 million (see Note 10). The sale and purchase of the shares was consummated upon the written consent of Japan Bank for International Cooperation.

The SPA also provides that for a period of eighteen (18) years but no earlier than three (3) years from the execution of the SPA, the Parent Company shall have the right to repurchase from SMM such number of shares of THNC equivalent to 12.5% equity ownership therein at the time when the right is exercised. The repurchase right can only be exercised once. The Parent Company received the full payment of the purchase price on October 17, 2016.

*MOA with SMM*

Pursuant to the SPA with SMM, the Parent Company and SMM also agreed on September 15, 2016 that effective July 1, 2016, their responsibility to provide loans and guarantee obligations of THNC shall be 10% and 75%, respectively.

p. Retail Supply Contracts

*Manta*

On November 11, 2016, MEI entered into a contract with Manta for the supply of electricity to meet Manta's full power requirements for the NAC Tower. The contract is for a period of two (2) years commencing on December 26, 2016, and may be extended upon mutual consent of both parties. In each billing month throughout the term of the contract, Manta shall take and pay MEI's minimum energy quantity of 255,000 kilowatt-hour (kWh). Manta shall also pay a security deposit amounting to ₱2.9 million, which shall stand as security for the faithful and proper compliance by Manta of its obligations under the contract. MEI recognized revenue amounting to ₱28.2 million, ₱0.2 million and nil from this contract in 2017, 2016 and 2015, respectively (see Note 34).

*Lide Management Corporation (LMC)*

On January 9, 2017, MEI entered into a contract with LMC for the supply of electricity to meet its full electricity requirement. The contract is for a period of two (2) years commencing on February 26, 2017, and may be extended upon mutual consent of both parties. The contracted capacity is 2.5 MW during the term of the contract, of which 1.4 MW is under a take-or-pay basis. MEI's revenue from this contract amounted to ₱35.0 million in 2017.

q. Other Agreements

*Joint Undertaking with NCIP*

On December 8, 2009, TMC and NCIP entered into a Joint Undertaking, which confirmed that a 1% royalty on annual gross revenues of TMC is payable to the Mamanwa Tribe pursuant to a MOA dated July 18, 2006 between TMC, the NCIP and the Tribe and a Certificate of Ancestral Domain Title issued to the Tribe, within which area TMC's mining operation is located.

*Agreement with Local Government Units*

RTN together with RTN Foundation, Inc. and CBNC entered into Agreements with the barangay councils and community residents covered in the SDMP as required by law and as one of the conditions of ECC. The Agreement stipulated that RTN and CBNC should meet



the changing needs and demands of the communities and shall submit the SDMP every five (5) years to the MGB Region IV for approval. In addition, as part of the process of securing the consent of affected communities, the program must be prepared in consultation and in partnership with the project proponent and neighboring communities. On January 7, 2014, SDMP No. MGB-IVB-2013-003 III was approved by the MGB covering the period of five (5) years from 2014 to 2018. RTN incurred royalty payments to indigenous people amounting to ₱45.9 million in 2017, ₱41.3 million in 2016 and ₱50.6 million in 2015, in accordance with the SDMP.

#### *Suretyship Agreement with SBC*

On August 4, 2015, the Parent Company entered into a Suretyship Agreement with SBC to guarantee and warrant the prompt and full payment and performance of the guaranteed obligations, including increases, renewals, roll-overs, extensions, restructuring, conversions, amendments or novations, of EPI to SBC amounting to ₱3,000.0 million. The agreement shall remain in full force and effect until full payment of the guaranteed obligations is made.

In September 2017, EPI partially repaid its loan to SBC reducing the principal from ₱3,000.0 million to ₱1,500.0 million (see Note 15).

#### *MOA with DOE*

On December 3, 2014, the Parent Company and DOE agreed in accordance with RA 9136 or the “Electric Power Industry Reform Act of 2001” which requires all energy generation companies and/or energy resource developers to provide financial benefits equivalent to ₱0.01/kilowatt-hour (kWh) of the total electricity sales of the generation facility to its customer/off-taker to the region, province, city or municipality and barangay that host the generation facility, and to establish the corresponding trust accounts which should be administered by the DOE. The ₱0.01 financial benefits shall be allocated as follows: ₱0.005/kWh for Electrification Fund, ₱0.0025/kWh for Development and Livelihood Fund and ₱0.0025/kWh for Reforestation, Watershed Management, Health and/or Environment Enhancement Fund.

#### *Investment Agreement*

On August 24, 2015, an Investment Agreement was executed by and among BGI, OGI, BGHI, EPI, and BHI. The said agreement sets out that BHI shall invest in BGI and its operations. Accordingly, BGI shall increase its authorized capital stock by 1,845,000 common shares, with par value of ₱1 per share, and BHI shall subscribe to the said increased authorized capital stock. However, before effecting the said agreement, BGI shall first undergo quasi-reorganization to apply its additional paid-in capital against its deficit and to convert all its issued and outstanding preferred stock into common stock and BGHI shall purchase from Filtech Energy Drilling Corporation (FedCo) the 738,000 common shares of FedCo representing 60% of the total issued capital stock of BGI. In addition, BGHI and BHI shall agree that they shall each maintain their respective shareholding percentages in BGI’s equity capital at 40% and 60%, respectively, of the outstanding capital stock of BGI, unless otherwise agreed in writing.

On October 17, 2015, the BOD of BGI approved the increase in its authorized capital stock from ₱1,230,000, divided into 738,000 common shares and 492,000 preferred share each both with par value of ₱1 per share, to ₱3,075,000, divided into 2,583,000 common shares and 492,000 preferred shares both with par value of ₱1 per share. The increase in authorized capital stock was approved by the Philippine SEC on December 17, 2015.





On October 22, 2015, 1,845,000 common shares were subscribed to and paid by BHI at par value following the increase in the authorized capital stock. With the change in the ownership structure, BHI became the immediate parent of BGI.

On March 2, 2016, FedCo sold 737,997 common stock to BGHI.

On February 28, 2017, SEC approved the application of BGI for the reclassification of its preferred shares into common shares.

*Distribution Wheeling Service Agreements (DWSA)*

MEI entered into DWSAs with Meralco and LEYECO V on November 14, 2016 and February 3, 2017, respectively, for the conveyance of electricity through Meralco's and LEYECO V's distribution systems in order to meet the power requirements of the facilities of Manta and LMC, respectively.

Based on the agreements, MEI shall pass on all applicable distribution service and wheeling charges, transmission and ancillary charges, taxes and others charged as billed by Meralco and LEYECO V to MEI. The sale of power includes passed-on distribution and transmission charges amounting to ₱19.5 million in 2017 and nil in 2016 and 2015 (see Note 23).

*Market Participation Agreement*

On December 5, 2016, MEI entered into a market participation agreement with Philippine Electricity Market Corporation (PEMC) to be a member of the WESM. With this agreement, MEI will be able to purchase through the WESM in case its contracted suppliers fail to deliver sufficient capacity. MEI purchased power from the WESM amounting to ₱9.9 million, ₱0.1 million and nil in 2017, 2016 and 2015, respectively, which was wheeled and conveyed to the facilities of MEI's customers.

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#### 40. Events after the End of the Financial Reporting Period

Dividend Declaration

On March 14, 2018, the Parent Company's BOD declared cash dividends amounting to ₱0.12 per share to stockholders of record as at March 28, 2018 which will be paid on April 10, 2018.

TRAIN

The TRAIN Act was signed into law on December 19, 2017 and took effect January 1, 2018, making the new tax law enacted as at the end of the financial reporting period. Although the TRAIN changes existing tax law and includes several provisions that will generally affect businesses on a prospective basis, the management assessed that the same will not have any significant impact on the consolidated financial statement balances as of the end of the financial reporting period. The amendments made on Section 151 of Tax Code which pertain to the increase in excise tax rate from 2% to 4% on all metallic minerals based on the market value of the gross output thereof at the time of the removal are expected to have significant impact on the consolidated financial statement balances of the Group in the succeeding financial reporting periods.



