# COVER SHEET

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SEC Registration Number

SEMIRARA MINING AND POWER CORPORATION

(Company's Full Name)

2nd Floor DMCI PLAZA 2281 DON CHINO ROCES AVENUE MAKATI CITY

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

**John R. Sadullo**
(Contact Person)

**888-3055**
(Company Telephone Number)

1 2 3 1
(Fiscal Year)

2 0 - I S
(Form Type)

*Month* *Day*
(Annual Meeting[1])

(Secondary License Type, If Applicable)

**CFD**
Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

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To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

S T A M P S

Remarks: Please use BLACK ink for scanning purposes.

[1] First Monday of May of each year.

Republic of the Philippines}
Makati City, Metro Manila} S.S.

# CERTIFICATION

I, **JOHN R. SADULLO**, of legal age, Filipino, with office address located at 2nd Floor, DMCI Plaza, 2281 Don Chino Roces Avenue, Makati City, under oath, do hereby depose and state that:

1. I am the incumbent Corporate Secretary of **Semirara Mining and Power Corporation**, (the "Corporation"), a corporation duly organized and existing under the laws of the Republic of the Philippines, with the same office address above-mentioned;

2. As such, I am the custodian of, and have access to, corporate minutes of meetings, books and records of the Corporation;

3. Based on available records with the Corporation none of the named directors and officers of the Corporation are working or connected with, directly or indirectly, with the Government; and

4. I am issuing this Certification to attest to the truthfulness of the information contained in the Corporation's Information Statement (SEC Form 20-IS) and in compliance with the requirement of the Securities and Exchange Commission.

**IN ATTESTATION OF THE ABOVE,** I have signed this Certificate this 19th day of March 2015, at Makati City, Philippines.

**JOHN R. SADULLO**
Corporate Secretary

MAR 19 2015

**SUBSCRIBED AND SWORN**, to before me on this ____ day of March 2015, at Makati City, by John R. Sadullo who has satisfactory proven to me his identity through his Driver's License with No. N01-02-005690 valid until July 22, 2015, and that he is the same person who personally signed before me the foregoing Secretary's Certificate and acknowledged that he executed the same.

Doc. No. 446 ;
Page No. 90 ;
Book No. II ;
Series of 2015.

**ATTY. REDENCIO C. VILLARIVERA**
Notary Public for Makati City
For the term ending 31 December 2015
Roll No. 45335; Appointment No. M-365
4th Floor, Dacon Building, No. 2281
Pasong Tamo Extension, Makati City
IBP No.0995318/Feb.2, 2015/Makati
PTR No.4789099/Feb.3,2015/Makati
MCLE Compliance No. IV-0020719

**SEMIRARA MINING AND POWER CORPORATION**
**Annual Stockholders' Meeting**
**May 4, 2015, 10:00 A.M.**
**Big Function Room, Manila Golf & Country Club, Inc., Harvard Road, Forbes Park, Makati City**

**RATIONALE FOR EACH AGENDA FOR APPROVAL OF THE STOCKHOLDER AND PROFILE OF NOMINEES FOR DIRECTORS**

| Agenda | | Rationale |
|---|---|---|
| **Item No. 3** | Approval of the Minutes of previous meeting held on May 5, 2014 | Every Annual Stockholder's Meeting of the Corporation the minutes of previous meetings are presented to the stockholders for their approval. |
| **Item No. 4** | Approval of Management Report | At every Annual Stockholder's Meeting of the Corporation, the Management of the Corporation presents to the stockholders for approval the results of its operations and financial performance of the Corporation for past year. |
| **Item No. 5** | Ratification of the acts of the Board of Directors and Management from the date of the last Annual Stockholders' Meeting up to the date of this Meeting | At every Annual Stockholder's Meeting of the Corporation seeks ratification of the acts of the Board of Directors and Management. The resolutions of the Board are enumerated in Schedule 3 of its SEC Form 20-IS. |
| **Item No. 6** | Approval of Independent Director and Non-Executive Director Fee. | Recognition of the significant contribution of the Independent Directors and Non-Executive Director in the performance of board functions and duties and to align to market. |
| **Item No. 7** | Re-Appointment of SGV & Co. as Independent External Auditor | Based on the Audit Committee's evaluation of SGV's performance, independence, qualifications and with due regard of management feedback |
| **Item No. 8** | Election of Directors for 2015-2016 | |

**Profile of Directors**

| Profile Summary | Directorship in Listed Company |
|---|---|
| **1. Isidro A. Consunji**, 66, Filipino, was elected Chairman of the Board of Directors of the Corporation last November 11, 2014 and currently serves as the Corporation's Chief Executive Officer, and member of the Nomination & Election Committee. He is a graduate of B.S. Civil Engineering at the University of the Philippines. He holds a Master's Degree in Business Economics from the Center for Research & Communication, and Business Management from the Asian Institute of Management. He also took an Advanced Management from IESE School in Barcelona, Spain. He is also the CEO of SEM-Calaca Power Corporation, Semirara Claystone Inc., Semirara Energy Utilities Inc., St. Raphael Power Generation Corporation, SEM-Balayan Power Generation Corporation, Southwest Luzon Power Generation Corporation, and | • DMCI Holdings, Inc.<br>• Crown Equities, Inc.<br>• Atlas Consolidated Mining and Development Corp. |

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|---|---|---|
| | SEM-Cal Industrial Park Developers Inc. He is also the Chairman and CEO of DMCI Mining Corporation, Chairman of ENK Plc (U.K.); Vice-Chairman of DMCI Masbate Power Corporation Director of Dacon Corporation, M&S Company Inc., DMCI Projects Developers, Inc., Crown Equities, Inc. (listed company), Toledo Mining Corporation Plc (U.K.), Semirara Cement Corporation, Atlas Consolidated Mining and Development Corporation (listed company), Maynilad Water Services, and SEM-Calaca Res Corporation; and President of DMCI Holdings, Inc. (listed company). He was the former President of the Philippine Constructors Association and Philippine Chamber of Coal Mines, Inc.<br><br>**2014 Nomination & Election Committee, Member** | |
| **2.** | **Victor A. Consunji**, 64, Filipino, has been a Director of the Corporation since May 2001 and currently serves as the Corporation's President, Chief Operating Officer, and a member of the Audit Committee. He was elected Vice-Chairman of the Board of Directors of the Corporation last November 11, 2014. He is a graduate of A.B. Political Science at the Ateneo de Davao. He is also the President and COO of SEM-Calaca Power Corporation, Semirara Claystone Inc., Semirara Energy Utilities Inc., St. Raphael Power Generation Corporation, SEM-Balayan Power Generation Corporation, Southwest Luzon Power Generation Corporation, and SEM-Cal Industrial Park Developers Inc.; Chairman, President & CEO of Semirara Training Center, Inc.; Chairman and CEO of DMCI Power Corporation; Chairman & President of Sirawai Plywood & Lumber Corp., and SEM-Calaca Res Corporation; Chairman of One Network Bank and Divine Word School of Semirara Island, Inc.; Director of DMCI Holdings, Inc. (listed company), D.M. Consunji, Inc., M&S Company, Inc., Dacon Corporation, Sodaco Agricultural Corporation, DMC Urban Property Developers, Inc., Ecoland Properties, Inc., DMCI Masbate Power Corporation, and DMCI Mining Corporation; and President of Sirawai Plywood & Lumber Corp.; and Vice-President of Dacon Corporation.<br><br>**2013 Audit Committee, Member** | • DMCI Holdings, Inc. |
| **3.** | **Jorge A. Consunji**, 63, Filipino, has been a Director of the Corporation since May 2001. He is a graduate of B.S. Industrial Management Engineering at the De La Salle University. He is also the Chairman of DMCI Masbate Power | • DMCI Holdings, Inc. |

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| | Corporation; and Director of DMCI Holdings, Inc. (listed company), Dacon Corporation, DMCI Project Developers, Inc., SEM-Calaca Power Corporation, Southwest Luzon Power Generation Corporation, Semirara Claystone Inc., Semirara Energy Utilities Inc., St. Raphael Power Generation Corporation, SEM-Balayan Power Generation Corporation, SEM-Cal Industrial Park Developers Inc., SEM-Calaca Res Corporation, Cotabato Timberland Co., Inc., M&S Company, Inc., Sodaco Agricultural Corporation, DMCI Mining Corporation, DMCI Power Corporation, Eco-Process & Equipment Phils. Inc., and Maynilad Water Services, Inc.; President & COO of D.M. Consunji, Inc., and Royal Star Aviation, Inc.; and Vice-President of Divine Word School of Semirara Island, Inc. He was the former Chairman of the Board of Contech Panel Mfg., Inc., and of Wire Rope Corp. of the Philippines. He was the former President of ACEL and Former First Vice-President of Phil. Constructors Association. | |
| **4.** | **Cesar A. Buenaventura**, 85, Filipino, has been a Director of the Corporation since May 2001. He graduated from the University of the Philippines with a degree of Bachelor of Science in Civil Engineering. He received his M.S. Civil Engineering as Fulbright Scholar at the Lehigh University, Bethlehem, Pennsylvania. In 1991, Mr. Buenaventura was made Honorary Officer of the Order of the British Empire (OBE) by Her Majesty Queen Elizabeth II. He is currently the Chairman of Maibarara Geothermal, Inc., and Vice-Chairman of Atlantic Gulf & Pacific Company of Manila (AG&P), DMCI Holdings, Inc. (listed company), and Montecito Properties, Inc. He is a director of DMCI Holdings, Inc., iPeople, Inc. (listed company), PetroEnergy Resources Corp. (listed company), AG&P Company of Manila, Maibarara Geothermal, Inc., Montecito Properties, Inc., Pilipinas Shell Petroleum Corporation, Philippine American Life Insurance Company, and Manila International Airport Authority. He is the founding Chairman of Pilipinas Shell Foundation, Inc., and founding member of the Board of Trustees of the Makati Business Club. His former affiliations are: President of the Benigno S. Aquino Foundation; Member of the Board of Trustees of Asian Institute of Management; Chief Executive Officer of Shell Group of Companies; Member of the Monetary Board of the Central Bank of the Philippines; Member of the Board of Directors of the Philippine International Convention Center; Member of the Board of Regents of the | • DMCI Holdings, Inc.<br>• PetroEnergy Resources Corporation<br>• iPeople, Inc. |

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| | University of the Philippines. He was also a former director of Ayala Corporation, First Philippine Holdings Corporation, Philippine Airlines, Philippine National Bank, Benguet Corporation, Asian Bank, Ma. Cristina Chemical Industries, and Paysetter International Inc. | |
| **5.** | **Herbert M. Consunji**, 62, Filipino, has been a Director of the Corporation since May 2001. He earned his degree of Bachelor of Science in Commerce Major in Accounting at De La Salle University. Currently, he is the Chairman, Subic Water & Sewerage Corp.; Director of DMCI Holdings, Inc. (listed company), DMCI Project Developers, Inc., DMCI Power Corporation, DMCI Mining Corporation, SEM-Calaca Power Corp., Southwest Luzon Power Generation Corporation, Maynilad Water Services, Inc., Subic Water & Sewerage Corp., SEM-Cal Industrial Park Developers Inc.; CFO, Maynilad Water Services, Inc.; Vice-President & CFO, DMCI Holdings, Inc.; Treasurer of SEM-Calaca Res Corporation; and Partner, H.F. Consunji & Associate. | • DMCI Holdings, Inc. |
| **6.** | **Ma. Cristina C. Gotianun**, 60, Filipino, has been a Director of the Corporation since May 2006 and currently serves as the Corporation's Executive Vice President and member of the Remuneration & Compensation Committee. She is a graduate of B.S. Business Economics at the University of the Philippines and majored in Spanish at the Instituto de Cultura Hispanica in Madrid, Spain. She is also a Director and Corporate Secretary of Dacon Corporation; Vice-President for Finance & Administration/CFO of D.M. Consunji, Inc.; Finance Director of DMC-Project Developers, Inc.; Director and Treasurer of SEM-Calaca Power Corporation, Southwest Luzon Power Generation Corporation, Semirara Claystone Inc., Semirara Energy Utilities Inc., St. Raphael Power Generation Corporation, SEM-Balayan Power Generation Corporation, DMCI Power Corporation, DMCI Masbate Power Corporation, and SEM-Cal Industrial Park Developers Inc.; Assistant Treasurer of DMCI Holdings, Inc. (listed company); and a Trustee, CFO and Corporate Secretary of Divine Word School of Semirara Island, Inc.<br><br>**2014 Compensation& Remuneration Committee, Member** | |
| **7.** | **Ma. Edwina C. Laperal**, 53, Filipino, has been a Director of the Corporation since May 2007. She is a graduate of B.S. Architecture at the University of the Philippines and obtained her Master's Degree in Business Administration at | • DMCI Holdings, Inc. |

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| | the same University. She is currently a Director and Treasurer of DMCI Holdings, Inc. (listed company), and DMCI Project Developers, Inc.; Director of SEM-Calaca Power Corporation; and Treasurer of Dacon Corporation, DMC Urban Property Developers, Inc., and D.M. Consunji, Inc. | |
| **8.** | **George G. San Pedro**, 75, Filipino, has been a Director of the Corporation since May 2001 and currently serves as the Corporation's Vice-President for Operations and Resident Manager. He is a graduate of B.S. Civil Engineering at the University of the Philippines. He is also the President of Divine Word School of Semirara Island, Inc. and Vice-President of Semirara Training Center, Inc. He used to work for D.M. Consunji, Inc., Dacon Wood Based Companies, DMC Construction Equipment Resources, Inc., and CONBROS Shipping Corporation. | |
| **9.** | **Josefa Consuelo C. Reyes**, 67 years old, is a graduate of AB Economics at the University of British Columbia, Vancouver, Canada. She is currently the General Manager of Manila Herbal & Essential Oils Co., Inc.; Corporate Secretary of the Philippine Coffee Board; Director and Chairperson of Ecology Village Association. She also worked as Vice-President/Director of Ecology Village Association. She also took Strategic Business Economics Program at the University of Asia and the Pacific in 2007. | |
| **10.** | **Victor C. Macalincag**, 79, Filipino, has been an Independent Director of the Corporation since May 2005 and currently serves as the Chairman of the Audit Committee, Compensation & Remuneration Committee, and member of Nomination & Election Committees of the Corporation. He is a holder of a Bachelor of Business Administration (BBA) degree from the University of the East and a Certified Public Accountant (CPA). He completed his academic requirements for a Masteral Degree in Economics and is a fellow of the Economic Development Institute of the World Bank. Currently, he is an Independent Director of Ceres Property Ventures, Inc., Crown Equities, Inc. (listed company), Republic Glass Holdings, Corporation (listed company), ISM Communications Corporation (listed company), Atok-Big Wedge Co., Inc. (listed company), and SEM-Calaca Power Corporation. He is also the Chairman of the Board of One Wealthy Nation Fund, Inc. and a Regular Director of Asian Alliance Investment Corp. He was formerly the Undersecretary of Finance (1986-1991), Deputy Minister of Finance (1981-1986), Treasurer of the Philippines (1983-1987), President of Trade | • Crown Equities, Inc.<br>• Republic Glass Holdings Corp.<br>• ISM Communications Corp.<br>• Atok-Big Wedge Co., Inc.<br>• PhilWeb Corporation |