#### 41. Supplemental Disclosure to Consolidated Statements of Cash Flows

##### Noncash Investing Activities

|  | 2017           | 2016    |
|--|----------------|---------|
| Application of 50% commission and royalties payable, net of withholding taxes and interest, against loan receivable from East Coast (see Note 5) | <b>₱68,715</b> | ₱71,325 |
| Adjustment for capitalized cost of mine rehabilitation and decommissioning (see Notes 9 and 16)  | <b>69,820</b>  | 263,616 |

##### Changes in Liabilities Arising from Financing Activities

|   | January 1,<br>2017 | Cash flows          | Foreign<br>exchange<br>movement | Reclassification | Others            | December 31,<br>2017 |
|---|--------------------|---------------------|---------------------------------|------------------|-------------------|----------------------|
| <b>Current</b>  |                    |                     |                                 |                  |                   |                      |
| Withholding taxes payable (included under trade and other payables) | ₱39,458            | (₱37,313)           | ₱-                              | ₱-               | ₱73,906           | ₱76,051              |
| Interest payable, gross of final withholding tax (see Note 14)      | 30,511             | (188,840)           | (9,195)                         | -                | 179,057           | 11,533               |
| Dividends payable, gross of final withholding tax (see Note 14)     | 325,187            | (1,763,925)         | -                               | -                | 2,075,188         | 636,450              |
| Short-term debt (see Note 15)                                       | 180,000            | (180,000)           | -                               | -                | -                 | -                    |
| Current portion of:   |                    |                     |                                 |                  |                   |                      |
| Long-term debts (see Note 15)                                       | 148,274            | (128,463)           | (3,069)                         | 1,610,615        | 7,821             | 1,635,178            |
| Long-term payable (see Note 17)                                     | 5,000              | (5,000)             | -                               | 5,000            | -                 | 5,000                |
| <b>Noncurrent</b>   |                    |                     |                                 |                  |                   |                      |
| Long-term debts (see Note 15)                                       | 4,468,059          | (1,500,000)         | (8,608)                         | (1,610,615)      | 375               | 1,349,211            |
| Deferred income   | 62,849             | (4,190)             | -                               | -                | -                 | 58,659               |
| Long-term payable (see Note 17)                                     | 23,846             | -                   | -                               | (5,000)          | 1,322             | 20,168               |
| Total liabilities from (used in) financing activities               | <b>₱5,283,184</b>  | <b>(₱3,807,731)</b> | <b>(₱20,872)</b>                | <b>₱-</b>        | <b>₱2,337,669</b> | <b>₱3,792,250</b>    |

Others include the effect of accrual of dividends, including those that were not yet paid at year-end, effect of accrued but not yet paid interest on interest-bearing loans, accretion of interest on long-term payable, and amortization of debt issue cost.



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**42. Business Segment Information**

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 mining segment is engaged in the mining and exploration of nickel saprolite and limonite ore and limestone.

The services segment is engaged in the chartering out of LCT, construction and rendering of services to CBNC, THNC and other parties.

The power segment is engaged in power generation and exploration for geothermal resources.



The Group's identified reportable segments below are consistent with the segments reported to the BOD, which is the Chief Operating Decision Maker of the Group.

Financial information on the operation of the various business segments are as follows:

|   | December 31, 2017 |                   |                   |                   |                   |                    |                  |                 |                 |                    |                   |           |                    |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|--------------------|------------------|-----------------|-----------------|--------------------|-------------------|-----------|--------------------|
|   | Mining            |                   |                   |                   |                   | Power              |                  | Services        |                 |                    | Eliminations      | Total     |                    |
|   | HMC               | CMC               | TMC               | RTN               | Geogen            | EPI                | NAC              | RTN/TMC         | HMC             | Others             |                   |           |                    |
| External customers  | ₱2,326,086        | ₱2,248,439        | ₱5,728,026        | ₱4,594,530        | ₱-                | ₱212,152           | ₱-               | ₱630,063        | ₱-              | ₱-                 | ₱-                | ₱-        | ₱15,739,296        |
| Inter-segment revenues  | -                 | -                 | -                 | -                 | -                 | -                  | -                | -               | 3,976           | 550,635            | (554,611)         | -         | -                  |
| <b>Total revenues</b> (see Notes 34 and 39)                           | <b>2,326,086</b>  | <b>2,248,439</b>  | <b>5,728,026</b>  | <b>4,594,530</b>  | <b>-</b>          | <b>212,152</b>     | <b>-</b>         | <b>630,063</b>  | <b>3,976</b>    | <b>550,635</b>     | <b>(554,611)</b>  | <b>-</b>  | <b>15,739,296</b>  |
| Cost of sale of ore   | 931,522           | 846,174           | 2,184,112         | 2,071,433         | -                 | -                  | -                | -               | -               | -                  | -                 | -         | 6,033,241          |
| Cost of services  | -                 | -                 | -                 | -                 | -                 | -                  | -                | 351,339         | -               | -                  | -                 | -         | 351,339            |
| Cost of power generation  | -                 | -                 | -                 | -                 | -                 | 257,276            | -                | -               | -               | -                  | -                 | -         | 257,276            |
| Shipping and loading costs  | 447,781           | 379,990           | 505,921           | 283,205           | -                 | -                  | -                | -               | 9,513           | -                  | -                 | -         | 1,626,410          |
| Excise taxes and royalties  | 162,826           | 344,781           | 458,242           | 137,837           | -                 | -                  | -                | -               | -               | -                  | -                 | -         | 1,103,686          |
| Marketing   | 4,272             | 78,695            | 8,748             | 4,749             | -                 | -                  | -                | -               | -               | -                  | -                 | -         | 96,464             |
| <b>Segment operating earnings</b>                                     | <b>₱779,685</b>   | <b>₱598,799</b>   | <b>₱2,571,003</b> | <b>₱2,097,306</b> | <b>₱-</b>         | <b>(₱45,124)</b>   | <b>₱-</b>        | <b>₱278,724</b> | <b>(₱5,537)</b> | <b>₱550,635</b>    | <b>(₱554,611)</b> | <b>₱-</b> | <b>₱6,270,880</b>  |
| General and administrative  | ₱87,442           | ₱36,480           | ₱125,379          | ₱59,073           | ₱69,898           | ₱117,647           | ₱27,400          | ₱-              | ₱-              | ₱339,834           | ₱-                | ₱-        | ₱863,153           |
| Finance income  | ₱5,978            | ₱30,574           | ₱34,594           | ₱31,398           | ₱85               | ₱903               | ₱-               | ₱-              | ₱-              | ₱212,771           | ₱-                | ₱-        | ₱316,303           |
| Finance expenses  | ₱2,757            | ₱5,531            | ₱13,014           | ₱9,956            | ₱1,067            | ₱143,142           | ₱-               | ₱-              | ₱-              | ₱71,148            | ₱-                | ₱-        | ₱246,615           |
| Provision for (benefit from) income tax                               | ₱146,220          | ₱140,563          | ₱721,040          | ₱611,662          | ₱15,258           | (₱11,646)          | ₱-               | ₱-              | (₱2,854)        | ₱116,613           | ₱-                | ₱-        | ₱1,736,856         |
| <b>Net income (loss) attributable to equity holders of the parent</b> | <b>₱500,093</b>   | <b>₱416,018</b>   | <b>₱1,328,377</b> | <b>₱1,019,140</b> | <b>(₱86,635)</b>  | <b>(₱193,171)</b>  | <b>(₱27,398)</b> | <b>₱-</b>       | <b>₱-</b>       | <b>(₱185,656)</b>  | <b>₱-</b>         | <b>₱-</b> | <b>₱2,770,768</b>  |
| Segment assets  | ₱1,615,725        | ₱2,278,744        | ₱9,305,400        | ₱4,760,082        | ₱1,209,246        | ₱11,816,229        | ₱836,478         | ₱-              | ₱33,592         | ₱13,548,509        | ₱-                | ₱-        | ₱45,404,005        |
| Deferred income tax assets  | 47,738            | 32,692            | 85,256            | 63,429            | 52,108            | -                  | -                | -               | -               | 51,871             | -                 | -         | 333,094            |
| <b>Total assets</b>   | <b>₱1,663,463</b> | <b>₱2,311,436</b> | <b>₱9,390,656</b> | <b>₱4,823,511</b> | <b>₱1,261,354</b> | <b>₱11,816,229</b> | <b>₱836,478</b>  | <b>₱-</b>       | <b>₱33,592</b>  | <b>₱13,600,380</b> | <b>₱-</b>         | <b>₱-</b> | <b>₱45,737,099</b> |
| Segment liabilities   | ₱264,974          | ₱386,564          | ₱2,221,117        | ₱1,004,573        | ₱121,480          | ₱7,340,591         | ₱7,790           | ₱-              | ₱-              | ₱404,948           | ₱-                | ₱-        | ₱11,752,037        |
| Deferred income tax liabilities - net                                 | 3,839             | 5,542             | 15,412            | 218,451           | 193,679           | 112,826            | -                | -               | 20,415          | 196,710            | -                 | -         | 766,874            |
| <b>Total liabilities</b>  | <b>₱268,813</b>   | <b>₱392,106</b>   | <b>₱2,236,529</b> | <b>₱1,223,024</b> | <b>₱315,159</b>   | <b>₱7,453,417</b>  | <b>₱7,790</b>    | <b>₱-</b>       | <b>₱20,415</b>  | <b>₱601,658</b>    | <b>₱-</b>         | <b>₱-</b> | <b>₱12,518,911</b> |
| Capital expenditures  | ₱80,245           | ₱210,998          | ₱341,973          | ₱86,517           | ₱81,642           | ₱637,543           | ₱27,607          | ₱-              | ₱-              | ₱27,933            | ₱-                | ₱-        | ₱1,494,458         |
| Depreciation, amortization and depletion                              | ₱265,899          | ₱150,875          | ₱549,083          | ₱310,915          | ₱7,866            | ₱161,027           | ₱2,472           | ₱-              | ₱9,513          | ₱22,395            | ₱-                | ₱-        | ₱1,480,045         |