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| & Investment Development Corporation of the Philippines (PHILEXIM) (1991-2001). He was also a director of the Home Guarantee Corporation (1979-2001), the Philippine Overseas Construction Board (1991-2001), the Philippine Long Distance Telephone Company (1988-1995), the National Power Corporation (1978-1986), Universal LRT-7 Corporation (2003-2010), and Philippine Deposit Insurance Corporation (1983-1991). He was Chairman of Pilipinas Bank (1984-1988) and Executive Vice-President of Land Bank of the Philippines (1981-1982). He was also a director of Philippine Aerotransport, Inc., Paper Industries Corporation of the Philippines, Lumang Bayan Realty Corporation, and Manila Midtown Development Corporation.<br><br>**2014 Nomination & Election Committee, Member**<br>**2014 Audit Committee, Chairman**<br>**2014 Compensation& Remuneration Committee, Chairman** | |
| **11. Rogelio M. Murga,** 80, Filipino, was appointed Independent Director of the Corporation on November 11, 2014, and also serves as the Chairman of the Nomination & Election Committee, and a member of both Audit Committee and Compensation & Remuneration Committee of the Corporation. He graduated from the University of the Philippines with a Bachelor of Science degree in Mechanical Engineering in 1958. In 1980, he also completed his Senior Management Program at Harvard Business School in Vevey, Switzerland, and was conferred an Honorary Degree of Doctor of Science – *Honoris Causa* by Feati University.<br><br>Currently, he is the Chairman of Private Infra Dev Corporation and an Independent Director of SEM-Calaca Power Corporation and Meralco Industrial Engineering Services Corp. His previous employment affiliation includes: President and Chief Executive Officer of the National Power Corporation; Director, President, Chief Operating Officer and eventually Vice-Chairman of EEI Corporation; President of Philippine Constructors Association; President of the International Federation of Asian and Western Pacific Contractors Association; Member of the Management Association of the Philippines; and finally as Chairman of the Committee on Engineering and Construction of the Philippine Chamber of Commerce and Industry. He was | |

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| also a Consultant of DCCD Engineering Corporation and taught as Engineering Professor at the National University.<br><br>**2014 Nomination & Election Committee, Chairman**<br>**2014 Audit Committee, Member**<br>**2014Compensation& Remuneration Committee, Member** | |

SECURITIES AND EXCHANGE COMMISSION
SEC FORM 20-IS
INFORMATION STATEMENT PURSUANT TO SECTION 20
OF THE SECURITIES REGULATION CODE

1. Check appropriate box

( ) Preliminary Information Statement
(✓) Definitive Information Statement

2. Name of Corporation as specified in its charter: **Semirara Mining and Power Corporation**

3. Province, Country, or other jurisdiction of incorporation or organization: **Philippines**

4. SEC Identification No.: **91447**

5. BIR Tax Identification No.: **000-190-324-000**

6. Address of Principal office: **2/F DMCI Plaza, 2281 Don Chino Roces Ave., Makati City, Philippines**

7. Corporation's telephone number, including area code: **(2) 888-3000, 816-7301 to 10**

8. Date, time and place of meeting of Security Holders: **May 4, 2015, 10:00 A.M., Big Function Room, Manila Golf & Country Club, Inc., Harvard Rd., Forbes Park, Makati City 1220, Philippines**

9. Approximate Date on which the Information Statement is to be sent or given to Security Holders: **April 7, 2015**

10. **In case of Proxy Solicitations:**

**Name of Person Filing the Statement/Solicitor: The Management of the Corporation**

**Address and Telephone No.:** **2/F DMCI Plaza**<br>**2281 Don Chino Roces Ave., Makati City, Philippines**<br>**(632) 888-3000/816-7301 to 10**

11. Securities registered pursuant to Sections 8 and 12 of the Securities Regulation Code or Sections 4 and 9 of the Revised Securities Act:

| Title of Each Class | Number of Shares of Stock |
|---|---|
| Common Shares | 1,068,750,000 |

12. Are any or all of Corporation's securities listed with the Philippine Stock Exchange?

Yes (✓) No ( )

Listed at Philippine Stock Exchange: **Common Shares**

**SEMIRARA MINING AND POWER CORPORATION**
**SEC FORM 20-IS**

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**PART I.**

**INFORMATION REQUIRED IN INFORMATION STATEMENT**

## A. GENERAL INFORMATION

### Item 1. Date, Time and Place of Meeting

The enclosed Information Statement will be used in connection with the annual meeting of the stockholders of Semirara Mining and Power Corporation (the "Corporation") to be held on **May 4, 2015, at 10:00 A.M., Big Function Room, Manila Golf & Club, Inc., Harvard Rd., Forbes Park, Makati City 1220, Philippines.**

The Definitive Information Statement will be sent to the stockholders of record as of March 23, 2015 (the "Record Date") at least fifteen (15) business days prior to May 4, 2015 or not later than April 7, 2015. The matters to be considered and acted upon at such meeting are referred to in the Notice and are more fully discussed in this statement. The Corporation's complete mailing address is **2nd Floor, DMCI Plaza, 2281 Don Chino Roces Avenue, Makati City, Philippines**.

### Item 2. Dissenter's Right of Appraisal

Pursuant to Section 81 of the Corporation Code of the Philippines, a stockholder has the right to dissent and demand payment of the fair value of his shares in the following instances:

(a) In case any amendment to the articles of incorporation has the effect of changing or restricting the rights of any stockholders or class of shares, or of authorizing preferences in any respect superior to those of outstanding shares of any shares of any class, or of extending or shortening the term of corporate existence.
(b) In case of sale, lease, exchange, transfer, mortgage, pledge or other disposition of all or substantially all of the corporate property and assets as provided in the Corporation Code;
(c) In case the corporation decides to invest its funds in another corporation or business outside of its primary purpose; and
(c) In case of merger or consolidation.

A stockholder must have voted against the proposed corporate action in order to avail himself of the appraisal right. The procedure for the exercise by a dissenting stockholder of his appraisal right is as follows:

(a) The dissenting stockholder shall make a written demand on the corporation within 30 days after the date on which the vote was taken for payment for the fair value of his shares. The failure of the stockholder to make the demand within 30 day period shall be deemed a waiver on his appraisal right;
(b) If the proposed corporate action is implemented or effected, the corporation shall pay to such stockholder, upon surrender of corresponding certificate(s) of stock within 10 days after demanding payment for his shares (Sec. 86), the fair value thereof; and
(c) Upon payment of the agreed or awarded price, the stockholder shall transfer his share to the corporation.

Appraisal right is not available for any items of the agenda for the May 4, 2015 stockholders' meeting.

### Item 3. Interest of Certain Persons in or Opposition to Matters to be acted upon

Other than election to office, no director, officer, nominee for election as director or associate of any of the foregoing shall have a substantial interest, direct or otherwise, in any matter to be acted upon at the annual stockholders' meeting.

No director has informed the Corporation that he/she intends to oppose any action to be taken up by the Corporation at the annual stockholders' meeting.

## B. CONTROL AND COMPENSATION INFORMATION

### Item 4. Voting Securities and Principal Holders Thereof

(a) As of March 19, 2015 the Corporation has 1,068,750,000 outstanding common shares.

(b) The Board of Directors of the Corporation has set March 23, 2015, as the record date (the "Record Date") to determine the stockholders of the Corporation entitled to notice of and to vote at the annual stockholders' meeting scheduled on May 4, 2015. The Corporation's issued and outstanding shares are all classified as common shares. Below are the equity ownership of foreigners:

| Location of Stockholders | No. of Stockholders | % | No. of Shares | % |
|---|---|---|---|---|
| China | 4 | 0.60 | 70,890 | 0.01 |
| United Kingdom | 1 | 0.15 | 450 | 0.00 |
| Others[1] | 2 | 0.30 | 130,583,534 | 12.22 |

(c) At the annual stockholders' meeting to be held on May 4, 2015, the holders of common shares as of the Record Date shall be entitled to vote on the following items, each share of outstanding common stock shall be entitled to one (1) vote: (i) approval of the minutes of the previous meeting of stockholders; (ii) approval of the Management Report; (iii) ratification of the acts of the Board of Directors and Management from the date of the last Annual Stockholder's meeting up to the date of this meeting; (iv) approval of independent director and non-executive director fees; and (v) re-appointment of the independent external auditors.

In the election of directors, every stockholder entitled to vote shall have the right to vote in person or by proxy the number of common shares of stock standing in his name as of Record Date. A stockholder entitled to vote may vote such number of shares for as many persons as there are directors to be elected, or he may cumulate said shares and give one candidate as many votes as the number of directors to be elected multiplied by the number of his shares shall equal, or he may distribute them on the same principle among as many candidates as he shall see fit. Provided, that the total number of votes cast by him shall not exceed the number of shares owned by him as shown in the books of the Corporation multiplied by the whole number of directors to be elected. No discretionary authority to cumulate votes is being solicited.

(d) **Security Ownership of Certain Record and Beneficial Owners and Management.** - The following table sets forth as of March 10, 2015, the record or beneficial owners of more than five percent (5%) of the outstanding common shares of the Corporation and the amount of such record or beneficial ownership.

| Title of Class | Name, Address of record owner and relationship with Issuer | Name of Beneficial Owner of more than 5% and Relationship with Record Owner | Citizenship | Amount/ Nature of Record/ Beneficial Ownership | Percent of Class |
|---|---|---|---|---|---|
| Common | DMCI Holdings, Inc. 3/F Dacon Bldg, 2281 Don Chino Roces Ave., Makati City, stockholder of record[2] | *See* ***Schedule 1*** | Filipino | 601,942,599 | 56.32% |
| Common | PCD Nominee Corp., stockholder of record | There are no stockholders owning 5% or more under PCD Nominee Corp. | Filipino | 133,753,261 | 12.51% |

[1] Includes PCD Nominee Corp. (Foreign) as stated under Item 4(d) below.
[2] Messrs. David M. Consunji, Isidro A. Consunji, Herbert M. Consunji and Cesar A. Buenaventura shall exercise the voting rights in behalf of DMCI Holdings, Inc.

| | | | | | |
|---|---|---|---|---|---|
| | | (Filipino) | | | |
| Common | Dacon Corporation, Dacon Bldg., 2281 Don Chino Roces Ave., Makati City, stockholder of record[3] | *See* ***Schedule 1*** | Filipino | 130,825,527 | 12.24% |
| Common | PCD Nominee Corp. (NF), stockholder of record | 78,317,309 (7.33%) shares are listed under The Hongkong and Shanghai Banking Corp., Ltd. | Foreign | 130,581,134 | 12.22% |

(e) **Security Ownership of Management.** - The table sets forth as of March 10, 2015 the beneficial stock ownership of each Director of the Corporation and all Officers and Directors as a group.

| Title of class | Name of beneficial owner | Amount and nature of beneficial ownership | | | Citizenship | % |
|---|---|---|---|---|---|---|
| | | **Direct** | **Indirect[4]** | **Total** | | |
| Common | Isidro A. Consunji | 6,036 | 969,918 | 975,954 | Filipino | 0.09% |
| Common | Cesar A. Buenaventura | 18,030 | - | 18,030 | Filipino | 0.00% |
| Common | Victor A. Consunji | 36 | 1,581,414 | 1,581,450 | Filipino | 0.15% |
| Common | Jorge A. Consunji | 36 | 116,837 | 116,873 | Filipino | 0.01% |
| Common | Herbert M. Consunji | 32,280 | - | 32,280 | Filipino | 0.00% |
| Common | Victor C. Macalincag | 804,890 | 19,100 | 823,990 | Filipino | 0.08% |
| Common | George G. San Pedro | 120,090 | - | 120,090 | Filipino | 0.01% |
| Common | Rogelio M. Murga | 1,010 | - | 1,010 | Filipino | 0.00% |
| Common | Ma. Cristina C. Gotianun | 357 | 1,210,104 | 1,210,461 | Filipino | 0.11% |
| Common | Ma. Edwina C. Laperal | 1,047 | 1,277,694 | 1,278,741 | Filipino | 0.12% |
| Common | Josefa Consuelo C. Reyes | 80,300 | 346,800 | 427,100 | Filipino | 0.04% |
| Common | Jaime B. Garcia | 144,108 | - | 144,108 | Filipino | 0.01% |
| Common | Nena D. Arenas | 3,000 | - | 3,000 | Filipino | 0.00% |
| Common | Antonio R. Delos Santos | 15,000 | - | 15,000 | Filipino | 0.00% |
| Common | Jose Anthony T. Villanueva | 750 | 13,890 | 14,640 | Filipino | 0.00% |
| Common | Sharade E. Padilla | 1,800 | 270 | 2,070 | Filipino | 0.00% |
| Aggregate Ownership of all directors and officers as a group | | **1,228,770** | **5,536,027** | **6,764,797** | Filipino | 0.63% |

The percentages of ownership of the above officers and directors are minimal. There are no arrangements, which may result in a change in control of the registrant.

(f) **Voting trust holders of five percent (5%) or more**. - There are no voting trust agreements or any other similar agreement which may result in a change in control of the Corporation of which the Corporation has any knowledge.

(g) **Changes in Control.** - From May 5, 2014 to date, there has been no change in control in the Management of the Corporation.

(h) **Certain Relationship and Related Transactions.** - In 2014, Related Party Transactions are ordinary and normal in the course of business and did not include financial assistance or loans to affiliates or related entities which are not wholly-owned subsidiaries. Note 18 of the attached Audited Consolidated Financial Statements for the period ended December 31, 2014 indicates the Corporation's significant transactions with related parties. Below are the descriptions of said transactions:

| | 2014 | | | |
|---|---|---|---|---|
| | **Amount/ Volume** | **Receivable (Payable)** | **Terms** | **Conditions** |
| Trade receivables (see Note 5) | | | | |
| *Entities under common control* | | | | |

[3] Mr. Victor A. Consunji, Jorge A. Consunji and Ms. Ma. Cristina C. Gotianun shall exercise the voting rights in behalf of Dacon Corporation.
[4] Shares are either held by members of the family sharing the same household or by a corporation of which the reporting person is a controlling shareholder.

| | | | | |
|---|---|---|---|---|
| a.) Transfer of materials and reimbursement of shared expenses | ₱53,194,734 | ₱56,138,357 | non-interest bearing, due and demandable | Unsecured, no impairment |
| b.) Reimbursements of shared expenses | 9,153,202 | 9,153,202 | non-interest bearing, due and demandable | Unsecured, no impairment |
| c.) Reimbursements of expenses | 1,527,501 | 1,542,501 | non-interest bearing, due and demandable | Unsecured, no impairment |
| d.) Coal handling services | 2,315,635 | 287,806 | non-interest bearing, due and demandable | Unsecured, no impairment |
| | ₱66,191,072 | ₱67,121,866 | | |
| Advances to contractors - noncurrent (see Note 11) | | | | |
| *Entities under common control* | | | | |
| e.) Construction and outside services | ₱– | ₱190,726,903 | non-interest bearing, recoupment | Unsecured, no impairment |
| Trade payables (see Note 14) | | | | |
| *Entities under common control* | | | | |
| a.) Operation and maintenance fees | ₱324,000,000 | (₱39,264,558) | 30 days, non-interest bearing | Unsecured |
| d.) Coal handling services | 71,474,732 | (10,262,460) | 30 days, non-interest bearing | Unsecured |

(Forward)

| | 2014 | | | |
|---|---|---|---|---|
| | Amount/ Volume | Receivable (Payable) | Terms | Conditions |
| d. ) Mine exploration and hauling services | ₱157,477,279 | (₱154,705,292) | 30 days, non-interest bearing | Unsecured |
| e.) Construction and other outside services | 602,033,230 | (1,572,951,441) | 30 days, non-interest bearing | Unsecured |
| f.) Purchases of office supplies and refreshments | 3,492,708 | (1,022,930) | 30 days, non-interest bearing | Unsecured |
| g.) Office, parking and warehouse rental expenses | 5,484,428 | (1,992,807) | 30 days, non-interest bearing | Unsecured |
| h.) Aviation services | 7,037,467 | (12,721,797) | 30 days, non-interest bearing | Unsecured |
| | ₱1,170,999,844 | (₱1,792,921,285) | | |
| Accrued expenses and other payables (see Note 14) | | | | |
| *Entities under common control* | | | | |
| i.) Rental of equipment | ₱266,511,787 | ₱266,511,787 | non-interest bearing | Unsecured |
| Other noncurrent liabilities (see Note 11) | | | | |
| *Entities under common control* | | | | |
| d.) Retention payable | ₱117,113,822 | (₱330,345,677) | non-interest bearing | Unsecured |

| | 2013 | | | |
|---|---|---|---|---|
| | Amount/ Volume | Receivable (Payable) | Terms | Conditions |
| Trade receivables (see Note 5) | | | | |
| *Entities under common control* | | | | |
| a.) Transfer of materials and reimbursement of shared expenses | ₱2,218,766 | ₱66,138,357 | non-interest bearing, due and demandable | Unsecured, no impairment |
| b.) Reimbursements of shared expenses | 30,000 | 8,717,043 | non-interest bearing, due and demandable | Unsecured, no impairment |
| c.) Reimbursements of expenses | 698,212 | 698,212 | non-interest bearing, due and demandable | Unsecured, no impairment |
| | ₱2,946,978 | ₱75,553,612 | | |
| Advances to contractors - noncurrent (see Note 11) | | | | |
| *Entities under common control* | | | | |
| e.) Construction and outside services | ₱485,323,247 | ₱354,321,064 | non-interest bearing, recoupment | Unsecured, no impairment |

Trade payables (see Note 14)

| | | | | |
|---|---|---|---|---|
| *Entities under common control* | | | | |
| d.) Mine exploration and hauling services | ₱554,092,099 | (₱20,138,858) | 30 days, non-interest bearing | Unsecured |
| e.) Construction and other outside services | 4,081,677,695 | (852,473,055) | 30 days, non-interest bearing | Unsecured |
| f.) Purchases of office supplies and refreshments | 5,659,359 | (2,726,026) | 30 days, non-interest bearing | Unsecured |
| g.) Office, parking and warehouse rental expenses | 7,380,000 | (1,944,397) | 30 days, non-interest bearing | Unsecured |
| h.) Aviation services | 6,890,000 | (1,540,009) | 30 days, non-interest bearing | Unsecured |
| | ₱4,655,699,153 | (₱878,822,345) | | |
| | | | | |
| Other noncurrent liabilities (see Note 11) | | | | |
| *Entities under common control* | | | | |
| d.) Retention payable | ₱2,979,130,602 | (₱487,676,475) | non-interest bearing | Unsecured |

1. Due from DMCI Power Corporation (DMCI-PC) pertains to materials issuances, contracted services and various services provided by the Parent Company. All outstanding balances from DMCI-PC are included in receivables under “Trade receivable - related parties” in the consolidated statements of financial position.