|  | December 31, 2016 |            |            |            |            |             |           |          |          |             |              |             |
|--|-------------------|------------|------------|------------|------------|-------------|-----------|----------|----------|-------------|--------------|-------------|
|  | Mining            |            |            |            |            | Power       |           | Services |          |             | Eliminations | Total       |
|  | HMC               | CMC        | TMC        | RTN        | Geogen     | EPI         | NAC       | RTN/TMC  | HMC      | Others      |              |             |
| External customers   | ₱2,280,144        | ₱2,131,692 | ₱5,035,283 | ₱4,127,264 | ₱-         | ₱18,010     | ₱-        | ₱530,274 | ₱-       | ₱-          | ₱-           | ₱14,122,667 |
| Inter-segment revenues   | -                 | -          | -          | -          | -          | -           | -         | -        | 2,243    | 510,192     | (512,435)    | -           |
| Total revenues (see Notes 34 and 39)                           | 2,280,144         | 2,131,692  | 5,035,283  | 4,127,264  | -          | 18,010      | -         | 530,274  | 2,243    | 510,192     | (512,435)    | 14,122,667  |
| Cost of sale of ore  | 930,548           | 764,478    | 2,051,128  | 2,161,095  | -          | -           | -         | -        | -        | -           | -            | 5,907,249   |
| Cost of services   | -                 | -          | -          | -          | -          | -           | -         | 328,457  | -        | -           | -            | 328,457     |
| Cost of power generation                                       | -                 | -          | -          | -          | -          | 38,295      | -         | -        | -        | -           | -            | 38,295      |
| Shipping and loading costs                                     | 533,574           | 361,964    | 634,714    | 293,297    | -          | -           | -         | -        | -        | -           | -            | 1,823,549   |
| Excise taxes and royalties                                     | 151,634           | 328,437    | 402,823    | 123,818    | -          | -           | -         | -        | -        | -           | -            | 1,006,712   |
| Marketing  | 8,380             | 74,574     | 12,915     | -          | -          | -           | -         | -        | -        | -           | -            | 95,869      |
| Segment operating earnings                                     | ₱656,008          | ₱602,239   | ₱1,933,703 | ₱1,549,054 | ₱-         | (₱20,285)   | ₱-        | ₱201,817 | ₱2,243   | ₱510,192    | (₱512,435)   | ₱4,922,536  |
| General and administrative                                     | ₱97,164           | ₱29,505    | ₱107,478   | ₱67,041    | ₱86,479    | ₱148,510    | ₱-        | ₱-       | ₱-       | ₱314,074    | ₱-           | ₱850,251    |
| Finance income   | ₱2,551            | ₱31,573    | ₱25,056    | ₱14,333    | ₱98        | ₱1,873      | ₱-        | ₱-       | ₱-       | ₱152,946    | ₱-           | ₱228,430    |
| Finance expenses   | ₱2,682            | ₱5,707     | ₱9,219     | ₱5,542     | ₱-         | ₱81,344     | ₱-        | ₱-       | ₱-       | ₱115,439    | ₱-           | ₱219,933    |
| Provision for (benefit from) income tax                        | ₱125,509          | ₱157,175   | ₱586,400   | ₱447,992   | (₱29,208)  | ₱32,930     | ₱-        | ₱-       | (₱2,854) | ₱131,534    | ₱-           | ₱1,449,478  |
| Net income (loss) attributable to equity holders of the parent | ₱431,102          | ₱444,639   | ₱1,051,393 | ₱769,697   | (₱57,839)  | (₱193,634)  | (₱11,671) | ₱-       | ₱-       | (₱467,580)  | ₱-           | ₱1,966,107  |
| Segment assets   | ₱1,642,678        | ₱2,025,461 | ₱9,316,316 | ₱5,078,962 | ₱1,056,496 | ₱11,972,765 | ₱795,102  | ₱-       | ₱19,239  | ₱13,074,445 | ₱-           | ₱44,981,464 |
| Deferred income tax assets                                     | 51,645            | 45,301     | 91,647     | 80,721     | 44,994     | -           | -         | -        | -        | 55,744      | -            | 370,052     |
| Total assets   | ₱1,694,323        | ₱2,070,762 | ₱9,407,963 | ₱5,159,683 | ₱1,101,490 | ₱11,972,765 | ₱795,102  | ₱-       | ₱19,239  | ₱13,130,189 | ₱-           | ₱45,351,516 |
| Segment liabilities  | ₱263,564          | ₱376,084   | ₱2,121,770 | ₱999,023   | ₱68,006    | ₱9,099,296  | ₱1,111    | ₱-       | ₱-       | ₱346,542    | ₱-           | ₱13,275,396 |
| Deferred income tax liabilities - net                          | 13,165            | 18,608     | 56,071     | 287,323    | 171,342    | 124,801     | -         | -        | 23,268   | 181,889     | -            | 876,467     |
| Total liabilities  | ₱276,729          | ₱394,692   | ₱2,177,841 | ₱1,286,346 | ₱239,348   | ₱9,224,097  | ₱1,111    | ₱-       | ₱23,268  | ₱528,431    | ₱-           | ₱14,151,863 |
| Capital expenditures   | ₱79,707           | ₱65,344    | ₱459,023   | ₱155,350   | ₱42,301    | ₱2,418,621  | ₱109,439  | ₱-       | ₱-       | ₱19,965     | ₱-           | ₱3,349,750  |
| Depreciation, amortization and depletion                       | ₱283,703          | ₱132,653   | ₱593,872   | ₱415,237   | ₱3,502     | ₱64,337     | ₱73       | ₱-       | ₱-       | ₱21,892     | ₱-           | ₱1,515,269  |



|  | December 31, 2015 |            |            |            |           |            |          |          |          |              |              |       |             |
|--|-------------------|------------|------------|------------|-----------|------------|----------|----------|----------|--------------|--------------|-------|-------------|
|  | Mining            |            |            |            |           | Power      |          | Services |          |              | Eliminations | Total |             |
|  | HMC               | CMC        | TMC        | RTN        | Geogen    | EPI        | NAC      | RTN/TMC  | HMC      | Others       |              |       |             |
| External customers   | ₱2,314,823        | ₱2,350,200 | ₱5,069,801 | ₱5,060,825 | ₱-        | ₱-         | ₱-       | ₱635,997 | ₱-       | ₱-           | ₱-           | ₱-    | ₱15,431,646 |
| Inter-segment revenues   | -                 | -          | -          | -          | -         | -          | -        | -        | 2,070    | 521,882      | (523,952)    | -     | -           |
| Total revenues (see Notes 34 and 39)                           | 2,314,823         | 2,350,200  | 5,069,801  | 5,060,825  | -         | -          | -        | 635,997  | 2,070    | 521,882      | (523,952)    | -     | 15,431,646  |
| Cost of sale of ore  | 896,657           | 720,815    | 2,063,434  | 2,598,342  | -         | -          | -        | -        | -        | -            | -            | -     | 6,279,248   |
| Cost of services   | -                 | -          | -          | -          | -         | -          | -        | -        | -        | 357,917      | -            | -     | 357,917     |
| Shipping and loading costs                                     | 460,172           | 421,561    | 519,322    | 370,101    | -         | -          | -        | -        | (13,213) | -            | -            | -     | 1,757,943   |
| Excise taxes and royalties                                     | 162,037           | 370,157    | 405,584    | 151,825    | -         | -          | -        | -        | -        | -            | -            | -     | 1,089,603   |
| Marketing  | 16,925            | 98,579     | 10,529     | 4,133      | -         | -          | -        | -        | -        | -            | -            | -     | 130,166     |
| Segment operating earnings                                     | ₱779,032          | ₱739,088   | ₱2,070,932 | ₱1,936,424 | ₱-        | ₱-         | ₱-       | ₱635,997 | ₱15,283  | ₱163,965     | (₱523,952)   | ₱-    | ₱5,816,769  |
| General and administrative                                     | ₱144,602          | ₱54,081    | ₱146,846   | ₱89,035    | ₱18,786   | ₱45,476    | ₱-       | ₱-       | ₱904     | ₱413,124     | ₱-           | ₱-    | ₱912,854    |
| Finance income   | ₱5,222            | ₱9,261     | ₱29,469    | ₱15,942    | ₱43       | ₱425       | ₱-       | ₱-       | ₱-       | ₱244,750     | ₱-           | ₱-    | ₱305,112    |
| Finance expenses   | ₱3,553            | ₱5,893     | ₱8,691     | ₱5,080     | ₱-        | ₱42,400    | ₱-       | ₱-       | ₱-       | ₱113,508     | ₱-           | ₱-    | ₱179,125    |
| Provision for (benefit from) income tax                        | ₱179,561          | ₱205,122   | ₱613,832   | ₱577,027   | (₱8,529)  | ₱7,618     | ₱-       | ₱-       | (₱2,854) | ₱95,509      | ₱-           | ₱-    | ₱1,667,286  |
| Net income (loss) attributable to equity holders of the parent | ₱544,067          | ₱530,239   | ₱1,088,960 | ₱975,978   | (₱12,152) | (₱48,981)  | ₱-       | ₱-       | ₱-       | (₱1,042,968) | ₱-           | ₱-    | ₱2,035,143  |
| Segment assets   | ₱1,912,697        | ₱2,151,931 | ₱9,429,793 | ₱4,703,869 | ₱979,448  | ₱8,781,557 | ₱671,055 | ₱-       | ₱87,074  | ₱12,775,524  | ₱-           | ₱-    | ₱41,492,948 |
| Deferred income tax assets                                     | 52,899            | 20,708     | 61,957     | 16,926     | 8,549     | -          | -        | -        | -        | 76,368       | -            | -     | 237,407     |
| Total assets   | ₱1,965,596        | ₱2,172,639 | ₱9,491,750 | ₱4,720,795 | ₱987,997  | ₱8,781,557 | ₱671,055 | ₱-       | ₱87,074  | ₱12,851,892  | ₱-           | ₱-    | ₱41,730,355 |
| Segment liabilities  | ₱303,119          | ₱327,646   | ₱2,170,079 | ₱829,079   | ₱43,071   | ₱7,590,638 | ₱-       | ₱-       | ₱-       | ₱322,017     | ₱-           | ₱-    | ₱11,585,649 |
| Deferred income tax liabilities - net                          | 9,088             | 2,113      | 21,911     | 306,581    | 164,262   | 92,009     | -        | -        | 26,122   | 109,432      | -            | -     | 731,518     |
| Total liabilities  | ₱312,207          | ₱329,759   | ₱2,191,990 | ₱1,135,660 | ₱207,333  | ₱7,682,647 | ₱-       | ₱-       | ₱26,122  | ₱431,449     | ₱-           | ₱-    | ₱12,317,167 |
| Capital expenditures   | ₱370,825          | ₱155,302   | ₱1,013,364 | ₱202,918   | ₱12,378   | ₱1,706,353 | ₱450,191 | ₱-       | ₱-       | ₱10,768      | ₱-           | ₱-    | ₱3,922,099  |
| Depreciation, amortization and depletion                       | ₱224,263          | ₱112,660   | ₱565,772   | ₱466,697   | ₱638      | ₱1,716     | ₱-       | ₱-       | ₱9,513   | ₱58,728      | ₱-           | ₱-    | ₱1,439,987  |

Inter-segment revenues are eliminated upon consolidation.



The Group has revenues from external customers as follows:

| Country of Domicile | 2017               | 2016        | 2015        |
|---------------------|--------------------|-------------|-------------|
| China               | <b>₱9,391,331</b>  | ₱9,084,745  | ₱8,629,266  |
| Local               | <b>3,867,539</b>   | 2,635,127   | 3,238,705   |
| Japan               | <b>2,480,426</b>   | 2,333,894   | 3,292,681   |
| Australia           | –                  | 68,901      | 270,994     |
|                     | <b>₱15,739,296</b> | ₱14,122,667 | ₱15,431,646 |

The revenue information above is based on the location of the customer.

Revenue from two key customers for the sale of ores amounted to ₱8,059.0 million, ₱7,248.4 million and ₱5,569.5 million in 2017, 2016 and 2015, respectively.



## **INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY SCHEDULES**

The Board of Directors and Stockholders  
Nickel Asia Corporation and Subsidiaries  
28th Floor NAC Tower, 32nd Street  
Bonifacio Global City, Taguig City

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of Nickel Asia Corporation and its subsidiaries as at December 31, 2017 and 2016, and for each of the three years in the period ended December 31, 2017 included in this Form 17-A, and have issued our report thereon dated March 14, 2018. Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The schedules listed in the Index to the Consolidated Financial Statements and Supplementary Schedules are the responsibility of the Parent Company's management. These schedules are presented for purposes of complying with Securities Regulation Code Rule 68, As Amended (2011) and are not part of the basic consolidated financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, fairly state, in all material respects, the information required to be set forth therein in relation to the basic consolidated financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.



Jaime F. del Rosario  
Partner  
CPA Certificate No. 56915  
SEC Accreditation No. 0076-AR-4 (Group A),  
May 1, 2016, valid until May 1, 2019  
Tax Identification No. 102-096-009  
BIR Accreditation No. 08-001998-72-2018,  
February 14, 2018, valid until February 13, 2021  
PTR No. 6621247, January 9, 2018, Makati City

March 14, 2018





**NICKEL ASIA CORPORATION AND SUBSIDIARIES**  
**INDEX TO THE CONSOLIDATED FINANCIAL STATEMENTS AND**  
**SUPPLEMENTARY SCHEDULES**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**

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## SCHEDULE I

### NICKEL ASIA CORPORATION RECONCILIATION OF RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION PURSUANT TO SEC MEMORANDUM CIRCULAR NO.11 DECEMBER 31, 2017

|   |                                      |
|---|--------------------------------------|
| Unappropriated retained earnings as at December 31, 2016, as reflected in audited financial statements  | ₱11,264,658,713                      |
| Unrealized foreign exchange gains - net except those attributable to cash and cash equivalents  | (180,659,290)                        |
| Amount of recognized deferred income tax asset that reduced the amount of income tax expense and increased the net income and retained earnings, until realized | <u>(42,042,767)</u>                  |
| Unappropriated retained earnings, <i>as adjusted to available for dividend distribution, beginning</i>  | <u>11,041,956,656</u>                |
| <u>Add: Net income actually earned/realized during the period</u>   |                                      |
| Net income during the period closed to retained earnings  | 3,655,172,420                        |
| Less: Non-actual/unrealized income net of tax<br>Unrealized foreign exchange gains - net (except those attributable to cash and cash equivalents)               | <u>(1,458,226)</u>                   |
| <u>Net income actually earned during the period</u>   | <u>3,653,714,194</u>                 |
| Less: Dividend declarations during the period   | <u>(608,738,316)</u>                 |
| <b>TOTAL RETAINED EARNINGS AVAILABLE FOR<br/>DIVIDEND DISTRIBUTION AS AT DECEMBER 31, 2017</b>  | <b><u><u>₱14,086,932,534</u></u></b> |

## SCHEDULE II

### NICKEL ASIA CORPORATION AND SUBSIDIARIES TABULAR SCHEDULE OF EFFECTIVE STANDARDS AND INTERPRETATIONS UNDER THE PFRS PURSUANT TO SRC RULE 68, AS AMENDED DECEMBER 31, 2017

**List of Philippine Financial Reporting Standards (PFRSs) [which consist of PFRSs, Philippine Accounting Standards (PASs) and Philippine Interpretations] effective as at December 31, 2017:**

| PHILIPPINE FINANCIAL REPORTING STANDARDS<br>AND INTERPRETATIONS<br>Effective as at December 31, 2017  |  | Adopted | Not<br>Adopted/<br>Not Early<br>Adopted | Not<br>Applicable |
|---|--|---------|---|-------------------|
| <b>Framework for the Preparation and Presentation of Financial Statements</b><br>Conceptual Framework Phase A: Objectives and qualitative characteristics |  | ✓       |   |                   |
| <b>PFRSs Practice Statement Management Commentary</b>   |  | ✓       |   |                   |
| <b>Philippine Financial Reporting Standards</b>   |  |         |   |                   |
| <b>PFRS 1<br/>(Revised)</b>   | First-time Adoption of Philippine Financial Reporting Standards  |         |   | ✓                 |
|   | Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate | ✓       |   |                   |
|   | Amendments to PFRS 1: Additional Exemptions for First-time Adopters  |         |   | ✓                 |
|   | Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters             |         |   | ✓                 |
|   | Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters                  |         |   | ✓                 |
|   | Amendments to PFRS 1: Government Loans   |         |   | ✓                 |
| <b>PFRS 2</b>   | Share-based Payment  | ✓       |   |                   |
|   | Amendments to PFRS 2: Vesting Conditions and Cancellations   | ✓       |   |                   |
|   | Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions                                      |         |   | ✓                 |
| <b>PFRS 3<br/>(Revised)</b>   | Business Combinations  | ✓       |   |                   |
| <b>PFRS 4</b>   | Insurance Contracts  |         |   | ✓                 |
|   | Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts   |         |   | ✓                 |
| <b>PFRS 5</b>   | Non-current Assets Held for Sale and Discontinued Operations   |         |   | ✓                 |
| <b>PFRS 6</b>   | Exploration for and Evaluation of Mineral Resources  | ✓       |   |                   |