   SCPC engaged DMCI-PC for the management, operation and maintenance of the power plant. The agreement was entered into in 2011 and is effective for a period of 10 years from January 1, 2011 and maybe renewed for another 10 years.

2. Due from DMCI Mining Corporation (DMCI-MC) pertains to the contracted services incurred by DMCI-MC during the year, which are initially paid by the Parent Company. All outstanding balance from DMCI-MC is included in receivables under “Trade receivable - related parties” in the consolidated statements of financial position.

3. Due from DMCI Masbate Power Corporation (DMCI-MPC) pertains to the security contracted services incurred during the year, which are initially paid by the Parent Company. The outstanding balance from DMCI-MPC is included in receivables under “Trade receivable - related parties” in the consolidated statements of financial position.

4. DMC-Construction Equipment Resources, Inc. (DMC-CERI) had transactions with the Parent Company for services rendered relating to the Parent Company’s coal operations. These include services for the confirmatory drilling for coal reserve and evaluation of identified potential areas, exploratory drilling of other minerals within Semirara Island, dewatering well drilling along cut-off wall of Panian mine and fresh water well drilling for industrial and domestic supply under an agreement. Expenses incurred for said services are included in cost of sales under “Outside services” in the consolidated statements of comprehensive income (see Note 20).

   DMC-CERI also provides the Parent Company marine vessels for use in the delivery of coal to its various customers. The coal freight billing is on a per metric ton basis plus demurrage charges for delays in loading and unloading of coal cargoes. Expenses incurred for these services are included in cost of sales under “Hauling and shiploading costs” in the consolidated statements of comprehensive income (see Note 20).

   Furthermore, DMC-CERI provides the Parent Company labor services relating to coal operations including those services rendered by consultants. Expenses incurred for said services are included in cost of sales under “Direct labor” in the consolidated statements of comprehensive income (see Note 20).

   Labor costs related to manpower services rendered by DMC-CERI represent actual salaries and wages covered by the period when the services were rendered to Parent Company in its coal operations. Under existing arrangements, payments of said salaries and wages are given directly to personnel concerned.

   All outstanding balances to DMC-CERI are included in trade and other payables under “Trade payable - related parties” in the consolidated statements of financial position.

5. Dacon Corporation, a shareholder of DMCI-HI, provided maintenance of the Parent Company’s accounting system, Navision, to which related expenses are included in operating expenses under “Office expenses” in the consolidated statements of comprehensive income (see Note 21).

   All outstanding balances to Dacon Corporation are included in trade and other payables under “Trade payable - related parties” in the consolidated statements of financial position.

   D.M. Consunji, Inc. (DMCI) had transactions with the Parent Company representing rentals of office, building and equipments and other transactions such as transfer of equipment, hauling and retrofitting services. The related expenses are included in cost of sales under “Outside services” in the consolidated statements of comprehensive income (see Note 20).

The Parent Company engaged the services of DMCI for the construction of its 1 x 15 MW Power Plant located at Semirara Island, to which the related cost are capitalized as part of property, plant and equipment in the consolidated statements of financial position. The Parent Company also engaged the service of DMCI for the construction of various projects in compliance with its Corporate Social Responsibility (CSR) such as the mine rehabilitation, construction of covered tennis courts, track and field, perimeter fence and others to which related expenses are included in cost of sales "Outside services" in the consolidated statements of comprehensive income (see Note 20). All outstanding balances to DMCI are lodged in trade and other payables under "Trade payable - related parties" in the consolidated statements of financial position.

SCPC engaged DMCI in the ongoing rehabilitation of the power plant. Cost of construction services provided by DMCI is capitalized as part of property, plant and equipment "Equipment in transit and construction in progress" account and outstanding balance are included in the "Trade payable - related parties" account.

SCPC also engaged DMCI for transfer of equipment and hauling services. The said rentals are included in the operating expenses of the consolidated statements of comprehensive income.

SLPGC engaged DMCI in the construction of the 2 x 150 MW coal-fired power plant.

Advance payments for construction and retention payable are recorded under "Advances to contractors" and "Other noncurrent liabilities", respectively. Outstanding balances to DMCI are included under "Trade payable - related parties" account.

6. Prominent Fruits, Inc. supplies various office supplies and refreshments to the Parent Company. The outstanding balance to Prominent Fruits, Inc. is lodged in trade and other payables under "Trade payable - related parties" in the consolidated statements of financial position.

   M&S Company, Inc. (M&S) supplies various office supplies and materials to the Parent Company. Outstanding balance is included in trade and other payables under "Trade payable - related parties" in the consolidated statements of financial position.

7. Asia Industries Inc. had transactions with the Parent Company for the rental of parking space to which related expenses are included in operating expenses under "Office expenses" in the consolidated statements of comprehensive income (see Note 21). The outstanding balance to Asia Industries, Inc. is lodged in trade and other payables under "Trade payable - related parties" in the consolidated statements of financial position.

   DMC Urban Property Developers, Inc. (DMC-UPDI) had transactions with the Parent Company representing long-term lease on office space and other transactions rendered to the Parent Company necessary for the coal operations. Office rental expenses are included in cost of sales under "Outside services" in the consolidated statements of comprehensive income (see Note 20). The outstanding balance to DMC-UPDI is lodged in trade and other payables under "Trade payable - related parties" in the consolidated statements of financial position.

8. Royal Star Aviation Inc. transports the Parent Company's visitors and employees from Manila to Semirara Island and vice versa and bills the related party for the utilization costs of the aircrafts. The related expenses are included in cost of sales under "Production overhead" in the consolidated statements of comprehensive income (see Note 20).

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

9. In 2014, the Parent Company has leased land, certain equipment and office space from DMCI and DMCI-CERI. The Company accrued the related charges from rental of said properties.

## Item 5. Directors and Executive Officers

### (a) Names, ages and citizenship of all Directors, including Independent Directors and Executive Officers and all persons nominated or chosen to become such

1. **Directors.** - The following incumbent Directors have been nominated to the Board of Directors for the ensuing year and have accepted their nomination:

| No. | Board | Names | Citizenship | Age |
|---|---|---|---|---|
| 1. | Chairman | Isidro A. Consunji | Filipino | 66 |
| 2. | Vice-Chairman | Victor A. Consunji | Filipino | 64 |
| 3. | Member | Jorge A. Consunji | Filipino | 63 |
| 4. | Member | Cesar A. Buenaventura | Filipino | 85 |
| 5. | Member | Ma. Cristina C. Gotianun | Filipino | 60 |
| 6. | Member | George G. San Pedro | Filipino | 75 |

| | | | | |
|---|---|---|---|---|
| 7. | Member | Ma. Edwina C. Laperal | Filipino | 53 |
| 8. | Member | Herbert M. Consunji | Filipino | 62 |
| 9. | Member | Josefa Consuelo C. Reyes | Filipino | 67 |
| 10. | Independent | Victor C. Macalincag | Filipino | 79 |
| 11. | Independent | Rogelio M. Murga | Filipino | 80 |

Messrs. Isidro A. Consunji, Victor A. Consunji, Jorge A. Consunji, Herbert M. Consunji, Josefa Consuelo C. Reyes, and Cesar A. Buenaventura were formally nominated to the Nomination and Election Committee (Nomelec) by a shareholder of the Corporation, Ms. Ma. Cristina C. Gotianun on March 5, 2015. Ms. Gotianun is the sister of Messrs. Isidro A. Consunji, Victor A. Consunji and Jorge A. Consunji, Josefa Consuelo C. Reyes, and cousin of Mr. Herbert M. Consunji. She is not related to Mr. Cesar A. Buenaventura. Further, Mses. Ma. Cristina C. Gotianun, Ma. Edwina C. Laperal and Mr. George G. San Pedro were nominated by Mr. Victor A. Consunji on March 5, 2015. Mr. Victor A. Consunji is the brother of Mses. Gotianun and Laperal. He is not related to Mr. San Pedro. Finally, Messrs. Victor C. Macalincag and Rogelio M. Murga, both independent directors, were nominated by Mr. Antonio C. Olizon on March 5, 2015. Mr. Olizon is a non-controlling stockholder of the Corporation and is not related by affinity or consanguinity to the nominees.

The deadline for submission of nominees is not later than March 11, 2015 and the validation of proxy is scheduled on April 29, 2015, 4:00 p.m. at the office of the Corporation and shall be conducted by the Special Committee of Inspectors designated by the Board.

The nominees to the Board for election at the annual stockholders' meeting on May 4, 2015, have served the Corporation for at least five years except for Mr. Murga who joined the Corporation as Independent Director on November 11, 2014 as successor to Mr. Puno and Ms. Josefa Consuelo C. Reyes who as nominated regular director only this year.

<u>The current members of the Nomination and Election Committee of the Corporation are as follows: (1) Rogelio M. Murga (Chairman); (2) Isidro A. Consunji (Member); and (3) Victor C. Macalincag (Member).</u>

The record of attendance of Directors to board meetings for the year 2014 is as follows:

| Board | Name | Date of Election | Number of Meeting Held during the Year | Meetings Attended | % |
|---|---|---|---|---|---|
| Chairman Emeritus | David M. Consunji[5] | May 5, 2014 | 11 | 8 | 73 |
| Chairman | Isidro A. Consunji | May 5, 2014 | 11 | 10 | 91 |
| Vice- Chairman | Victor A. Consunji | May 5, 2015 | 11 | 11 | 100 |
| Member | Jorge A. Consunji | May 5, 2014 | 11 | 10 | 91 |
| Member | Herbert M. Consunji | May 5, 2014 | 11 | 11 | 100 |
| Member | Cesar A. Buenaventura | May 5, 2014 | 11 | 11 | 100 |
| Member | Ma. Cristina C. Gotianun | May 5, 2014 | 11 | 11 | 100 |
| Member | Ma. Edwina C. Laperal | May 5, 2014 | 11 | 11 | 100 |
| Member | George G. San Pedro | May 5, 2014 | 11 | 10 | 91 |
| Independent | Victor C. Macalincag | May 5, 2014 | 11 | 11 | 100 |
| Independent | Federico E. Puno[6] | May 5, 2014 | 11 | 9 | 82 |

2. **Executive Officers.** –

| No. | Names | Position | Citizenship | Age |
|---|---|---|---|---|
| 1. | Isidro A. Consunji | Chief Executive Officer | Filipino | 66 |

[5] Resigned as director but appointed by the Board of Directors as Chairman Emeritus

[6] Mr. Rogelio M. Murga was elected Independent Director on November 11, 2015 in view of Mr. Puno's demise on October 11, 2014. Mr. Murga attended the Board meeting on said date.

| | | | | |
|---|---|---|---|---|
| 2. | Victor A. Consunji | President & Chief Operating Officer | Filipino | 64 |
| 3. | Ma. Cristina C. Gotianun | Executive Vice President | Filipino | 60 |
| 4. | Junalina S. Tabor | VP & Chief Finance Officer | Filipino | 51 |
| 5. | George G. San Pedro | VP-Operations & Resident Manager | Filipino | 75 |
| 6. | Jaime B. Garcia | VP-Procurement & Logistics | Filipino | 59 |
| 7. | Nena D. Arenas | VP, Chief Governance Officer & Compliance Officer | Filipino | 54 |
| 8. | John R. Sadullo | VP-Legal & Corporate Secretary | Filipino | 44 |
| 9. | Antonio R. delos Santos | VP-Treasury | Filipino | 62 |
| 10. | Jose Anthony T. Villanueva | VP-Marketing | Filipino | 50 |
| 11. | Sharade E. Padilla | AVP-Investor & Banking Relations | Filipino | 36 |

The summary of the qualifications of all incumbent Directors, nominees for directors for election at the annual stockholders' meeting and Executive Officers of Corporation is set forth in ***Schedule 2*** hereof.

**(b) Term of Office.** - The term of office of the Directors and Executive Officers is one (1) year from their election as such and until their successors shall have been elected and qualified.

**(c) Independent Directors.** - Under its Revised Code of Corporate Governance, as amended, submitted to the SEC on May 20, 2014, the Corporation is required to have at least two (2) Independent Directors or such number of Independent Directors as shall constitute at least twenty percent (20%) of the members of the Board of Directors of the Corporation, whichever is lesser. The two (2) nominees for Independent Directors were nominated on March 5, 2015 by a stockholder of the Corporation, Mr. Antonio C. Olizon and selected by the Nomelec in accordance with the guidelines in the Revised Code of Corporate Governance (SEC Memorandum Circular No. 6, Series of 2009) and the Guidelines on the Nomination and Election of Independent Directors (SRC Rule 38).

On December 8, 2008, the SEC approved the amendment to the Corporation's By-Laws to include Art. III thereof on the adoption of SRC Rule 38. The Corporation abides to SRC Rule 38, its By-Laws, and the relevant or subsequent circulars, memoranda or notices of SEC regarding the qualifications, nomination and election, the submission of Certificate of Qualification, and the required number of independent directors. DMCI Holdings, Inc. (DHI) is the majority stockholder of the Corporation and the nominated independent directors are neither stockholders nor directors of DHI.

Further, the independent directors herein nominated are compliant with the term limits pursuant to SEC Memorandum Circular No. 9, Series of 2011, which took effect on January 2, 2012.