| <b>PHILIPPINE FINANCIAL REPORTING STANDARDS<br/>AND INTERPRETATIONS<br/>Effective as at December 31, 2017</b> |   | <b>Adopted</b> | <b>Not<br/>Adopted/<br/>Not Early<br/>Adopted</b> | <b>Not<br/>Applicable</b> |
|---|---|----------------|---|---------------------------|
| <b>PFRS 7</b>   | Financial Instruments: Disclosures  | ✓              |   |                           |
|   | Amendments to PFRS 7: Transition  | ✓              |   |                           |
|   | Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets                                 | ✓              |   |                           |
|   | Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition | ✓              |   |                           |
|   | Amendments to PFRS 7: Improving Disclosures about Financial Instruments                               | ✓              |   |                           |
|   | Amendments to PFRS 7: Disclosures - Transfers of Financial Assets                                     |                |   | ✓                         |
|   | Amendments to PFRS 7: Disclosures - Offsetting Financial Assets and Financial Liabilities             |                |   | ✓                         |
|   | Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures                   |                |   | ✓                         |
| <b>PFRS 8</b>   | Operating Segments  | ✓              |   |                           |
| <b>PFRS 9</b>   | Financial Instruments   |                | ✓   |                           |
|   | Amendments to PFRS 9: Mandatory Effective Date of PFRS 9 and Transition Disclosures                   |                | ✓   |                           |
| <b>PFRS 10</b>  | Consolidated Financial Statements   | ✓              |   |                           |
| <b>PFRS 11</b>  | Joint Arrangements  |                |   | ✓                         |
| <b>PFRS 12</b>  | Disclosure of Interests in Other Entities   | ✓              |   |                           |
| <b>PFRS 13</b>  | Fair Value Measurement  | ✓              |   |                           |
| <b>Philippine Accounting Standards</b>  |   |                |   |                           |
| <b>PAS 1<br/>(Revised)</b>  | Presentation of Financial Statements  | ✓              |   |                           |
|   | Amendment to PAS 1: Capital Disclosures   | ✓              |   |                           |
|   | Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation |                |   | ✓                         |
|   | Amendments to PAS 1: Presentation of Items of Other Comprehensive Income                              | ✓              |   |                           |
| <b>PAS 2</b>  | Inventories   | ✓              |   |                           |
| <b>PAS 7</b>  | Statement of Cash Flows   | ✓              |   |                           |
| <b>PAS 8</b>  | Accounting Policies, Changes in Accounting Estimates and Errors                                       | ✓              |   |                           |
| <b>PAS 10</b>   | Events after the Balance Sheet Date   | ✓              |   |                           |
| <b>PAS 11</b>   | Construction Contracts  |                |   | ✓                         |

| <b>PHILIPPINE FINANCIAL REPORTING STANDARDS<br/>AND INTERPRETATIONS<br/>Effective as at December 31, 2017</b> |   | <b>Adopted</b> | <b>Not<br/>Adopted/<br/>Not Early<br/>Adopted</b> | <b>Not<br/>Applicable</b> |
|---|---|----------------|---|---------------------------|
| <b>PAS 12</b>   | Income Taxes  | ✓              |   |                           |
|   | Amendment to PAS 12 - Deferred Tax: Recovery of Underlying Assets                                     |                |   | ✓                         |
| <b>PAS 16</b>   | Property, Plant and Equipment   | ✓              |   |                           |
| <b>PAS 17</b>   | Leases  | ✓              |   |                           |
| <b>PAS 18</b>   | Revenue   | ✓              |   |                           |
| <b>PAS 19<br/>(Amended)</b>   | Employee Benefits   | ✓              |   |                           |
|   | Amendments to PAS 19: Actuarial Gains and Losses, Group Plans and Disclosures                         | ✓              |   |                           |
|   | Amendments to PAS 19: Defined Benefit Plans: Employee Contributions                                   |                |   | ✓                         |
| <b>PAS 20</b>   | Accounting for Government Grants and Disclosure of Government Assistance                              |                |   | ✓                         |
| <b>PAS 21</b>   | The Effects of Changes in Foreign Exchange Rates  | ✓              |   |                           |
|   | Amendment: Net Investment in a Foreign Operation  |                |   | ✓                         |
| <b>PAS 23<br/>(Revised)</b>   | Borrowing Costs   | ✓              |   |                           |
| <b>PAS 24<br/>(Revised)</b>   | Related Party Disclosures   | ✓              |   |                           |
| <b>PAS 26</b>   | Accounting and Reporting by Retirement Benefit Plans  |                |   | ✓                         |
| <b>PAS 27<br/>(Amended)</b>   | Separate Financial Statements   | ✓              |   |                           |
| <b>PAS 28<br/>(Amended)</b>   | Investments in Associates and Joint Ventures  | ✓              |   |                           |
| <b>PAS 29</b>   | Financial Reporting in Hyperinflationary Economies  |                |   | ✓                         |
| <b>PAS 31</b>   | Interests in Joint Ventures   |                |   | ✓                         |
| <b>PAS 32</b>   | Financial Instruments: Disclosure and Presentation  | ✓              |   |                           |
|   | Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation |                |   | ✓                         |
|   | Amendment to PAS 32: Classification of Rights Issues  |                |   | ✓                         |
|   | Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities                           | ✓              |   |                           |
| <b>PAS 33</b>   | Earnings per Share  | ✓              |   |                           |
| <b>PAS 34</b>   | Interim Financial Reporting   |                |   | ✓                         |
| <b>PAS 36</b>   | Impairment of Assets  | ✓              |   |                           |
| <b>PAS 37</b>   | Provisions, Contingent Liabilities and Contingent Assets  | ✓              |   |                           |

| <b>PHILIPPINE FINANCIAL REPORTING STANDARDS<br/>AND INTERPRETATIONS<br/>Effective as at December 31, 2017</b> |   | <b>Adopted</b> | <b>Not<br/>Adopted/<br/>Not Early<br/>Adopted</b> | <b>Not<br/>Applicable</b> |
|---|---|----------------|---|---------------------------|
| <b>PAS 38</b>   | Intangible Assets   | ✓              |   |                           |
| <b>PAS 39</b>   | Financial Instruments: Recognition and Measurement  | ✓              |   |                           |
|   | Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities  | ✓              |   |                           |
|   | Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions                    |                |   | ✓                         |
|   | Amendments to PAS 39: The Fair Value Option   |                |   | ✓                         |
|   | Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts  |                |   | ✓                         |
|   | Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets                                   |                |   | ✓                         |
|   | Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition   |                |   | ✓                         |
|   | Amendments to Philippine Interpretation IFRIC 9 and PAS 39: Embedded Derivatives                        |                |   | ✓                         |
|   | Amendment to PAS 39: Eligible Hedged Items  |                |   | ✓                         |
| <b>PAS 40</b>   | Investment Property   | ✓              |   |                           |
| <b>PAS 41</b>   | Agriculture   |                |   | ✓                         |
| <b>Philippine Interpretations</b>   |   |                |   |                           |
| <b>IFRIC 1</b>  | Changes in Existing Decommissioning, Restoration and Similar Liabilities                                | ✓              |   |                           |
| <b>IFRIC 2</b>  | Members' Share in Co-operative Entities and Similar Instruments   |                |   | ✓                         |
| <b>IFRIC 4</b>  | Determining Whether an Arrangement Contains a Lease   | ✓              |   |                           |
| <b>IFRIC 5</b>  | Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds    | ✓              |   |                           |
| <b>IFRIC 6</b>  | Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment |                |   | ✓                         |
| <b>IFRIC 7</b>  | Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies       |                |   | ✓                         |
| <b>IFRIC 9</b>  | Reassessment of Embedded Derivatives  |                |   | ✓                         |
|   | Amendments to Philippine Interpretation IFRIC 9 and PAS 39: Embedded Derivatives                        |                |   | ✓                         |
| <b>IFRIC 10</b>   | Interim Financial Reporting and Impairment  |                |   | ✓                         |
| <b>IFRIC 12</b>   | Service Concession Arrangements   |                |   | ✓                         |
| <b>IFRIC 13</b>   | Customer Loyalty Programmes   |                |   | ✓                         |

| <b>PHILIPPINE FINANCIAL REPORTING STANDARDS<br/>AND INTERPRETATIONS<br/>Effective as at December 31, 2017</b> |   | <b>Adopted</b> | <b>Not<br/>Adopted/<br/>Not Early<br/>Adopted</b> | <b>Not<br/>Applicable</b> |
|---|---|----------------|---|---------------------------|
| <b>IFRIC 14</b>   | The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction        |                |   | ✓                         |
|   | Amendments to Philippine Interpretations IFRIC 14, Prepayments of a Minimum Funding Requirement |                |   | ✓                         |
| <b>IFRIC 16</b>   | Hedges of a Net Investment in a Foreign Operation   |                |   | ✓                         |
| <b>IFRIC 17</b>   | Distributions of Non-cash Assets to Owners  |                |   | ✓                         |
| <b>IFRIC 18</b>   | Transfers of Assets from Customers  |                |   | ✓                         |
| <b>IFRIC 19</b>   | Extinguishing Financial Liabilities with Equity Instruments                                     |                |   | ✓                         |
| <b>IFRIC 20</b>   | Stripping Costs in the Production Phase of a Surface Mine                                       | ✓              |   |                           |
| <b>SIC-7</b>  | Introduction of the Euro  |                |   | ✓                         |
| <b>SIC-10</b>   | Government Assistance - No Specific Relation to Operating Activities                            |                |   | ✓                         |
| <b>SIC-12</b>   | Consolidation - Special Purpose Entities  |                |   | ✓                         |
|   | Amendment to SIC-12: Scope of SIC-12  |                |   | ✓                         |
| <b>SIC-13</b>   | Jointly Controlled Entities - Non-Monetary Contributions by Venturers                           |                |   | ✓                         |
| <b>SIC-15</b>   | Operating Leases - Incentives   |                |   | ✓                         |
| <b>SIC-25</b>   | Income Taxes - Changes in the Tax Status of an Entity or its Shareholders                       |                |   | ✓                         |
| <b>SIC-27</b>   | Evaluating the Substance of Transactions Involving the Legal Form of a Lease                    |                |   | ✓                         |
| <b>SIC-29</b>   | Service Concession Arrangements: Disclosures  |                |   | ✓                         |
| <b>SIC-31</b>   | Revenue - Barter Transactions Involving Advertising Services                                    |                |   | ✓                         |
|   | Amendments to Philippine Interpretations IFRIC 14, Prepayments of a Minimum Funding Requirement |                |   | ✓                         |
| <b>SIC-32</b>   | Intangible Assets - Web Site Costs  |                |   | ✓                         |

The Company has not early adopted any PFRSs, PAS and Philippine Interpretations effective January 1, 2018 onwards.

**SCHEDULE III**

**NICKEL ASIA CORPORATION AND SUBSIDIARIES**

**Schedule A. Financial Assets  
December 31, 2017**

| Name of Issuing Entity and<br>Description of Each Issue | Number of Shares or<br>Principal Amount of Bonds<br>and Notes | Amount Shown in the<br>Statement of Financial Position | Value Based on Market<br>Quotations at End of<br>Reporting Date | Income Received and<br>Accrued |
|---|---|--|---|--------------------------------|
| <i>In Thousands</i>                                     |   |  |   |                                |
| Cash on hand and with banks                             | N/A   | P955,114   | P955,114  |                                |
| Cash under managed funds                                | N/A   | 177,014  | 177,014   | P137,499                       |
| Short-term cash investments                             | N/A   | 8,513,804  | 8,513,804   |                                |
| <b>Cash and cash equivalents</b>                        |   | <b>9,645,932</b>                                       | <b>9,645,932</b>  | <b>137,499</b>                 |
| Trade   | N/A   | 619,731  | 619,731   | -                              |
| Current portion of loan receivable                      | N/A   | 94,203   | 94,203  | 2,914                          |
| Interest receivable                                     | N/A   | 53,619   | 53,619  | -                              |
| Receivable from CBNC                                    | N/A   | 40,679   | 40,679  | -                              |
| Amounts owed by related parties                         | N/A   | 7,351  | 7,351   | -                              |
| Others  | N/A   | 40,820   | 40,820  | -                              |
| <b>Trade and other receivables</b>                      |   | <b>856,403</b>   | <b>856,403</b>  | <b>2,914</b>                   |

(Forward)



**NICKEL ASIA CORPORATION AND SUBSIDIARIES**

**Schedule A. Financial Assets  
December 31, 2017**

| Name of Issuing Entity and<br>Description of Each Issue            | Number of Shares or<br>Principal Amount of Bonds<br>and Notes | Amount Shown in the<br>Statement of Financial Position | Value Based on Market<br>Quotations at End of<br>Reporting Date | Income Received and<br>Accrued |
|--|---|--|---|--------------------------------|
| <i>In Thousands</i>  |   |  |   |                                |
| Manila Golf and Country Club                                       | 1 share   | ₱42,000  | ₱42,000   | ₱-                             |
| Wack-Wack Golf and Country Club                                    | 1 share   | 24,000   | 24,000  | -                              |
| Valle Verde Country Club   | 1 share   | 120  | 120   | -                              |
| Camp John Hay Country Club   | 1 share   | 180  | 180   | -                              |
| Ayala Land, Inc.   | ₱115,000  | 116,353  | 116,353   | 4,437                          |
| Retail Treasury Bond   | ₱100,000  | 100,000  | 100,000   | 2,523                          |
| Aboitiz Equity Ventures, Inc.                                      | ₱50,000   | 49,568   | 49,568  | 1,765                          |
| SM Prime Holdings, Inc.  | ₱25,000   | 25,870   | 25,870  | 638                            |
| Philippine Long Distance and Telephone Company                     | ₱20,000   | 20,443   | 20,443  | 836                            |
| ABS-CBN Corporation  | ₱20,000   | 20,516   | 20,516  | 854                            |
| JG Summit Corporation  | ₱20,000   | 20,529   | 20,529  | 837                            |
| Globe Telecom Inc.   | ₱10,000   | 9,918  | 9,918   | 1,311                          |
| DoubleDragon Properties Corporation                                | ₱10,000   | 9,167  | 9,167   | 215                            |
| Security Bank Corporation - Tier II Funds                          | ₱40,000   | 40,000   | 40,000  | 1,720                          |
| NiHao Mineral Resources International, Inc.                        | 101,000,000 shares  | 152,510  | 152,510   | -                              |
| Eurasian Consolidated Minerals Pty. Ltd.                           | 13,250,000 shares   | 79,828   | 79,828  | -                              |
| Philippine Long Distance and Telephone Company                     | 25,000 shares   | 37,000   | 37,000  | 1,900                          |
| Security Bank Corporation  | 58,027 shares   | 14,588   | 14,588  | 100                            |
| Eagle Cement Corporation   | 666,600 shares  | 9,852  | 9,852   | -                              |
| Philippine Long Distance and Telephone Company                     | -   | 217  | 217   | 34                             |
| Security Bank Corporation - Money Market Fund                      | 39,796,443 units  | 51,760   | 51,760  | -                              |
| BPI Asset Management - Money Market Fund                           | 50,599 units  | 11,985   | 11,985  | -                              |
| BDO Institutional Cash Reserve Fund                                | 9,264 units   | 1,051  | 1,051   | -                              |
| ATR Kim Eng Capital Partners, Inc. - Equity Opportunity Fund       | 25,479,005 shares   | 117,018  | 117,018   | -                              |
| ATR Kim Eng Capital Partners, Inc. - Alpha Opportunity Fund        | 14,541,224 shares   | 23,219   | 23,219  | -                              |
| Keyland Ayala Properties Inc. (formerly Security Land Corporation) | 3,056,198 shares  | 126,758  | 126,758   | 15,281                         |

(Forward)

**NICKEL ASIA CORPORATION AND SUBSIDIARIES**

**Schedule A. Financial Assets  
December 31, 2017**

| Name of Issuing Entity and<br>Description of Each Issue                 | Number of Shares or<br>Principal Amount of Bonds<br>and Notes | Amount Shown in the<br>Statement of Financial Position | Value Based on Market<br>Quotations at End of<br>Reporting Date | Income Received and<br>Accrued |
|---|---|--|---|--------------------------------|
| <i>In Thousands</i>   |   |  |   |                                |
| Credit Suisse AG - debt and equity securities                           | various   | ₱1,137,699   | ₱1,137,699  | ₱26,411                        |
| BNP Paribas Wealth Management - debt and equity securities              | various   | 1,106,588  | 1,106,588   | 21,232                         |
| BPI Asset Management - debt securities                                  | various   | 769,881  | 769,881   | 21,459                         |
| BDO Unibank, Inc. - debt and equity securities                          | various   | 616,134  | 616,134   | 12,616                         |
| Security Bank Corporation - debt and equity securities                  | various   | 607,444  | 607,444   | 18,482                         |
| DBS Private Bank - debt and equity securities                           | various   | 505,889  | 505,889   | 19,167                         |
| Maybank ATR Kim Eng Capital Partners, Inc. - debt and equity securities | various   | 449,095  | 449,095   | 11,182                         |
| Philam Asset Management Inc. - debt and equity securities               | various   | 361,240  | 361,240   | 9,524                          |
| <b>AFS financial assets</b>   |   | <b>6,658,420</b>                                       | <b>6,658,420</b>  | <b>172,524</b>                 |
| Loan receivable - net of current portion                                | N/A   | 767,641  | 767,641   | 24,231                         |
| Long-term negotiable instruments  | N/A   | 40,000   | 40,000  | 1,305                          |
| <b>Other noncurrent assets</b>  |   | <b>807,641</b>   | <b>807,641</b>  | <b>25,536</b>                  |
| <b>Total</b>  |   | <b>₱17,968,396</b>                                     | <b>₱17,968,396</b>  | <b>₱338,473</b>                |

**NICKEL ASIA CORPORATION AND SUBSIDIARIES**

**Schedule B. Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Affiliates)  
December 31, 2017**

| Name and Designation of Debtor  | Beginning<br>Balance | Additions | Deductions          |                        | Current | Noncurrent | Ending<br>Balance |
|---|----------------------|-----------|---------------------|------------------------|---------|------------|-------------------|
|   |                      |           | Amount<br>Collected | Amount Written-<br>Off |         |            |                   |
| There are no receivables from Directors, Officers, Employees, Related Parties and Principal Stockholders other than subject to usual terms, for ordinary travel and expense advances, and for other such items arising in the ordinary course of business, and eliminated in consolidation. |                      |           |                     |                        |         |            |                   |
| <hr/> <hr/>   |                      |           |                     |                        |         |            |                   |