**(d) Other Directorship Held in Reporting Companies - Naming each Company. -**

| | |
|---|---|
| Cesar A. Buenaventura | ▪ Vice Chairman, DMCI Holdings, Inc.<br>▪ Independent Director, PetroEnergy Resources Corporation<br>▪ Independent Director, iPeople, Inc. |
| Isidro A. Consunji | ▪ Chairman, President & CEO, DMCI Holdings, Inc.<br>▪ Director, Crown Equities, Inc.<br>▪ Director, Atlas Consolidated Mining and Development Corp. |
| Jorge A. Consunji | ▪ Director, DMCI Holdings, Inc. |
| Victor A. Consunji | ▪ Director, DMCI Holdings, Inc. |
| Herbert M. Consunji | ▪ Director, DMCI Holdings, Inc. |
| Ma. Edwina C. Laperal | ▪ Director, DMCI Holdings, Inc. |
| Victor C. Macalincag | ▪ Independent Director, Crown Equities, Inc.<br>▪ Independent Director, Republic Glass Holdings Corp.<br>▪ Independent Director, ISM Communications Corp.<br>▪ Independent Director, Atok-Big Wedge Co., Inc.<br>▪ Independent Director, PhilWeb Corporation |

**(e) Family Relationship.** - Messrs. Isidro A. Consunji, Victor A. Consunji, Jorge A. Consunji, Ma. Cristina C. Gotianun, Josefa Consuelo C. Reyes and Ma. Edwina C. Laperal are siblings, and Mr. Herbert M. Consunji is their cousin.

**(f) Legal Proceedings.** - None of the directors and officers was involved in the past five (5) years in any bankruptcy proceeding. Neither have they been convicted by final judgment in any criminal proceeding, nor been subject to any order, judgment or decree of competent jurisdiction, permanently enjoining, barring, suspending, or otherwise limiting their involvement in any type of business, securities, commodities or banking activities, nor found in an action by any court or administrative body to have violated a securities or commodities law.

Except for the following, none of the directors, executive officers and nominee for regular director of the Company is subject to any pending criminal cases:

(1) **Pp. vs. Consunji, et. al., Criminal Case No. Q-02-114052, RTC-QC, Branch 78. -** A complaint for violation of Article 315(2)(a) of the Revised Penal Code, as qualified by Presidential Decree No. 1689 was filed in RTC-QC Branch 78 as Criminal Case No. Q-02-114052 pursuant to a resolution of the Quezon City Prosecutor dated December 3, 2002 in I.S. No. 02-7259 finding probable cause against the directors and officers of Universal Leisure Club (ULC) and its parent company, Universal Rightfield Property Holdings, Inc., including Isidro A. Consunji as former Chairman, Cesar A. Buenaventura and Ma. Edwina C. Laperal as former directors of ULC. Complainants claim to have been induced to buy ULC shares of stock on the representation that ULC shall develop a project known as "a network of 5 world clubs."

The case was re-raffled to RTC-QC Branch 85 (the "Court"). On January 10, 2003 respondents filed their Motion for Reconsideration on the resolution dated December 3, 2002 recommending the filing of the complaint in court, which was granted on August 18, 2003. Accordingly, a Motion to Withdraw Information was filed in Court. On September 11, 2003, complainants' sought reconsideration of the resolution withdrawing the information, but was denied by the City Prosecutor. By reason of the denial, Complainants' filed a Petition for Review with the Department of Justice (DOJ) on August 26, 2005.

Meanwhile, the Court granted the withdrawal of information on June 6, 2005. Complainants filed a Motion for Reconsideration and Urgent Motion for Inhibition, but were both denied by the Court in its Omnibus Order dated November 29, 2005. Thereafter, a Notice of Appeal was filed by the complainants, but was ordered stricken out from records by the Court for being unauthorized and declaring the Omnibus Order final and executory in its Order dated February 22, 2007. The Petition for Review, however, filed by the Complainants with the DOJ on August 26, 2005 is pending to date.

(2) **Rodolfo V. Cruz, et. al. vs. Isidro A. Consunji, et. al., I.S. Nos. 03-57411-I, 03-57412-I, 03-57413-I, 03-57414-I, 03-57415-I, 03-57446-I and 03-57447-I, Department of Justice, National Prosecution Service. -** These consolidated cases arose out of the same events in the immediately above-mentioned case, which is likewise pending before the DOJ.

In its 1st Indorsement dated December 9, 2003, the City Prosecutor for Mandaluyong City, acting on a motion for inhibition filed by complainants, through counsel, recommended that further proceedings be conducted by the DOJ. In an order dated February 3, 2004, the DOJ designated State Prosecutor Geronimo Sy to conduct the preliminary investigation of this case. The last pleading filed is a notice of change of address dated June 27, 2008 filed by complainants' counsel.

**(g) Significant Employees**. - Except for the above directors and officers, the Corporation has no other significant employees (as the term is defined under the SRC and its implementing rules and regulations).

## Item 6. Compensation of Directors and Executive Officers

**(a) Compensation of Directors and Executive Officers. -** All executive officers of the Corporation are elected or appointed by the Board of Directors and serve for one year and until their successors are duly elected and qualified. Set forth below are the names of the CEO and five (5) most highly compensated officers of the Corporation:

| Name and Principal Position | Years | Salary | Bonus | Other Annual Compensation |
|---|---|---|---|---|
| Isidro A. Consunji<br>Chairman & CEO | | | | |
| Victor A. Consunji<br>Vice Chairman, President and COO | | | | |
| George G. San Pedro<br>Vice President<br>Resident Manager | | | | |
| Jaime B. Garcia<br>Vice President<br>Procurement & Logistics | | | | |
| Junalina S. Tabor<br>Vice President<br>Chief Finance Officer | | | | |
| | 2013 | 10,649,058.33 | 71,617,647.35 | 3,396,451.27 |
| | 2014 | 12,009,910.41 | 72,419,117.66 | 5,196,330.50 |
| | 2015* | 12,009,910.41 | 72,419,117.66 | 5,196,330.50 |
| | **Total** | **₱34,668,879.15** | **₱216,455,882.67** | **₱13,789,112.27** |
| All other Directors and Officers as a group | 2013 | 9,107,385.09 | 27,665,058.95 | 4,657,794.44 |
| | 2014 | 10,261,479.33 | 44,477,941.21 | 5,737,752.62 |
| | 2015* | 10,261,479.33 | 44,477,941.21 | 5,737,752.62 |
| | **Total** | **₱29,630,343.75** | **₱116,620,941.37** | **₱16,133,299.68** |

**Approximate amounts*

The amount reflected as compensation of the named executive officers represents salary approved by the Corporation's Board of Directors. The amounts indicated in relation thereto are restated to conform to the new accounting standards.

All directors of the Corporation receive an annual retainer fee of ₱240,000.00 as approved in the May 2009 Annual Stockholders' Meeting and ₱20,000.00 fixed per diem for every meeting held and attended by each director who serves as Chairman or a member of the Corporation's Board Committees. Aside from executive directors with employment compensation, there are no other directors with arrangements such as consulting contracts.

**(b) Employment Contracts, Compensatory Plan or Arrangement.** - There is no contract covering their employment with the Corporation and they hold office by virtue of their election and/or appointment to office. The Corporation has no agreements with its named executive officers regarding any bonus, profit sharing, except for benefits for which they may be entitled under the Corporation's retirement plan. On the other hand, members of the Board of Directors may be granted bonuses in accordance with the Corporation's By-laws.

**(c) Stock Warrants or Options.** - There are no outstanding warrants, options, or right to repurchase any securities held by the directors or executive officers of the Corporation.

## Item 7. Independent Public Accountant

The accounting firm of SyCip Gorres Velayo & Co. ("SGV") is currently, and for the fiscal year recently completed, the Corporation's independent public accountant, Ms. Cyril Jasmin B. Valencia has been appointed as the partner-in-charge.

Representatives of SGV are expected to be present at the stockholders' meeting. They will have the opportunity to make a statement if they desire to do so and are expected to be available to respond to appropriate questions.

There have been no changes in or disagreement with the Corporation's accountants on accounting and financial disclosures.

Pursuant to the General Requirements of SRC Rule 68, paragraph 3 (Qualifications and Reports of Independent Auditors), the Corporation has engaged the services of SGV as external auditor, and Ms. Cyril Jasmin B. Valencia is the Partner-In-Charge for less than five years or starting 2012. There is compliance with SEC Circular No. 8 Series of 2003 and SRC Rule 68(3)(b)(ix) (Rotation of External Auditors).

On March 6, 2015 the Board of Directors of the Corporation, upon recommendation of its Audit Committee, approved and recommended the re-appointment of SGV, subject to the stockholders' approval, as the Corporation's Independent External Auditor for the fiscal year 2015.

## C. ISSUANCE AND EXCHANGE OF SECURITIES

Not applicable for annual stockholders' meeting.

## D. OTHER MATTERS

**Item 8. Summary of matters to be submitted for Stockholders' approval:**

**(a) Approval of Minutes of the Previous Meeting of Stockholders held last May 5, 2014**. - Below is the summary of items and/or resolutions approved at the Annual Stockholders' Meeting last May 5, 2014:

(1) Approval of the Previous Minutes of the Stockholders' Meeting held on May 6, 2013
(2) Ratification of the Acts of the Board for the year 2013
(3) Approval and/or ratification of the Corporation's Interim Suretyship and Shareholder's Support for construction overruns via equity or subordinated loans, Pledge of Corporation's 67% shares held in St. Raphael Power Generation Corporation;
(4) Approval of amendments to the Articles of Incorporation as follows: (i) change in corporate name to Semirara Mining and Power Corporation; (ii) increase in authorized capital stock from PHP1,000,000,000.00 to PHP3,000,000,000.00; and (iii) change in principal office address from "metro manila" to "2/F DMCI Plaza, 2281 Don Chino Roces Avenue, Makati City, Metro Manila" in compliance with SEC Memorandum Circular No. 6, Series of 2014;
(5) Approval of amendment to the By-Laws on the increase of quorum for the Board of Directors to transact business from majority to two-thirds (2/3) of whole number of directors as fixed in the Articles of Incorporation;
(6) Approval of 200% stock dividends amounting to PHP712,500,000.00 divided into 712,500,000 shares at the par value of PHP1.00 per share, or two (2) common shares for every one common share held, from the unrestricted retained earnings of the Corporation as of December 31, 2013, and to be issued from the increase in the authorized capital stock of the Corporation with delegation to the President of the power to determine the record and payment dates; and
(7) Appointment of the SGV, as the Independent External Auditor for the year 2014.

**(b) Approval of Management Report.-** The President of the Corporation shall report on the results of operations and financial performance of the Corporation,

**(c) Ratification of the Acts of the Board of Directors and Officers for the Preceding Year until the Date of the Annual Stockholders Meeting.** - Resolutions, contracts, and acts of the board of directors and management for ratification refer to those passed or undertaken by them during the year and for the day to day operations of the Corporation as contained or reflected in the attached annual report and financial statements. The summary of acts and resolutions of the Board of Directors for the year 2014 is set forth in ***Schedule 3***.

**(d) Approval of Independent Director and Non-Executive Director fees. -** On March 6, 2015, **t**he Board of Directors upon recommendation of the Remuneration and Compensation Committee approved the increase of the retainer fees of Independent Directors and Non-Executive Directors to PHP 150,000 per month to take effective on June 1, 2015. The increase of fees is to recognize the significant contribution of the Independent Directors and Non-Executive Director in the performance of board functions and duties and to align to market.

**(e) Election of Directors. -** Election of the eleven (11) directors of the Corporation to serve for one (1) year and until their successors are duly elected and qualified.

**(f) Re-appointment of an Independent External Auditor.** SyCip Gorres Velayo & Co. was recommended by the Board of Directors as the Corporation's Independent External Auditor

**Item 9. Voting Procedures. -** The counting and validation of votes shall be supervised by a committee appointed by the Nomination and Election Committee headed by the Corporate Secretary. The Company appointed SGV & Co. as independent body to count and validate the votes by poll cast by the shareholders during the ASM.

**(a) Approval of Minutes of Previous Meeting of Stockholders**

(1) Vote required. A majority of the outstanding common stock present constituting a quorum.

(2) Method by which the vote shall be counted. Each outstanding common share shall be entitled to one (1) vote. The votes shall be counted by secret ballot.

**(b) Approval of Management Report**

(1) Vote required. A majority of the outstanding common stock present in person or in proxy constituting a quorum.

(2) Method by which the vote shall be counted. Each outstanding common share shall be entitled to one (1) vote. The votes shall be counted by secret ballot.

**(c) Ratification of the acts of the Board of Directors and Officers for the Preceding Year until the Date of the Annual Stockholders Meeting**

(1) Vote required. A majority of the outstanding common stock present in person or in proxy provided a quorum.

(2) Method by which the vote shall be counted. Each outstanding common share shall be entitled to one (1) vote. The votes shall be counted by secret ballot.

**(d) Approval of Independent Director and Non-Executive Director Fees**

(1) Vote required. A majority of the outstanding common stock present in person or in proxy provided a quorum.

(2) Method by which the vote shall be counted. Each outstanding common share shall be entitled to one (1) vote. The votes shall be counted by secret ballot.

**(e) Election of Directors**

(1) Vote Required. The eleven (11) directors receiving the highest number of votes shall be declared elected.

(2) Cumulative voting applies. Under this method of voting, a stockholder entitled to vote shall have the right to vote in person or by proxy the number of shares of stock standing in his own name on the stock books of the Corporation as of the Record Date and said stockholder may vote such number of shares for as many persons as there are directors to be elected or he may cumulate said shares and give one candidate as many votes as the

number of directors to be elected multiplied by the number of his shares shall equal, or he may distribute them on the same principle among as many candidates as he shall see fit. The votes shall be counted by secret ballot.

The quorum required in the election of directors is majority of the outstanding capital stock entitled to vote. The eleven (11) nominees obtaining the highest number of votes in accordance with Section 24 of the Corporation Code shall be proclaimed directors.

**(f) Re-Appointment of Independent External Auditor**

(1) Vote required. A majority of the outstanding common stock present constituting a quorum.

(2) Method by which the vote shall be counted. Each outstanding common share shall be entitled to one (1) vote. The votes shall be counted by secret ballot.

The Corporation's Management does not intend to bring any matter before the meeting other than those set forth in the Notice in the annual meeting of stockholders and does not know of any matters to be brought before the meeting by others.

**Item 10. Market for Registrant's Common Equity and Related Stockholder Matters**

Please refer to Part II, pages 9-12 of the Management Report attached to this Information Statement.

**PART II**
**PROXY FORM**
**SEMIRARA MINING AND POWER CORPORATION**

**Item 1. Identification.** This proxy is being solicited by the **MANAGEMENT OF SEMIRARA MINING AND POWER CORPORATION** (the **"Corporation"**). The Chairman of the Board of Directors or, in his absence, the Vice-Chairman or President of the Corporation will vote the proxies at the Annual Stockholders' Meeting to be held on **May 4, 2015, 10:00 o'clock in the morning, Big Function Room, Manila Golf & Country Club, Inc., Harvard Rd., Forbes Park, Makati City 1220, Philippines**.

**Item 2. Instructions.**

(a) The proxy must be duly accomplished by the stockholder of record as of Record Date, or his duly authorized agent. In case of a stockholder that is a corporation or a partnership, the proxy must be accomplished by the officer or agent that is duly authorized to do so by virtue of an appropriate corporate or partnership resolution.

(b) Duly accomplished proxies must be delivered to the Corporate Secretary of the Corporation not later than April 23, 2015, 5:30 p.m. at the following address: **SEMIRARA MINING AND POWER CORPORATION, 2nd Floor DMCI Plaza, 2281 Don Chino Roces Avenue, Makati City**, Philippines.

(c) In case of a corporate stockholder, the proxy must be accompanied by a corporate secretary's certificate quoting the board resolution authorizing the relevant corporate officer to execute the proxy for the corporate stockholder.

(d) In case of shares of stock owned jointly by two or more persons, the consent of all co-owners must be necessary for the execution of the proxy. For persons owning shares in an "and/or" capacity, any one of them may execute the proxy.

(e) Validation of proxies will be done by the Special Committee of Inspectors designated by the Board on April 29, 2015, 4:00 o'clock in the afternoon at the 2nd Floor, DMCI Plaza, 2281 Don Chino Roces Avenue, Makati City, Philippines. Any dispute which may arise pertaining to the validation shall be resolved by the Securities and Exchange Commission upon formal complaint filed by the aggrieved party.