**NICKEL ASIA CORPORATION**

**Schedule C. Amounts Receivable from Related Parties which are Eliminated in the Consolidated Financial Statements  
December 31, 2017**

| Name of Subsidiary                 | Balance<br>At January 1,<br>2017 | Additions | Amounts<br>collected | Reclassification | Amounts<br>Written Off | Current  | Noncurrent | Amount<br>Eliminated |
|------------------------------------|----------------------------------|-----------|----------------------|------------------|------------------------|----------|------------|----------------------|
| <i>In Thousands</i>                |                                  |           |                      |                  |                        |          |            |                      |
| Geogen Corporation                 | ₱370,424                         | ₱185,148  | ₱–                   | ₱–               | ₱–                     | ₱555,572 | ₱–         | ₱555,572             |
| Cordillera Exploration Co., Inc.   | 97,585                           | 42,374    | –                    | (92,050)         | –                      | 47,909   | –          | 47,909               |
| Rio Tuba Nickel Mining Corporation | 2,931                            | 2,273     | (2,256)              | –                | –                      | 2,948    | –          | 2,948                |
| Hinatuan Mining Corporation        | (2,454)                          | 2,134     | (2,237)              | –                | –                      | (2,557)  | –          | (2,557)              |
| Taganito Mining Corporation        | 435                              | 2,447     | (2,473)              | –                | –                      | 409      | –          | 409                  |
| Cagdianao Mining Corporation       | 312                              | 2,097     | (2,059)              | –                | –                      | 350      | –          | 350                  |
|                                    | ₱469,233                         | ₱236,473  | (₱9,025)             | (₱92,050)        | ₱–                     | ₱604,631 | ₱–         | ₱604,631             |

**NICKEL ASIA CORPORATION AND SUBSIDIARIES**

**Schedule D. Intangible Assets - Other Assets**

**December 31, 2017**

| Description  | January 1,<br>2017 | Additions<br>At Cost | Deductions                       |                              | Other Changes -<br>Additions<br>(Deductions) | December 31,<br>2017 |
|--|--------------------|----------------------|----------------------------------|------------------------------|--|----------------------|
|  |                    |                      | Charged to Costs<br>and Expenses | Charged to Other<br>Accounts |  |                      |
| <i>In Thousands</i>  |                    |                      |                                  |                              |  |                      |
| Geothermal exploration and evaluation<br>assets <sup>(a)</sup> | ₱1,775,799         | ₱21,776              | ₱-                               | ₱-                           | (₱13,392)                                    | ₱1,784,183           |
| <i>Other Noncurrent Assets</i> <sup>(b)</sup>                  |                    |                      |                                  |                              |  |                      |
| Deferred mine exploration costs                                | 1,218,332          | 12,333               | (1,233)                          | -                            | -  | 1,229,432            |
| Project development costs                                      | 22,687             | 89,983               | -                                | -                            | -  | 112,670              |
|  | <b>₱3,016,818</b>  | <b>₱124,092</b>      | <b>(₱1,233)</b>                  | <b>₱-</b>                    | <b>(₱13,392)</b>                             | <b>₱3,126,285</b>    |

(a) Disclosed in Note 11 to the Consolidated Financial Statements

(b) Disclosed in Note 13 to the Consolidated Financial Statements

## NICKEL ASIA CORPORATION AND SUBSIDIARIES

### Schedule E. Long-term Debts December 31, 2017

| Name of Issuer and<br>Type of Obligation | Amount<br>Authorized by Indenture | Amount<br>Shown as Current | Amount<br>Shown as Long-term | Remarks |
|--|-----------------------------------|----------------------------|------------------------------|---------|
| <i>In Thousands</i>                      |                                   |                            |                              |         |
| <i>Long-term Debts</i>                   |                                   |                            |                              |         |
| Security Bank Corporation                | ₱–                                | ₱1,498,159                 | ₱–                           | A       |
| Taganito HPAL Nickel Corporation         | –                                 | 87,377                     | 1,092,219                    | B       |
| Land Bank of the Philippines             | –                                 | 27,273                     | 256,992                      | C       |
| Sumitomo Metal Mining Co. Ltd.           | –                                 | 22,369                     | –                            | D       |
| <i>Deferred Income</i>                   |                                   |                            |                              |         |
| Taganito HPAL Nickel Corporation         | –                                 | 4,483                      | 58,659                       | E       |
| <b>Total</b>                             | <b>₱–</b>                         | <b>₱1,639,661</b>          | <b>₱1,407,870</b>            |         |

#### Remarks:

- A. Interest rate ranges from 4.6% to 5.0%; principal is payable on or before the end of the third year following the date of drawdown.
- B. Interest rate is based on prevailing 180-day LIBOR plus 2% spread; principal is payable in semi-annual installments of US\$875,000, payable in April and October until April 10, 2031.
- C. Annual floating interest rate is at least 4.75%; payable in forty-four equal quarterly payments starting at the end of the fifth quarter from the date of the initial loan.
- D. Interest rate is based on prevailing 180-day British Banker Associate LIBOR plus 2% spread; principal is payable in semi-annual installments of US\$448,000, payable in February and August until February 28, 2018.
- E. The obligation is covered by a Lease Agreement with THNC.

**NICKEL ASIA CORPORATION AND SUBSIDIARIES****Schedule F. Indebtedness to Affiliates and Related Parties (Short-term and Long-term Debts with Related Companies)  
December 31, 2017**

| Name of Affiliate                | January 1,<br>2017  | December 31,<br>2017 |
|----------------------------------|---------------------|----------------------|
|                                  | <i>In Thousands</i> |                      |
| <i>Short-term Debt</i>           |                     |                      |
| Manta Equities Inc.              | ₱180,000            | ₱-                   |
| <i>Long-term Debts</i>           |                     |                      |
| Taganito HPAL Nickel Corporation | 1,261,645           | 1,179,596            |
| Sumitomo Metal Mining Co. Ltd.   | 66,824              | 22,369               |
|                                  | 1,328,469           | 1,201,965            |
| <i>Deferred Income</i>           |                     |                      |
| Taganito HPAL Nickel Corporation | 67,383              | 63,142               |
|                                  | ₱1,575,852          | ₱1,265,107           |

**NICKEL ASIA CORPORATION AND SUBSIDIARIES**  
**Schedule G. Guarantees of Securities of Other Issuers**  
**December 31, 2017**

| Name of Issuing Entity<br>of Securities Guaranteed<br>by the Company for which<br>Statement is Filed | Title of Issue of Each<br>Class of Securities<br>Guaranteed | Total Amount<br>Guaranteed and<br>Outstanding | Amount Owned by<br>the Company for<br>which Statement<br>is Filed | Nature of<br>Guarantee |
|--|---|---|---|------------------------|
|--|---|---|---|------------------------|

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- Not applicable-

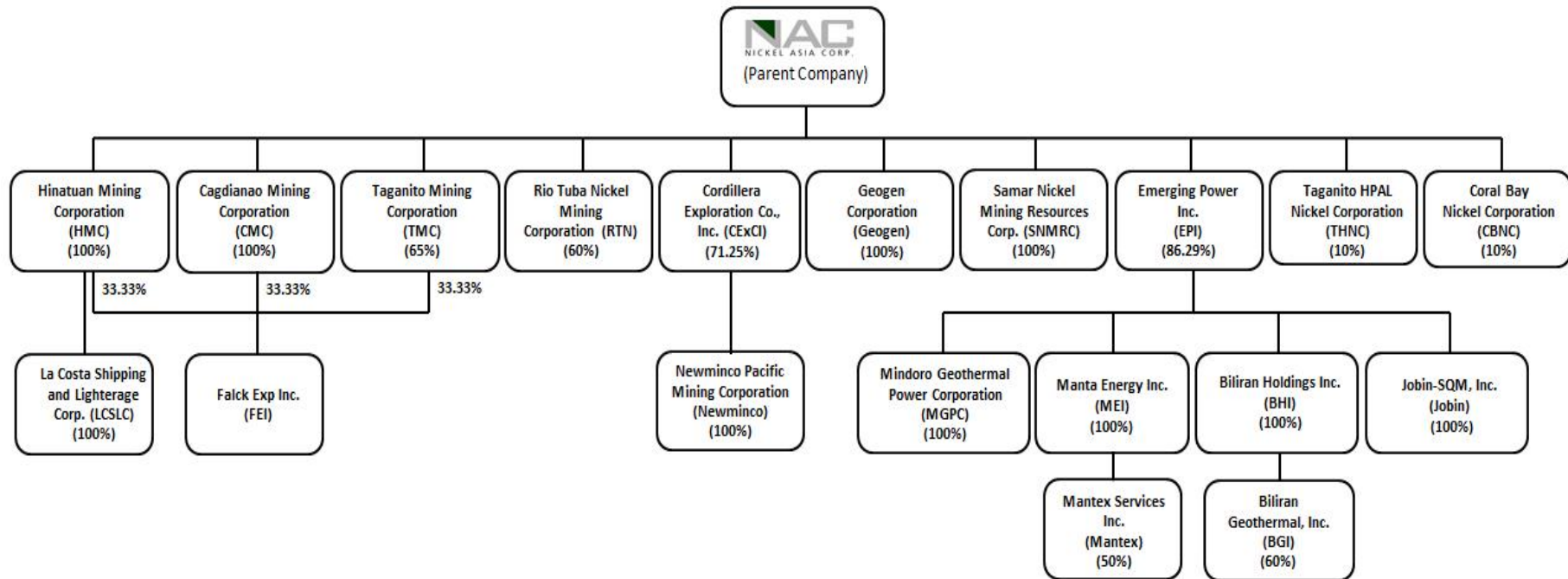


**NICKEL ASIA CORPORATION AND SUBSIDIARIES****Schedule H. Capital Stock  
December 31, 2017**

| Title of Issue  | Number of Shares<br>Authorized | Number of Shares<br>Issued and<br>Outstanding | Number of Shares<br>Reserved for<br>Options, Warrants,<br>Conversions and<br>Other Rights | Number of Shares Held By |   |               |
|-----------------|--------------------------------|---|---|--------------------------|---|---------------|
|                 |                                |   |   | Affiliates               | Directors,<br>Officers and<br>Employees | Others        |
| Common Stock    | 19,265,000,000                 | 7,602,928,954                                 | 70,294,846  | 5,190,336,286            | 1,002,245,604                           | 1,410,347,064 |
| Preferred Stock | 720,000,000                    | 720,000,000                                   | —   | 720,000,000              | —                                       | —             |

**SCHEDULE IV**

**NICKEL ASIA CORPORATION AND SUBSIDIARIES  
A MAP SHOWING THE RELATIONSHIPS BETWEEN AND AMONG THE COMPANY AND ITS  
ULTIMATE PARENT COMPANY, MIDDLE PARENT, SUBSIDIARIES, CO-SUBSIDIARIES AND ASSOCIATES  
PURSUANT TO SRC RULE 68, AS AMENDED  
DECEMBER 31, 2017**



Note: There is no pyramid ownership structure and/or cross holding structure.

## SCHEDULE V

### NICKEL ASIA CORPORATION AND SUBSIDIARIES SCHEDULE SHOWING FINANCIAL SOUNDNESS PURSUANT TO SRC RULE 68, AS AMENDED DECEMBER 31, 2017

|                                     | 2017  | 2016  |
|-------------------------------------|-------|-------|
| A. <i>Liquidity ratios</i>          |       |       |
| Current ratio                       | 2.17  | 2.58  |
| Quick ratio                         | 1.71  | 2.06  |
| Solvency ratio                      | 3.65  | 3.20  |
| B. <i>Financial leverage ratios</i> |       |       |
| Debt ratio                          | 0.27  | 0.31  |
| Debt-to-equity ratio                | 0.38  | 0.45  |
| Interest coverage                   | 28.54 | 31.65 |
| Asset-to-equity ratios              | 1.38  | 1.45  |
| C. <i>Profitability ratios</i>      |       |       |
| Net profit margin analysis          | 0.24  | 0.19  |
| Return on assets                    | 0.08  | 0.06  |
| Return on equity                    | 0.12  | 0.09  |
| Gross profit margin                 | 0.58  | 0.55  |
| Price/earnings ratio                | 17.58 | 30.69 |

## CERTIFICATION

The Nickel Asia Corporation (NAC) Properties are: Rio Tuba Nickel Mining Corporation (RTN) located at Brgy. Rio Tuba, Bataraza, Palawan; Taganito Mining Corporation (TMC) located at Brgy. Taganito, Claver, Surigao del Norte; Cagdianao Mining Corporation (CMC) located at Brgy. Valencia, Cagdianao, Surigao del Norte; Hinatuan Mining Corporation (HMC) located at Hinatuan Island, Taganaan, Surigao del Norte and Geogen Corporation (Geogen) located at Dinapigue, Isabela.

As of December 31, 2017, the Company's Total Ore Reserves in accordance with the Philippine Mineral Reporting Code (PMRC) are as follows:

| Ore                 | Class               | Tonnes (kWMT) | Tonnes (kDMT) | % Ni | % Fe  | Contained Ni (kt) |
|---------------------|---------------------|---------------|---------------|------|-------|-------------------|
| <i>Ore Reserves</i> |                     |               |               |      |       |                   |
| Saprolite           | Proved and Probable | 105,409       | 71,836        | 1.50 | 12.89 | 1,078             |
| Limonite            | Proved and Probable | 254,637       | 170,947       | 1.13 | 40.69 | 1,927             |

The undersigned is issuing this certification in his capacity as PMRC Competent Person accredited by the Philippine Society of Mining Engineers for the ore reserves declared by the Company for its properties. The undersigned is fully aware that, being under the employ of Nickel Asia Corporation, his certification may be subjected to review or scrutiny by other independent Competent Persons whom the concerned government institution(s) of financing bodies might choose to employ.

  
ROLANDO R. CRUZ

Mining Engineer, License No. 1803

PMRC Competent Person for Ni and Au

PTR No. A-3781855 Issued: 23 January 2018, Taguig City

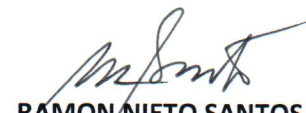
## CERTIFICATION

The Nickel Asia Corporation (NAC) Properties are: Rio Tuba Nickel Mining Corporation (RTN) located at Brgy. Rio Tuba, Bataraza, Palawan; Taganito Mining Corporation (TMC) located at Brgy. Taganito, Claver, Surigao del Norte; Cagdianao Mining Corporation (CMC) located at Brgy. Valencia, Cagdianao, Surigao del Norte; Hinatuan Mining Corporation (HMC) located at Hinatuan Island, Taganaan, Surigao del Norte and Geogen Corporation (Geogen) located at Dinapigue, Isabela.

As of December 31,2017, the Company's Total Mineral Resources in accordance with the Philippine Mineral Reporting Code (PMRC) are as follows:

| Ore                      | Classification         | Tonnes (kwmt) | Tonnes (kdmt) | %Ni  | %Fe   | Contained Ni (kt) |
|--------------------------|------------------------|---------------|---------------|------|-------|-------------------|
| <b>Mineral Resources</b> |                        |               |               |      |       |                   |
| Saprolite                | Measured and Indicated | 159,292       | 105,700       | 1.46 | 12.15 | 1,547             |
| Limonite                 | Measured and Indicated | 264,829       | 177,045       | 1.12 | 42.10 | 1,979             |
| Saprolite                | Inferred               | 61,300        | 39,597        | 1.33 | 13.14 | 525               |
| Limonite                 | Inferred               | 16,642        | 10,830        | 1.09 | 37.59 | 118               |

The undersigned is issuing this certification in his capacity as Competent Person accredited by the PMRC and as an active member of the Geological Society of the Philippines for the resource declared by the company for its properties.



**RAMON NIETO SANTOS**  
Geologist

PRC No. 0834 (Dec. 08,1982)

Competent Person in Geology

CP Reg. No. 14-05-02 (May 06,2014)

**CERTIFICATE ON THE COMPILATION SERVICES FOR THE PREPARATION  
OF THE CONSOLIDATED FINANCIAL STATEMENTS  
AND NOTES TO THE FINANCIAL STATEMENTS**

I hereby certify that I am the Certified Public Accountant (CPA) who performed the compilation services related to the preparation and presentation of financial information of an entity in accordance with an applicable financial reporting framework and reports as required by accounting and auditing standards for **Nickel Asia Corporation and Subsidiaries** for the period ended **December 31, 2017**.

In discharging this responsibility, I hereby declare that:

✓ I am the **Senior Finance Manager** of **Nickel Asia Corporation**.

\_\_\_\_\_ I am the (position) of (name of organization/person) and was contracted to perform this service.

Furthermore, in my compilation services for preparation of the Consolidated Financial Statements and Notes to the Financial Statements, I was not assisted by or did not avail of the services of Sycip Gorres Velayo & Co., which is the external auditor who rendered the audit opinion for the said Consolidated Financial Statements and Notes to the Financial Statements.

I hereby declare, under penalties of perjury and violation of Republic Act No. 9298, that my statements are true and correct.

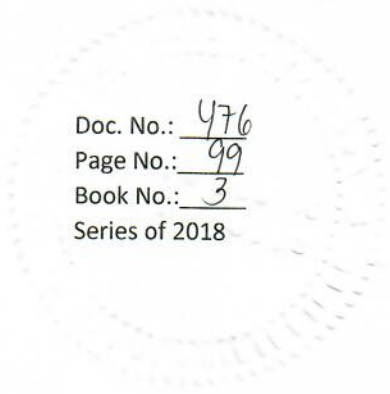
*Iryan Jean U. Padillo*  
**IRYAN JEAN U. PADILLO**  
Professional License No. 0108376  
Valid until December 16, 2020

BOA Accreditation No. 1205  
Valid until December 16, 2019

**SUBSCRIBED** and **SWORN** to before me, this APR 02 2018, at TAGUIG CITY,  
affiants who exhibited to me her competent evidence of identity specified below:

| Name                  | Competent Evidence of Identity | Date and Place Issued    |
|-----------------------|--------------------------------|--------------------------|
| IRYAN JEAN U. PADILLO | Passport #: EC1477706          | June 25, 2014/DFA Manila |

avowed under penalty of law as to the truth of the contents of this instrument.



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Book No.: 3  
Series of 2018

RYAN RENE C. JORNADA  
Appointment No. 31 (2017-2018)  
Notary Public for and in the City of Taguig  
Until December 31, 2018  
Roll No. 58552  
PTR No. A-3781856 January 2018/Taguig City  
IBP No. 015794 (Lifetime)/O.R. No. 1070904/30 January 2017  
MCLE Compliance No. V-0018775, until 19 April 2019  
28F NAC Tower, 32<sup>nd</sup> Street, BGC, Taguig City