(f) Unless otherwise indicated by the stockholder, a stockholder shall be deemed to have designated the Chairman of the Board of Directors, or in his absence, the President of the Corporation, as his proxy for the annual stockholders meeting to be held on May 4, 2015.

(g) If the number of shares of stock is left in blank, the proxy shall be deemed to have been issued for all of the stockholder's shares of stock in the Corporation as of Record Date.

(h) The manner in which this proxy shall be accomplished, as well as the validation hereof shall be governed by the provisions of SRC Rule 20(11)(b).

(i) The stockholder executing the proxy shall indicate the manner by which he wishes the proxy to vote on the matters in (1), (2), (3), (4), (5), and (6)below by checking the appropriate box. **WHERE THE BOXES (OR ANY OF THEM) ARE UNCHECKED, THE STOCKHOLDER EXECUTING THE PROXY IS DEEMED TO HAVE AUTHORIZED THE PROXY TO VOTE IN FAVOR OF THE ITEMS SPECIFIED HEREUNDER.**

**The Undersigned hereby appoints:**

(a) **The Chairman of the Board of Directors of the Corporation, or in his absence, the Vice-Chairman or the President of the Corporation, or in their absence,**

(b) ______________________________

as his/her/its Proxy to attend the stockholders' meeting of the Corporation, and any adjournment or postponement thereof, and thereat to vote all shares of stock held by the undersigned as specified below and on any matter that may properly come before said meeting.

1. **Approval of minutes of previous Annual Stockholder's meeting held on May 5, 2014.**

☐ For ☐ Against ☐ Abstain

2. **Approval of Management Report**

☐ For ☐ Against ☐ Abstain

3. **Ratification of the acts of the Board of Directors and Management from the date of the last Annual Stockholders' Meeting up to the date of this Meeting**.

☐ For ☐ Against ☐ Abstain

4. **Approval of Independent Director and Non-Executive Director Fees**

☐ For ☐ Against ☐ Abstain

5. **Election of Directors for 2015-2016**

☐ For all the nominees below, except those whose names are stricken out.

☐ **WITHHOLD AUTHORITY TO VOTE FOR ALL NOMINEES LISTED BELOW.**

(**Instructions**: **TO STRIKE OUT A NAME OR WITHHOLD TO VOTE FOR ANY INDIVIDUAL NOMINEE, DRAW A LINE THROUGH THE NOMINEE'S NAME IN THE LIST BELOW).**

**Nominees:**

1. ISIDRO A. CONSUNJI
2. VICTOR A. CONSUNJI
3. JORGE A. CONSUNJI
4. CESAR A. BUENAVENTURA
5. HERBERT M. CONSUNJI
6. MA. CRISTINA C. GOTIANUN
7. MA. EDWINA C. LAPERAL
8. GEORGE G. SAN PEDRO
9. JOSEFA CONSUELO C. REYES
10. VICTOR C. MACALINCAG*
11. ROGELIO M. MURGA*

**Nominated as Independent Directors*

6. **Re-appointment of SyCip Gorres Velayo & Co. as Independent External Auditor**

☐ For ☐ Against ☐ Abstain

**Item 3. Revocability of Proxy.** – Any stockholder who executes the proxy enclosed with this statement may revoke it at any time before it is exercised. The proxy may be revoked by the stockholder executing the same at any time by submitting to the Corporate Secretary a written notice of revocation not later than the start of the meeting, or by attending the meeting in person and signifying his intention to personally vote his shares. Shares represented by an unrevoked proxy will be voted as authorized by the stockholder.

**Item 4. Persons Making the Solicitation.** – The solicitation is made by the Management of the Corporation. No director of the Corporation has informed the Corporation in writing that he intends to oppose an action intended to be taken up by the Management of the Corporation at the annual meeting. Solicitation of proxies shall be made through the use of mail or personal delivery. The Corporation will shoulder the cost of solicitation involving reproduction and mailing of this proxy in an estimated amount of ₱60,000.00, more or less.

**Item 5. Interest of Certain Persons in Matters to be Acted Upon.** – No director, officer, nominee for director, or associate of any of the foregoing, has any substantial interest, direct or indirect, by security holdings or otherwise, on the matter to acted upon at the annual stockholders' meeting to be held on May 4, 2015.

______________________ ______________________________________________

Date of Proxy (Signature above printed name, including title when signing for a corporation or partnership or as an agent, attorney or fiduciary).

Number of Shares Held as of Record Date : ________________________

**ACCOMPANYING THIS INFORMATION STATEMENT ARE COPIES OF THE FOLLOWING:**

1. **NOTICE OF THE ANNUAL STOCKHOLDERS' MEETING CONTAINING THE AGENDA THEREOF.**
2. **THE CORPORATION'S ANNUAL REPORT INCLUDING MANAGEMENT DISCUSSION AND ANALYSIS AND INFORMATION ON INDEPENDENT ACCOUNTANT AND OTHER RELATED MATTERS.**
3. **CONSOLIDATED AUDITED FINANCIAL STATEMENTS ENDING DECEMBER 31, 2014 AND 2013 INCLUDING THE STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS.**
4. **TWO (2) PROXY INSTRUMENTS.**

## PART III
## SIGNATURE

Pursuant to the requirements of the Securities Regulation Code, the Issuer has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized. After reasonable inquiry and to the best of my knowledge and belief, I certify that the information in this report is true, complete and correct.

**SEMIRARA MINING AND POWER CORPORATION**
ISSUER

By:

**JOHN R. SADULLO**
Corporate Secretary

Makati City, Philippines March 19, 2015.

**SCHEDULE 1**

The following is a disclosure of the beneficial owners of the shares held by the DMCI Holdings, Inc. in the Corporation as of March 16, 2015:

| | | | | |
|---|---|---|---|---|
| 1. | Dacon Corporation | 6,076,969,505 | Common | 45.77% |
| 2. | DFC Holdings, Inc. | 2,370,782,060 | Common | 17.86% |
| 2. | PCD Nominee Corporation (Foreign) | 2,281,312,779 | Common | 17.18% |
| 3. | PCD Nominee Corporation (Filipino)[7] | 2,155,735,731 | Common | 16.24% |

The following are the two (2) largest beneficial owners of the shares of Dacon Corporation:
Inglebrook Holdings, Inc. 3,948,510 shares 12.42%
Eastheights Holdings, Inc. 3,948,510 shares[8] 12.42%

**SCHEDULE 2**
**List of Candidates**

In accordance with the Guidelines for Nomination of Directors, Revised Code of Corporate Governance, and SRC Rule 38, the Nomination and Election Committee has selected the following upon nomination to the Board of Directors at the Annual Stockholders' Meeting:

**Directors:**

1. **Isidro A. Consunji,** 66, Filipino, has been the Vice-Chairman of the Corporation since May 2001. On November 11, 2014 he was appointed Chairman of the Board. Currently, he serves as the Corporation's Chief Executive Officer, and member of the Nomination & Election Committee. He is a graduate of B.S. Civil Engineering at the University of the Philippines. He holds a Master's Degree in Business Economics from the Center for Research & Communication, and Business Management from the Asian Institute of Management. He also took an Advanced Management from IESE School in Barcelona, Spain. He is also the CEO of SEM-Calaca Power Corporation, Semirara Claystone Inc., Semirara Energy Utilities Inc., St. Raphael Power Generation Corporation, SEM-Balayan Power Generation Corporation, Southwest Luzon Power Generation Corporation, and SEM-Cal Industrial Park Developers Inc. He is also the Chairman and CEO of DMCI Mining Corporation, Chairman of ENK Plc (U.K.); Vice-Chairman of DMCI Masbate Power Corporation; Director of Dacon Corporation, M&S Company Inc., DMCI Projects Developers, Inc., Crown Equities, Inc. *(listed company)*, Toledo Mining Corporation Plc (U.K.) Semirara Cement Corporation, Atlas Consolidated Mining and Development Corporation *(listed company)*, Maynilad Water Services, and SEM-Calaca Res Corporation; and President of DMCI Holdings, Inc. *(listed company)*. He was the former President of the Philippine Constructors Association and Philippine Chamber of Coal Mines, Inc.

2. **Victor A. Consunji,** 64, Filipino, has been a Director of the Corporation since May 2001. On November 11, 2014 he was appointed Vice-Chairman. Currently, he serves as the Corporation's President, Chief Operating Officer, and a member of the Audit Committee. He is a graduate of A.B. Political Science at the Ateneo de Davao. He is also the President and COO of SEM-Calaca Power Corporation, Semirara Claystone Inc., Semirara Energy Utilities Inc., St. Raphael Power Generation Corporation, SEM-Balayan Power Generation Corporation, Southwest Luzon Power

[7] PCD Nominee Corporation, a wholly-owned subsidiary of Philippine Depository and Trust Corporation ("PDTC"), is the registered owner of the shares in the books of the Corporation's transfer agent in the Philippines. The beneficial owners of such shares are PDTC participants, who hold the shares on their behalf or on behalf of their clients. PDTC is a private company organized by major institutions actively participating in the Philippine capital markets to implement an automated book-entry system of handling securities transactions in the Philippines.
[8] Other beneficial owners of Dacon Corporation with the same number of shares are Gulfshore Inc., Valemount Corporation, Chrismon Investment Inc., Jagjit Holdings, Inc., La Lumiere Holdings, Inc., Rice Creek Holdings, Inc. while Double Spring Investments Corporation holds 201,909 shares or .64% of the issued and outstanding shares.

Generation Corporation, and SEM-Cal Industrial Park Developers Inc.; Chairman, President & CEO of Semirara Training Center, Inc.; Chairman and CEO of DMCI Power Corporation; Chairman & President of Sirawai Plywood & Lumber Corp., and SEM-Calaca Res Corporation; Chairman of One Network Bank and Divine Word School of Semirara Island, Inc.; Director of DMCI Holdings, Inc. *(listed company)*, D.M. Consunji, Inc., M&S Company, Inc., Dacon Corporation, Sodaco Agricultural Corporation, DMC Urban Property Developers, Inc., Ecoland Properties, Inc., DMCI Masbate Power Corporation, and DMCI Mining Corporation; and President of Sirawai Plywood & Lumber Corp.; and Vice-President of Dacon Corporation.

3. **Jorge A. Consunji,** 63, Filipino, has been a Director of the Corporation since May 2001 . He is a graduate of B.S. Industrial Management Engineering at the De La Salle University. He is also the Chairman of DMCI Masbate Power Corporation; and Director of DMCI Holdings, Inc. *(listed company)*, Dacon Corporation, DMCI Project Developers, Inc., SEM-Calaca Power Corporation, Southwest Luzon Power Generation Corporation, Semirara Claystone Inc., Semirara Energy Utilities Inc., St. Raphael Power Generation Corporation, SEM-Balayan Power Generation Corporation, SEM-Cal Industrial Park Developers Inc., SEM-Calaca Res Corporation, Cotabato Timberland Co., Inc., M&S Company, Inc., Sodaco Agricultural Corporation, DMCI Mining Corporation, DMCI Power Corporation, Eco-Process & Equipment Phils. Inc., and Maynilad Water Services, Inc.; President & COO of D.M. Consunji, Inc., and Royal Star Aviation, Inc.; and Vice-President of Divine Word School of Semirara Island, Inc. He was the former Chairman of the Board of Contech Panel Mfg., Inc., and of Wire Rope Corp. of the Philippines. He was the former President of ACEL and Former First Vice-President of Phil. Constructors Association.

4. **Cesar A. Buenaventura,** 85, Filipino, has been a Director of the Corporation since May 2001. He graduated from the University of the Philippines with a degree of Bachelor of Science in Civil Engineering. He received his M.S. Civil Engineering as Fulbright Scholar at the Lehigh University, Bethlehem, Pennsylvania. In 1991, Mr. Buenaventura was made Honorary Officer of the Order of the British Empire (OBE) by Her Majesty Queen Elizabeth II. He is currently the Chairman of Maibarara Geothermal, Inc., and Vice-Chairman of Atlantic Gulf & Pacific Company of Manila (AG&P), DMCI Holdings, Inc. *(listed company)*, and Montecito Properties, Inc. He is a director of DMCI Holdings, Inc., iPeople, Inc. *(listed company)*, PetroEnergy Resources Corp. *(listed company)*, AG&P Company of Manila, Maibarara Geothermal, Inc., Montecito Properties, Inc., Pilipinas Shell Petroleum Corporation, Philippine American Life Insurance Company, and Manila International Airport Authority. He is the founding Chairman of Pilipinas Shell Foundation, Inc., and founding member of the Board of Trustees of the Makati Business Club. His former affiliations are: President of the Benigno S. Aquino Foundation; Member of the Board of Trustees of Asian Institute of Management; Chief Executive Officer of Shell Group of Companies; Member of the Monetary Board of the Central Bank of the Philippines; Member of the Board of Directors of the Philippine International Convention Center; Member of the Board of Regents of the University of the Philippines. He was also a former director of Ayala Corporation, First Philippine Holdings Corporation, Philippine Airlines, Philippine National Bank, Benguet Corporation, Asian Bank, Ma. Cristina Chemical Industries, and Paysetter International Inc.

5. **Herbert M. Consunji**, 62, Filipino, has been a Director of the Corporation since May 2001. He earned his degree of Bachelor of Science in Commerce Major in Accounting at De La Salle University. Currently, he is the Chairman, Subic Water & Sewerage Corp.; Director of DMCI Holdings, Inc. *(listed company)*, DMCI Project Developers, Inc., DMCI Power Corporation, DMCI Mining Corporation, SEM-Calaca Power Corp., Southwest Luzon Power Generation Corporation, Maynilad Water Services, Inc., Subic Water & Sewerage Corp., SEM-Cal Industrial Park Developers Inc.; CFO, Maynilad Water Services, Inc.; Vice-President & CFO, DMCI Holdings, Inc.; Treasurer of SEM-Calaca Res Corporation; and Partner, H.F. Consunji & Associate.

6. **Ma. Cristina C. Gotianun,** 60, Filipino, has been a Director of the Corporation since May 2006 and currently serves as the Corporation's Executive Vice President and member of the Remuneration & Compensation Committee. She is a graduate of B.S. Business Economics at the University of the Philippines and majored in Spanish at the Instituto de Cultura Hispanica in

Madrid, Spain. She is also a Director and Corporate Secretary of Dacon Corporation; Vice-President for Finance & Administration/CFO of D.M. Consunji, Inc.; Finance Director of DMC-Project Developers, Inc.; Director and Treasurer of SEM-Calaca Power Corporation, Southwest Luzon Power Generation Corporation, Semirara Claystone Inc., Semirara Energy Utilities Inc., St. Raphael Power Generation Corporation, SEM-Balayan Power Generation Corporation, DMCI Power Corporation, DMCI Masbate Power Corporation, and SEM-Cal Industrial Park Developers Inc.; Assistant Treasurer of DMCI Holdings, Inc. *(listed company)*; and a Trustee, CFO and Corporate Secretary of Divine Word School of Semirara Island, Inc.

7. **Ma. Edwina C. Laperal**, 53, Filipino, has been a Director of the Corporation since May 2007. She is a graduate of B.S. Architecture at the University of the Philippines, obtained her Master's Degree in Business Administration at the same University, and earned her Executive Certificate for Strategic Business Economics Program at the University of Asia & The Pacific. She is currently a Director and Treasurer of Dacon Corporation, DMCI Holdings, Inc. *(listed company)*, D.M. Consunji, Inc., and DMCI Project Developers, Inc.; and Director of SEM-Calaca Power Corporation, and DMC Urban Property Developers, Inc.

8. **Josefa Consuelo C. Reyes**, 67 years old, is a graduate of AB Economics at the University of British Columbia, Vancouver, Canada. She is currently the General Manager of Manila Herbal & Essential Oils Co., Inc.; Corporate Secretary of the Philippine Coffee Board; Director and Chairperson of Ecology Village Association. She also worked as Vice-President/Director of Ecology Village Association. She also took Strategic Business Economics Program at the University of Asia and the Pacific in 2007.

9. **George G. San Pedro**, 75, Filipino, has been a Director of the Corporation since May 2001 and currently serves as the Corporation's Vice-President for Operations and Resident Manager. He is a graduate of B.S. Civil Engineering at the University of the Philippines. He is also the President of Divine Word School of Semirara Island, Inc. and Vice-President of Semirara Training Center, Inc. He used to work for D.M. Consunji, Inc., Dacon Wood Based Companies, DMC Construction Equipment Resources, Inc., and CONBROS Shipping Corporation.

10. **Victor C. Macalincag**, 79, Filipino, has been an Independent Director of the Corporation since May 2005 and currently serves as the Chairman of the Audit Committee and Compensation & Remuneration, and member of Nomination & Election Committees of the Corporation. He is a holder of a Bachelor of Business Administration (BBA) degree from the University of the East and a Certified Public Accountant (CPA). He completed his academic requirements for a Masteral Degree in Economics and is a fellow of the Economic Development Institute of the World Bank. Currently, he is an Independent Director of Ceres Property Ventures, Inc., Crown Equities, Inc. *(listed company)*, Republic Glass Holdings, Corporation *(listed company)*, ISM Communications Corporation *(listed company)*, Atok-Big Wedge Co., Inc. *(listed company)*, PhilWeb Corporation *(listed company)*, Alphaland Corporation, and SEM-Calaca Power Corporation. He is also a regular Director of One Wealthy Nation Fund, Inc., and Asian Alliance Investment Corp. He was formerly the Undersecretary of Finance (1986-1991), Deputy Minister of Finance (1981-1986), Treasurer of the Philippines (1983-1987), President of Trade & Investment Development Corporation of the Philippines (PHILEXIM) (1991-2001). He was also a director of the Home Guarantee Corporation (1979-2001), the Philippine Overseas Construction Board (1991-2001), the Philippine Long Distance Telephone Company (1988-1995), the National Power Corporation (1978-1986), Universal LRT-7 Corporation (2003-2010), and Philippine Deposit Insurance Corporation (1983-1991). He was Chairman of Pilipinas Bank (1984-1988) and Executive Vice-President of Land Bank of the Philippines (1981-1982). He was also a director of Philippine Aerotransport, Inc., Paper Industries Corporation of the Philippines, Lumang Bayan Realty Corporation, and Manila Midtown Development Corporation.

11. **Rogelio M. Murga,** 80, Filipino, was appointed Independent Director of the Corporation on November 11, 2014, and also serves as the Chairman of the Nomination & Election Committee, and a member of both Audit Committee and Compensation & Remuneration Committee of the

Corporation. He graduated from the University of the Philippines with a Bachelor of Science degree in Mechanical Engineering in 1958. In 1980, he also completed his Senior Management Program at Harvard Business School in Vevey, Switzerland, and was conferred an Honorary Degree of Doctor of Science – *Honoris Causa* by Feati University.

Currently, he is the Chairman of Private Infra Dev Corporation and an Independent Director of SEM-Calaca Power Corporation and Meralco Industrial Engineering Services Corp. His previous employment affiliation includes: President and Chief Executive Officer of the National Power Corporation; Director, President, Chief Operating Officer and eventually Vice-Chairman of EEI Corporation; President of Philippine Constructors Association; President of the International Federation of Asian and Western Pacific Contractors Association; Member of the Management Association of the Philippines; and finally as Chairman of the Committee on Engineering and Construction of the Philippine Chamber of Commerce and Industry. He was also a Consultant of DCCD Engineering Corporation and taught as Engineering Professor at the National University.

**Executive Officers:**

| | | |
|---|---|---|
| Isidro A. Consunji* | - | CEO |
| Victor A. Consunji* | - | President & COO |
| Ma. Cristina C. Gotianun* | - | Executive Vice President |
| George G. San Pedro* | - | VP-Operations &Resident Manager |
| Junalina S. Tabor | - | Chief Finance Officer |
| Jaime B. Garcia | - | VP-Procurement & Logistics |
| Nena D. Arenas | - | Chief Governance Officer & Compliance Officer |
| John R. Sadullo | - | VP-Legal & Corporate Secretary |
| Antonio R. delos Santos | - | VP-Treasury |
| Jose Anthony T. Villanueva | - | VP-Marketing |
| Sharade E. Padilla | - | AVP-Investor and Banking Relations |

**Member of the Board*

1. **Jaime B. Garcia**, 59, Filipino, is the Vice President for Procurement and Logistics and has held as such since May 2006. Over 25 years of experience in senior management level with D.M. Consunji Group of Companies inclusive of overseas experience in strategic sourcing and supply chain management, procurement, materials management and logistics in coal mining industry, energy (coal fired power plant), construction, shipping, agro-forest timber and wood processing, aviation and maritime industry. He graduated with a degree of B.S. Management and Industrial Engineering at Mapua Institute of Technology and obtained his Master's degree in Business Administration at De La Salle University in 1994 and in Business Economics at the University of Asia & the Pacific in 1998. He is currently holding the position of Secretary and Treasurer of Royal Star Aviation, Inc., Director of Semirara Cement Corporation, Executive Vice-President of DMC Construction Equipment Resources, Inc., Director & Vice President of M&S Company, Inc., Vice President of Zanorte Palm-Rubber Plantation Inc., and South Davao Development Co., Inc.

2. **Junalina S. Tabor**, 51, Filipino, has been the Chief Finance Officer of the Corporation since May 2010. She graduated *Magna Cum Laude* with a degree of Bachelor in Science in Commerce, Major in Accounting 1984 at Saint Joseph College and is a Certified Public Accountant. She obtained her Master of Public Administration at the University of the Philippines in 1995 under the Local Scholarship Program (LSP) of the Civil Service Commission. She earned her Certificate in Business Economics from the School of Economics, University of Asia and The Pacific in June 2012 under its Strategic Business Economics Program (SBEP) and also completed the modular course in Computer Literacy Program at Systems Technology Institute as half scholar in 1988. Prior to joining the Corporation in 1997, she held various positions with the Commission on Audit from State Auditor Examiner to State Auditor in 1984-1997. She was Team Leader in special audit engagements in certain government owned and controlled corporations from 1994-1996. She is also concurrently the Chief Finance Officer of SEM-Calaca Power Corporation.

3. **John R. Sadullo**, 44, Filipino, is the Vice-President for Legal (appointed November 2013), Corporate Secretary, Legal Counsel and Corporate Information Officer of the Corporation, and has held as such since May 2005. He graduated with a degree of A.B. Major in Political Science at the University of Santo Tomas. He obtained his Bachelor of Laws Degree at San Beda College of Law, took the BAR exam in 1996 and was admitted in 1997. He currently holds the position of Corporate Secretary of SEM-Calaca Power Corporation, Southwest Luzon Power Generation Corporation, Semirara Energy Utilities Inc., St. Raphael Power Generation Corporation, SEM-Balayan Power Generation Corporation, Semirara Claystone Inc., SEM-Cal Industrial Park Developers Inc., and SEM-Calaca Res Corporation. He is also the Assistant Corporate Secretary of Semirara Training Center, Inc. and previously the Corporate Secretary of DMCI Mining Corporation, DMCI Masbate Power Corporation, and DMCI Concepcion Power Corporation.

4. **Nena D. Arenas**, 54, Filipino, is the Chief Governance Officer and Compliance Officer of the Corporation and has held as such since August 2013. Before her appointment, she was Good Governance Officer of the Corporation since July 2005. Prior to joining the Corporation, she was a Director, Chief Finance Officer and Vice-President of MCA Universal Inc.; Director of MCA Music Inc. and Reach Youth Ministries, a non-stock, non-profit organization. She has more than fifteen years extensive experience in finance, accounting, budget & forecasting, Information Technology, warehousing, legal & business affairs, human resources and administration management. She also has seven years experience in external audit at SGV & Co. She is currently a Fellow of the Institute of Corporate Directors. She is a Certified Public Accountant and graduated *Cum Laude* with a degree in Bachelor of Science major in Accounting at the University of St. La Salle.

5. **Antonio R. delos Santos,** 62, Filipino, is the Vice-President for Treasury since November 2013. He graduated with a degree of Bachelor of Science in Business Administration at De La Salle University. He was the Treasury Head of the Corporation prior his appointment. Before joining the Corporation, he was the Finance Officer of DMCI Holdings, Inc.

6. **Jose Anthony T. Villanueva,** 50, Filipino, is the Vice-President for Marketing since November 2013. He received his Bachelor of Science Degree in Mechanical Engineering and obtained his Master's Degree in Business Administration both at De La Salle University. He also earned his Master's Degree in Public Management at the University of the Philippines. He has undergone intensive training in financial modeling in Singapore and completed the Petroleum Energy Policy and Management Program in Norway as full scholar of the Norwegian Petroleum Directorate. Prior to his appointment, he was the Marketing Manager of the Corporation since 2011. For more than 20 years he has been the forefront of the energy industry and held various positions as Department Manager for Finance and Planning, Business Development and Information Technology, Corporate Planning and as General Manager for Coal Division of state-owned company engaged in the exploration, development and production of geothermal, oil and gas and coal in the Philippines.

7. **Sharade E. Padilla**, 36, Filipino, is the Assistant Vice-President for Investor and Banking Relations and has held as such since November 2013. She graduated *Magna Cum Laude* with a degree of Bachelor of Business Administration, Major in Management and obtained her Master's degree in Business Administration both at Siliman University. Before her appointment, she held the following positions in the Corporation: Investment Relations and Business Development Officer (2007-2013), and Senior Financial Analyst (2003-2007). She is currently the Treasury Officer of Southwest Luzon Power Generation Corporation, a wholly-owned subsidiary of the Corporation. Her previous affiliations include Jr. Financial Analyst, Dacon Corporation; and Information Officer/Executive Assistant of the City Administrator of Tacloban City. She has nine years experience in investor relations and more than eleven years experience in financial analysis and in treasury and banking relations, among others.

**SCHEDULE 3**
**2014 Summary of Board Acts and Resolutions**

1. Special Meeting held on February 4, 2014:
   a. Approval of the Board's minutes of meeting held on December 10, 2013; and
   b. Appointment of Du-Baladad and Associates as the Corporation's attorney-in-fact to file and/or apply for tax treaty relief under the Philippine-Singapore Tax Treaty with the International Tax Affairs Division of the Bureau of Internal Revenue.

2. Special Meeting held on February 26, 2014:
   a. Approval of the Board's minutes of meeting held on February 4, 2014;
   b. Approval of the Corporation's authority to apply for accreditation with the Bureau of Internal Revenue and to secure the necessary BIR Importer Clearance Certificates; and
   c. Approval of the Corporation's authority to apply for accreditation with the Bureau of Customs – Internal Customs Accreditation Registration Unit – Revenue Collection Monitoring Unit in connection with the exportation of coal products and importation of spare parts, machineries, etc.

3. Regular Meeting held on March 6, 2014:
   a. Approval of the Board's minutes of meeting held on February 26, 2014;
   b. Approval of the Corporation;s Annual Audited Consolidated Financial Statements and Subsidiaries as at and for the period ended December 31, 2013;
   c. Approval of declaration of 200% stock dividends amounting to PHP712,500,000.00 divided into 712,500,000 shares at One Peso (PHP1.00) par value per share, or two (2) common shares for every one common share held, from the unrestricted retained earnings of the Corporation as of December 31, 2013;
   d. Approval of the Corporation's Amended Articles of Incorporation particularly the First Article on change of corporate name to "Semirara Mining and Power Corporation"; Third Article on change of principal office address to "2/F DMCI Plaza, 2281 Don Chino Roces Avenue, Makati City"; and Article Seven on increase of authorized capital stock to "Three Billion Pesos (PHP3,000,000,000.00), divided into Three Billion (3,000,000,000) shares with a par value of One Peso (PHP1.00) per share";
   e. Approval of the Corporation's Amended By-Laws, particularly Section 8, Article II by increasing the quorum requirement for the Board to transact business from majority to two-thirds (2/3) of th whole number of directors as fixed in the Articles of Incorporation. The rationale is to align with global practices on Board performance and to enhance overall Board performance;
   f. Approval of the Corporation's Annual Stockholders' Meeting to be held on May 5, 2014 at the Turf Room, Manila Polo Club, Inc., McKinley Road, Forbes Park Makati City, at 10:00 a.m.;
   Approval of the Corporation's authority to securities and corporate guarantee for the procurement of Project Debt Facility in favor of its wholly-owned subsidiary, **ST. RAPHAEL POWER GENERATION CORPORATION** for its power plant project with a capacity of up to 400MW, as follows: (i) Corporation's pledge of 67% of its voting shares in SLPGC; (ii) Interim Corporate Suretyship; and (iii) Shareholder's support by the Corporation that will fund the Project's construction cost overruns via equity or subordinated loans;
   g. Approval of the appointment of Sycip Gorres Velayo & Co. as the Corporation's Independent External Auditor for the year 2014;
   h. Approval of the designation of Junalina S. Tabor as the Corporation's Class "B" signatory for all banking transactions;
   i. Approval of the Corporation's Amended Insider Trading Policy;
   j. Approval of the authority of the Corporation's Chief Executive Officer and/or President to negotiate, approve, sign, execute and deliver coal sales contracts without signing limit under such terms and conditions as are deem conducive to the best interest of the Corporation;
   k. Approval of the Corporation's authority to apply and/or register with the Board of Investments for income tax holiday for the year 2013, as an expanding domestic coal producer on a non-pioneer status under the Omnibus Investments Code of 1987;

l. Approval of the Corporation's authority to open bank accounts and/or do business with Banco De Oro Unibank Inc.;
m. Approval of the Corporation's VP-Procurement, Jaime B. Garcia to execute and implement the change of body design of motor vehicle of the Corporation;
n. Approval of the Corporation's authority to open bank accounts and/or do business with Bank of China Ltd. (Manila Branch);
o. Approval of the Corporation's authority to apply for and secure the necessary building permit and other clearances with the local government unit of Semirara, Caluya, Antique, Bureau of Internal Revenue, Department of Environmental and Natural Resources in connection with the 1x15 MW coal-fired thermal power plant project of the Corporation;
p. Approval of the Corporation's authority to open an escrow account and/or do business with China Banking Corporation-Trust Group; and
q. Approval of the Corporation's authority to apply and secure the necessary clearance for the change of homeport with Maritime Industry Authority.

4. Special Meeting held on March 19, 2014:
    a. Approval of the Board's minutes of meeting held on March 6, 2014;
    b. Approval of the Corporation's authority to amend Note 34 of its Auduted Consolidated Financial Statements to include additional disclosures on the ERC Order (Case No. 2014-021MC) dated March 11, 2014;
    c. Approval of the Corporation's authority to purchase twenty-five (25) units of truck in the amount of One Billion Pesos (PHP1,000,000,000.00), more or less, in order to augment the Corporation's efficiency;
    d. Approval of Romulo Mabanta Buenaventura Sayoc & De Los Angeles as the Corporation's attorney-in-fact in connection with the execution of the Writ and obtaining a refund or tax credit certificate relative to the CTA Cases No. 7727and 7783, Special Second Division of the Court of Tax Appeals;
    e. Approval of the Corporation's authority to open bank accounts and/or do business business with The Hongkong and Shanghai Banking Corporation Limited;
    f. Approval of the Corporation's authority to open bank accounts and/or do business with Metropolitan Bank & Trust Company;
    g. Approval of the Corporation's authority to open bank accounts and/or do business with Philippine National Bank;
    h. Approval of the Corporation's authority to open bank accounts and/or do business with Bank of the Philippine Islands;
    i. Approval of the Corporation's authority to open bank accounts and/or do business with Mizuho Bank, Ltd.; and
    j. Approval of the Corporation's authority to apply and secure the necessary clearance for the change of homeport with Maritime Industry Authority.

5. Special Meeting held on April 28, 2014:
    a. Approval of the Board's minutes of meeting held on March 19, 2014;
    b. Approval of the Corporation's authority to subscribe up to the extent of two billion (2,000,000,000) common shares of stock of Southwest Luzon Power Generation Corporation with a par value of One Peso (PHP1.00) per share; and
    c. Authorizing SEM-Calaca Power Corporation to avail of the Corporation's Omnibus Line, Domestic Bills Purchase Line and Settlement Risk Line with Security Bank.

6. Special Meeting held on April 29, 2014:
    a. Approval of the Board's minutes of meeting held on April 28, 2014; and
    b. Approval of the Corporation's authority to declare cash dividends from its unrestricted retained earnings as at December 31, 2014 in the amount of Twelve Pesos (PHP12.00) per share to stockholders of record as of May 15, 2014 and payable on May 28, 2014.

7. Organizational Meeting held on May 8, 2014:
    a. Approval of the Board's minutes of meeting held on April 29, 2014;
    b. Election Officers and Composition of Governance Committees as follows:

**A. Principal Officer:**

1. Isidro A. Consunji - *Vice-Chairman & Chief Executive Officer*
2. Victor A. Consunji - *President & Chief Operating Officer*
3. Ma. Cristina C. Gotianun - *Executive Vice President*
4. George G. San Pedro - *VP-Operations & Resident Manager*
5. Junalina S. Tabor - *VP & Chief Finance Officer*
6. Jaime B. Garcia - *VP-Procurement & Logistics*
7. Denardo M. Cuayo - *VP-Business Development*
8. Nena D. Arenas - *VP, Chief Governance Officer & Compliance Officer*
9. John R. Sadullo - *VP-Legal & Corporate Secretary*
10. Antonio R. Delos Santos - *VP-Treasury*
11. Jose Anthony T. Villanueva - *VP-Marketing*
12. Sharade E. Padilla - *AVP-Investor & Banking Relations*

**B. Corporate Governance Committees:**

1. <u>Audit Committee:</u>

| | | | |
|---|---|---|---|
| 1. | Victor C. Macalincag | - | Chairman |
| 2. | Victor A. Consunji | - | Member |
| 3. | Federico E. Puno | - | Member |

2. <u>Compensation & Remuneration Committee:</u>

| | | | |
|---|---|---|---|
| 1. | Victor C. Macalincag | - | Chairman |
| 2. | Ma. Cristina C. Gotianun | - | Member |
| 3. | Federico E. Puno | - | Member |

3. <u>Nomination & Election Committee:</u>

| | | | |
|---|---|---|---|
| 1. | Federico E. Puno | - | Chairman |
| 2. | Isidro A. Consunji | - | Member |
| 3. | Victor C. Macalincag | - | Member |

4. <u>Compliance Committee:</u>

| | | | |
|---|---|---|---|
| 1. | Nena D. Arenas | - | Compliance Officer |
| 2. | George G. San Pedro | - | Member |
| 3. | John R. Sadullo | - | Member |
| 4. | Junalina S. Tabor | - | Member |

c. Approval of Consolidated Financial Statements as of and for the interim period ended March 31, 2014 of the Corporation and Subsidiaries;

d. Approval of the Corporation's Amended Table of Authorities;

e. Approval of amendments to the Corporation's Revised Code of Corporate Governance to include provisions on stakeholders pursuant to SEC Memorandum Circular No. 9, Series of 2014;

f. Approval of authority to the President, Victor A. Consunji to vote all of the Corporation's shares held at the Annual Stockholders' Meeting of the following corporations: (i) Southwest Luzon Power Generation Corporation; (ii) SEM-Cal Industrial Park Developers, Inc.; (iii) Semirara Energy Utilities, Inc.; (iv) SEM-Calaca Power Generation Corporation; (v) SEM-Calaca Res Corporation; (vi) Semirara Claystone Inc.; (vii) SEM-Balayan Power Generation Corporation; and (viii) St. Raphael Power Generation Corporation, and any adjournments or postponements thereof; and

g. Approval of the Corporation's authority to vail of and participate in the mid-year CASA promo of East West Banking Corporation.

8. Special Meeting held on June 9, 2014:

a. Approval of the Board's minutes of meeting held on May 8, 2014;

b. Appointment of Rodrigo Berenguer & Guno as the Corporation's attorney-in-fact to appear and represent the Corporation in the case Bauer Foundations Philippines, Inc. vs. Semirara Mining Corporation, et. al., Civil Case No. R-QZN-14-04802-CV, Regional Trial Court-Quezon City, Branch 100;
c. Approval of authority of the Corporation's VP-Procurement and Logistics, Jaime B. Garcia and Import/Export Officer, Rebecca T. Ramos in connection with the Corporation's application for Importer Accreditation with the Bureau of Customs;
d. Approval of Authority of the Corporation's Director, Jorge A. Consunji to apply and secure Magallanes Village Stickers; and
e. Approval of the Corporation's authority to file an appeal/petition for review with the appellate courts, Court of Tax Appeals, Court of Appeals, and Supreme Court in connection with the delinquency tax assessment issued by the Municipality of Calaca, Batangas against the Corporation.

9. Regular Meeting held on August 7, 2014:
   a. Approval of the Board's minutes of meeting held on June 9, 2014;
   b. Approval of the unaudited consolidated financial statements for the interim period ended June 30, 2014 of the Corporation and Subsidiaries;
   c. Approval of the Corporation's amended Insider Trading Policy to align with the Corporation's parent company, DMCI Holdings, Inc.'s policy and further avoid confusion among interlocking directors; and
   d. Approval the use by Southwest Luzon Power Generation Corporation and D.M. Consunji, Inc. of the Corporation's trucks or trailers for hauling/pick-up/delivery of shipments consigned to SLPGC and DMCI in connection with their application for Permit to Operate with the Philippine Ports Authority in Batangas.

10. Special Meeting held on August 19, 2014:
    a. Approval of the Board's minutes of meeting held on August 7, 2014;
    b. Approval of the cancellation of the Corporation's old stock certificates beginning from stock certificate number 2752 and ending at stock certificate number 7500, all of which are under the old name of the Corporation;
    c. Approval of the Corporation's authority to open a trading account with BDO Securities Corporation for the lodgment of stock dividends and/or additional stock dividends shares that may be declared in the future by the Board of the Corporation and approved by its stockholders; and
    d. Approval of the Corporation's authority to open bank accounts and/or do business with Metropolitan Bank & Trust Company.

11. Regular Meeting held on November 11, 2014:
    a. Approval of the Board's minutes of meeting held on August 19, 2014;
    b. Election of David M. Consunji as Chairman Emeritus; Isidro A. Consunji as Chairman of the Board; Victor A. Consunji as Vice-Chairman; and Rogelio M. Murga as Independent Director of the Corporation;
    c. Appointment of the following: (i) Ma. Cristina C. Gotianun - Member, Compliance Committee; (ii) Victor C. Macalincag – Chairman, Nomination and Election Committee; (iii) Rogelio M. Murga – Member of Audit Committee, Compensation and Remuneration Committee, and Nomination and Election Committee;
    d. Approval of the unaudited consolidated financial statements for the interim period ended September 30, 2014 of the Corporation and Subsidiaries;
    e. Approval of the amendments to the Corporation's Mission and Vision statements;
    f. Approval of the Corporation's Corporate Communication Policy
    g. Approval of authority of Jose Anthony T. Villanueva, VP-Marketing to sign, execute and deliver the letter of commitment for anti-briber compliance laws in compliance with the re-accreditation requirements of Cemex Philippines Groups of Companies;
    h. Approval of sale of motor vehicle with Plate No. TMI 424;
    i. Authorizing the Corporation's President to negotiate the terms and conditions, sign and execute the amended Coal Supply Agreement with SEM-Calaca Power Corporation;

j. Approval of the Corporation's application to secure permits and other licenses for the purchase of, handling, and to move/transport said controlled precursors and essential chemicals with the Philippine Drug Enforcement Agency;
k. Appointment of Rodrigo Berenguer & Guno as the Corporation's attorney-in-fact to represent the Corporation in the case of Bauer Foundations Philippines, Inc. vs. Semirara Mining Corporation, et. al.; and
l. Approval of the Corporation's renewal application for the issuance of a Certificate Registration/Permit to Operate Private Port Facilities with the Philippine Ports Authority in Iloilo City.

---------- nothing follows ----------

**SEMIRARA MINING AND POWER CORPORATION**
2nd Floor DMCI Plaza, 2281 Don Chino Roces Avenue
Makati City, Metro Manila, Philippines

**NOTICE OF ANNUAL STOCKHOLDERS' MEETING**

Dear Stockholders:

Please be notified that the Annual Meeting of Stockholders of Semirara Mining and Power Corporation (the "Corporation") will be held on **May 4, 2015, Monday at 10:00 o'clock in the morning at the Big Function Room, Manila Golf & Country Club, Inc., Harvard Road, Forbes Park, Makati City**, **Philippines,** with the following agenda:

1) CALL TO ORDER & PROOF OF NOTICE OF MEETING
2) CERTIFICATION OF QUORUM
3) APPROVAL OF MINUTES OF PREVIOUS MEETING HELD ON MAY 5, 2014
4) APPROVAL OF MANAGEMENT REPORT
5) RATIFICATION OF THE ACTS OF THE BOARD OF DIRECTORS AND MANAGEMENT FROM THE DATE OF THE LAST ANNUAL STOCKHOLDER'S MEETING UP TO THE DATE OF THIS MEETING
6) APPROVAL OF INDEPENDENT DIRECTOR AND NON-EXECUTIVE DIRECTOR FEES
7) RE-APPOINTMENT OF INDEPENDENT EXTERNAL AUDITOR
8) ELECTION OF DIRECTORS FOR 2015-2016
9) ADJOURNMENT

Stockholders of record as of **March 23, 2015** will be entitled to notice of, and vote at the said annual meeting or any adjournment or postponement thereof. Submission of proxies shall be no later than **April 23, 2015** and validation thereof on **April 29, 2015**, 4:00 o'clock in the afternoon at the office of the Corporation.

On the day of the meeting, you or your duly designated proxy is hereby required to bring this notice, proper authorization and forms of identification, i.e., driver's license, company, GSIS, SSS and the other valid identification to facilitate registration. Our registration starts at exactly 8:45 and closes at 9:45 o'clock in the morning.

Makati City, Metro Manila, March 6, 2015.

**JOHN R. SADULLO**
Corporate Secretary
*For the Board of Directors*

*Semirara Mining and Power Corporation's Dividend Policy: Minimum of 20% of Net Profit After Taxes starting from the period ending December 31, 2005; provided however that the Board of Directors shall have the option to declare more than 20%, if there is excess cash and less than 20%, if no sufficient cash is available. On April 29, 2014 the Corporation declared cash dividends of PhP12.00 or PhP4.28 billion with Record Date on May 15, 2014 and Payment Date on May 28, 2014.

**PROXY FORM**
**SEMIRARA MINING AND POWER CORPORATION**

**Item 1. Identification.** This proxy is being solicited by the **MANAGEMENT OF SEMIRARA AND POWER MINING CORPORATION** (the **"Corporation"**). The Chairman of the Board of Directors or in his absence, the Vice-Chairman or President of the Corporation will vote the proxies at the Annual Stockholders' Meeting to be held on **May 4, 2015, 10:00 o'clock in the morning at the Big Function Room, Manila Golf & Country Club, Inc., Harvard Road, Forbes Park, Makati City, Philippines**.

**Item 2. Instructions.**

(a) The proxy must be duly accomplished by the stockholder of record as of Record Date, or his duly authorized agent. In case of a stockholder that is a corporation or a partnership, the proxy must be accomplished by the officer or agent that is duly authorized to do so by virtue of an appropriate corporate or partnership resolution.

(b) Duly accomplished proxies must be delivered to the Corporate Secretary of the Corporation not later than April 23, 2015 at the following address: **SEMIRARA MINING AND POWER CORPORATION, 2nd Floor DMCI Plaza, 2281 Don Chino Roces Avenue, Makati City**.

(c) In case of a corporate stockholder, the proxy must be accompanied by a corporate secretary's certificate quoting the board resolution authorizing the relevant corporate officer to execute the proxy for the corporate stockholder.

(d) In case of shares of stock owned jointly by two or more persons, the consent of all co-owners must be necessary for the execution of the proxy. For persons owning shares in an "and/or" capacity, any one of them may execute the proxy.

(e) Validation of proxies will be done by the Special Committee of Inspectors designated by the Board on April 29, 2015, 4:00 o'clock in the afternoon. at the 2nd Floor, DMCI Plaza, 2281 Don Chino Roces Avenue, Makati City, Philippines. Any dispute which may arise pertaining to the validation shall be resolved by the Securities and Exchange Commission upon formal complaint filed by the aggrieved party.

(f) Unless otherwise indicated by the stockholder, a stockholder shall be deemed to have designated the Chairman of the Board of Directors, or in his absence, the President of the Corporation, as his proxy for the annual stockholders meeting to be held on May 4, 2015.

(g) If the number of shares of stock is left in blank, the proxy shall be deemed to have been issued for all of the stockholder's shares of stock in the Corporation as of Record Date.

(h) The manner in which this proxy shall be accomplished, as well as the validation hereof shall be governed by the provisions of SRC Rule 20(11)(b).

(i) The stockholder executing the proxy shall indicate the manner by which he wishes the proxy to vote on the matters in (1), (2), (3), (4), (5), and (6) below by checking the appropriate box. **WHERE THE BOXES (OR ANY OF THEM) ARE UNCHECKED, THE STOCKHOLDER EXECUTING THE PROXY IS DEEMED TO HAVE AUTHORIZED THE PROXY TO VOTE IN FAVOR OF THE ITEMS SPECIFIED HEREUNDER.**

**The Undersigned hereby appoints:**

(a) **The Chairman of the Board of Directors of the Corporation, or in his absence, the Vice Chairman or the President of the Corporation, or in their absence,**

(b) ________________________________

as his/her/its Proxy to attend the stockholders' meeting of the Corporation, and any adjournment or postponement thereof, and thereat to vote all shares of stock held by the undersigned as specified below and on any matter that may properly come before said meeting.

1. **Approval of minutes of previous Annual Stockholder's meeting held on May 6, 2013.**

☐ For ☐ Against ☐ Abstain

2. **Approval of Management Report**

☐ For ☐ Against ☐ Abstain

3. **Ratification of the acts of the Board of Directors and Management from the date of the last Annual Stockholders' Meeting up to the date of this Meeting**.

☐ For ☐ Against ☐ Abstain

4. **Approval of Independent Director and Non-Executive Director Fees**

☐ For ☐ Against ☐ Abstain

5. **Election of Directors for 2015-2016**

☐ For all the nominees below, except those whose names are stricken out.

☐ **WITHHOLD AUTHORITY TO VOTE FOR ALL NOMINEES LISTED BELOW.**

(**Instructions**: **TO STRIKE OUT A NAME OR WITHHOLD TO VOTE FOR ANY INDIVIDUAL NOMINEE, DRAW A LINE THROUGH THE NOMINEE'S NAME IN THE LIST BELOW).**

**Nominees:**

1. ISIDRO A. CONSUNJI
2. VICTOR A. CONSUNJI
3. JORGE A. CONSUNJI
4. CESAR A. BUENAVENTURA
5. HERBERT M. CONSUNJI
6. MA. CRISTINA C. GOTIANUN
7. MA. EDWINA C. LAPERAL
8. JOSEFA CONSUELO C. REYES
9. GEORGE G. SAN PEDRO
10. VICTOR C. MACALINCAG*
11. ROGELIO M. MURGA*

**Nominated as Independent Directors*

6. **Re-appointment of Sycip Gorres Velayo & Co. as Independent External Auditor**

☐ For ☐ Against ☐ Abstain

**Item 3. Revocability of Proxy.** – Any stockholder who executes the proxy enclosed with this statement may revoke it at any time before it is exercised. The proxy may be revoked by the stockholder executing the same at any time by submitting to the Corporate Secretary a written notice of revocation not later than the start of the meeting, or by attending the meeting in person and signifying his intention to personally vote his shares. Shares represented by an unrevoked proxy will be voted as authorized by the stockholder.

**Item 4. Persons Making the Solicitation.** – The solicitation is made by the Management of the Corporation. No director of the Corporation has informed the Corporation in writing that he intends to oppose an action intended to be taken up by the Management of the Corporation at the annual meeting. Solicitation of proxies shall be made through the use of mail or personal delivery. The Corporation will shoulder the cost of solicitation involving reproduction and mailing of this proxy in an estimated amount of ₱60,000.00, more or less.

**Item 5. Interest of Certain Persons in Matters to be acted Upon.** – No director, officer, nominee for director, or associate of any of the foregoing, has any substantial interest, direct or indirect, by security holdings or otherwise, on the matter to acted upon at the annual stockholders' meeting to be held on May 4, 2015.

____________________
Date of Proxy

________________________________________
(Signature above printed name, including title when signing for a corporation or partnership or as an agent, attorney or fiduciary).

Number of Shares Held as of Record Date: ____________________

SEMIRARA
MINING & POWER
CORPORATION

# MANAGEMENT REPORT

## Pursuant to SRC Rule 20(4)

**SEMIRARA MINING AND POWER CORPORATION**
**MANAGEMENT REPORT**

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## PART I- BUSINESS AND GENERAL INFORMATION

Semirara Mining and Power Corporation[1] (the "Corporation") was incorporated on February 26, 1980 to explore, develop and mine the coal resources in Semirara Island, Caluya, Antique.

Competition is insignificant in so far as domestic coal mine is concerned. The Corporation remains the largest coal producer in the Philippines, contributing 1.515 million metric tons (MT) or 98.4% of total domestic coal production in 2001 while the nominal balance is shared by small-scale mines in Cebu, Bataan Island, and other areas. Nonetheless, domestic coal demand is still anchored heavily on imported coal. In 2002, importation reached 5.930 million MT, representing 79.4% of aggregate supply, much higher than the 1.539 million MT (or 20.6% of aggregate supply) contributed by domestic coal producers. China brought in the bulk of coal in the country, accounting for 49.84% of the total, followed by Indonesia (36.86%), Australia (9.26%) and Vietnam (4.04%). In 2004, domestic producers supplied 27% of the total demand of 9.5 Million MTs increasing further to 32% of the 9.7 Million MTs market in 2005. However, in 2006 domestic producers supplied only 25% of the total demand of 9.5 Million MT's because of higher imported volume due to demand of higher quality coal which came from other countries. Semirara supplied 22% of the country's total coal consumption for 2006. The competitiveness of domestic coal producers is threatened by the more superior quality of imported coal as well as the government's policy on liberalization. This is however compensated by the Department of Energy's policy to promote indigenous energy resources and lower freight costs of local coal vis-à-vis imports. The Corporation remains to be competitive while it continues to exert efforts to improve the quality of its coal and keep production costs low. The tariff rates of sub-bituminous and other coal now stands at the rate of 3%.

To be competitive, local coal industry must be priced competitively against imported coals, currently from, Indonesia, China & Australia. Pricing of domestic coal is based on import parity inclusive of taxes and duties (at the current rate of taxes and duties). With the inherent quality of Semirara coal, it is estimated that it will be used by approximately 50% of the total Philippine market during this period. The promptness of delivery and quality of coal is required. The power companies are mostly located in Luzon and a few in the Visayas and Mindanao.

In March 2003, NPC tested our coal for its Masinloc plant while deliveries were made to Sual and Pagbilao Power Plants in 2004 and 2005. Both plants (Sual and pagbilao) are being operated by Mirant, Phil., Inc., and are covered by a Coal Supply and Energy Conversion Agreements with NPC. At this time, these plants have potential market of 600,000 to 800,000 Mts of coal per annum for Semirara coal. In December 2, 2009, SEM-Calaca Power Corporation (SCPC), a wholly-owned subsidiary of the Corporation took over the operation of the National Power Corporation's (NPC) power plants in Calaca and in May 4, 2010 completed its acquisition of said power plants. The Corporation continues to supply coal to the Calaca plants at approximately 900,000 MTs in 2010. The Calaca plants have a potential requirement of approximately 1.5 to 2.0 Million MTs.

Historically, approximately 98% of the Corporation's revenue streams are from the then NPC Calaca Plants. Prior to its privatization, NPC's consumption of Semirara Coal steadily increased since the Corporation worked on improving the quality of its coal. Note that the Corporation started washing 25% of its production in mid-1999. Resultantly, its market has widened, to include other power plants, the cement industry and other small industrial plants and in 2007, Semirara coal was tested by the export market. In 2007, NPC's share in volume and value of the Corporation's sales went down to 38% and 45%, respectively from 63% and 68% in 2006. In 2008, NPC share in volume and value further dropped to 24% and 40% due to steady increase in total volume sold resulting from increase in domestic sales to other power plants and industries and export sales as well. In 2007, sale to domestic customers (outside NPC) accounted for 39% and 37% respectively in terms of volume and value, and rose to 46% in volume and decreased by 27% in value in 2008. Likewise, in 2007, export sales' share in volume and value registered at 22% and 18%, respectively and went up to 30% and 22%, in 2008.

On August 31, 2011, Southwest Luzon Power Generation Corporation (SLPGC), a wholly-owned subsidiary of the Corporation was incorporated with an authorized capital stock of ₱10 Billion and paid-up capital of ₱3 Billion. SLPGC was constituted as the project company that will own and operate the 2x150 MW Coal Fired

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[1] Change in corporate name from Semirara Mining Corporation to Semirara Mining and Power Corporation was approved by the Commission on August 18, 2014.

Thermal Power Plant. The project cost of the said power plant is estimated to be approximately ₱19.8 Billion and will be constructed adjacent to the SCPC Power Plant in Calaca, Batangas. On February 1, 2012, the Department of Natural Resources issued to SLPGC its Environmental Compliance Certificate. The Company's other wholly-owned subsidiaries are SEM-Cal Industrial Park Developers, Inc. (SIPDI), Semirara Claystone Inc. (SCI), Semirara Energy Utilities Inc. (SEUI), SEM-Balayan Power Generation Corporation (SBPGC), and St. Raphael Power Generation Corporation (SRPGC).

The Corporation has secured permits and licenses from the government as follows: a) Extension of Coal Operating Contract with the DOE from 2012 to 2027; b) Mineral Exploration Permit 99-001-VI issued by the DENR renewable every 2 years; c) Environmental Compliance Certificate No. 9805-009-302 issued by the DENR effective for the duration of the project; d) Business Permit issued by Caluya, Antique and Makati City; e) Aerodrome Rating Certificate No. 218 issued by the ATO-yearly renewable by site; f) Certificate of Registration of Port Facilities No. 149 until December 31, 2014; and g) DENR Special Land Use Permit No. 6-1-SLUP-OLP002-03152017 until March 15, 2017.

The Corporation under its Coal Operating Contract is obligated to pay royalties to the Department of Energy (DOE) – at minimum of 3% based on FOB sales or at 30% of net proceeds (gross revenue less all expenses, excluding royalty and corporate tax) and b) compensation for entry and use of private lands under the provisions of PD 972, as amended by PD 1174, to land owners – ₱0.50/MT for untitled land and ₱1.00/MT for titled land. On November 12, 2009, DOE and the Corporation executed Second Amendment to Coal Operating Contract No. 5. The second amendment amends the coordinates of the contract area to include a land area of 3,000 and 4,200 hectares, more or less located in Caluya Island and Sibay Island, Antique.

On September 10, 2012 the Technical Report on Bobog Coal Deposit was released, which showed a resource estimates of 27.5 million metric tons of measured and 9 million metric tons of indicated in situ coal in Bobog mine. The coal resource is contained in 26 seams but only 19 were considered in the estimate as mineable due to thickness, quality and consistency factors. Of the 19 seams, 12 attained thickness greater than 3 meters and occasionally up to 20 meters. The coal resource has a heating value ranging from 6,930 to 10,149 BTU/lb, with a mass-weighted average of 9,500 BTU/lb. Under the ASTM classification of coal by rank, the seams in Bobog range from Sub-bituminous B to Sub-bituminous A. Eleven (11) major and thirty seven (37) minor coal seams have been interpreted and correlated from the Bobog drillholes. The major coal seams are seams 10, 22, 23, 31, 32, 33, 41, 42, 43, 44, and 45. A coal seam is categorized as major seam if it contains at least one million metric tons of coal resources. Intersected thickness of major seams ranged up to 25 meters. The Bobog database for most of the major seams is highly robust, especially in portions where resource is large. A total of 2,834 rows of data from the Bobog drillholes were reviewed. The major seams have significant data coverage. For minor seams, the database is not as robust because only few drillholes intersected them, and for this reason in-fill drilling is recommended.

The number of workforce of the Corporation is 2,674 and 2,371 for the years 2014 and 2013 respectively, inclusive of employees based at the Corporation's head office in Manila. Out of the 2,674 workforce for 2014, 733 are employed by the Corporation while the rest are employed by the Corporation's contractors, one of which is DMC Construction Equipment Resources, Inc., an affiliate of Dacon Corporation. The Corporation does not anticipate hiring additional employees for the ensuring year except when due to contingencies resulting in separation, resignation, termination of services of existing employees. The breakdown of the Corporation's employees according to type, are as follows:

| | |
|---|---|
| Executive | 14 |
| Managers | 29 |
| Supervisors | 93 |
| Rank and File | 597 |
| **Total** | **733** |

On the other hand, in 2014 total number of SCPC workforce is 258, of which 187 are employees of the O&M contractor at SCPC's Calaca Power Plant. In 2013, its workforce was 299. As of 2014, SLPGC workforce total 114, of which 107 are employees while the Company's other subsidiaries, namely, SIPDI, SCI, SEUI, SBPGC, and SRPGC are non-operational, hence, no employees were hired.

On December 14, 2006, the CBA between the Corporation and Semirara Mining Corporation Labor Union (SMCLU) was signed effective for another five (5) years. There was a notice of strike which, however, did not materialize due to settlement resulting to the signing of the new CBA. After the expiration of the CBA on August 31, 2011, no new CBA was executed by SMCLU and the Corporation. Meanwhile, the terms of the CBA continues to be implemented. There are no existing labor unions in the Corporation's subsidiaries.

The Corporation has obtained all necessary government permits for its operations. The Corporation has been implementing the necessary programs to comply with all regulatory requirements, particularly the Corporation's Environmental Compliance Certificate (ECC), which includes Regular Monitoring by the Multi-partite Monitoring Team (MMT) Marine Assessment Studies/Surveys, Social Development Programs, Reforestation Programs, etc. From 2001-2006 the Corporation has spent ₱23.6 Million for Social and Environmental Programs such as expanded mangrove areas, initiated and supported livelihood projects, implemented reforestation programs on the island, and cultivated fresh water sanctuary.

The Corporation is legally required to fulfill certain obligations as required under its ECC issued by Department of Environment and Natural Resources (DENR) when it abandons depleted mine pits. The Corporation recognizes this liability and set up an "Asset Retirement Obligation" account in its Balance Sheet.

The Corporation's has established an Environmental Monitoring Fund for MMT, which has an initial amount of ₱600,000, determined by the work and financial plan of the Monitoring Team. Also, an Environmental Guarantee Fund was established with a cash component of ₱1.5 Million. This enables the continued mining operations of the Corporation.

Taking an extra mile, the Corporation endeavored to enhance its business processes, such that in 2007, works for ISO certification started. Finally, in 2008, the Corporation had successfully obtained ISO certification on Integrated Management System covering three (3) standards as follows: Quality Management System (ISO 9001:2008), Environmental Management System (ISO 14001:2004), and Occupational Health and Safety Management System (OSHAS 18001:2007).

On the Corporation's existing legal cases, are as follows:

1. **The HGL Case**. Sometime in January 2004, the Corporation received a complaint filed by HGL Development Corporation ("HGL"). The facts are as follows:

   On August 28, 1984, HGL entered into a Forest Land Grazing Lease Agreement (FLGLA No. 184) with the Department of Environment and Natural Resources ("DENR") covering a 367-hectare land located at the Barrios of Bobog and Pontod, Semirara, Antique. In its Order dated December 6, 2000, the DENR cancelled FLGLA No. 184 explaining that the subject area is within the coverage of Proclamation No. 649, which set apart the island of Semirara in the Province of Antique as coal mining reservations.

   HGL filed a letter requesting a reconsideration of the Order but the request was denied in the DENR's letter-Order dated December 9, 2002.

   **<u>The Caloocan Case</u>**:
   On November 17, 2003, HGL filed a complaint against the DENR for specific performance and damages in Branch 121, Regional Trial Court of Caloocan City (RTC-Caloocan). HGL prayed that DENR should perform its obligations under FLGLA No. 184 and pay HGL for moral and exemplary damages and attorneys' fees.

   On March 2, 2004, the Corporation filed a Motion for Intervention because the Order canceling FLGLA No. 184 sought to be reconsidered by HGL covers property located in the island of Semirara, Antique, which was granted by RTC-Caloocan. Subsequently, the Corporation filed a Motion to Dismiss on the ground of lack of cause of action/jurisdiction and forum shopping. The Corporation's prayer for dismissal and its subsequent Motion for Reconsideration having been both denied, the Corporation filed its Petition for Review with the Court of Appeals (CA) on November 28, 2005 on the premise that RTC-Caloocan has no jurisdiction over the case.

On January 16, 2007, the CA reversed RTC–Caloocan's decision and finding grave abuse of discretion on the part of the presiding judge for failing to dismiss the case for lack of jurisdiction. The CA ruled that the DENR Order canceling HGL's FLGLA No. 184 had long been final and executory on account of its failure to appeal said Order to the Office of the President. Eventually, HGL's Motion for Reconsideration was denied and the CA accordingly dismissed the case.

Due to CA's denial of HGL's Motion for Reconsideration, a Petition for Certiorari (SC G.R. No. 177844, 2nd Division) was filed by HGL before the Supreme Court (SC) on November 14, 2007, which was denied by the SC for failure of HGL to sufficiently show any reversible error on the assailed CA decision and further denies HGL's motion for leave and first and second motions of time to file a reply to the Corporation's comments on the petition. HGL's Motion for Reconsideration was denied with finality by the SC on July 2, 2008.

Meanwhile, in a case docketed as SC G.R. No. 180401, 1st Division (*DENR vs. HGL*), DENR's Petition for Certiorari was denied by the SC on February 4, 2008. DENR then filed its Motion for Reconsideration on March 25, 2009, which later denied by the SC with finality.

Citing as basis the dismissal of the Culasi Case (SMC vs. HGL) on the ground of forum shopping, SMC filed a Motion to Dismiss with RTC-Caloocan (Civil Case No. C-20675). However, RTC-Caloocan denied the motion on December 24, 2008 and cited SC decision on G.R. No. 180401 (DENR vs. HGL) to sustain its decision to retain jurisdiction over the case. With the denial of its MR on June 24, 2009, the Corporation filed a Petition for Certiorari with the CA on September 14, 2009 (CA-G.R. SP No. 110460). On October 3, 2013 the CA dismissed the Corporation's petition to which a Motion for Reconsideration was filed on November 22, 2013. The case is pending to date.

**The Culasi Case:**

HGL also filed a separate case against the Corporation on November 17, 2003 in Branch 13 of the Regional Trial Court of Culasi, Antique (RTC-Culasi) for the recovery of their alleged possession of a 367-hectare land located at the Barrios of Bobog and Pontod, Semirara, Antique. HGL prayed for (i) the issuance of a preliminary mandatory injunction in order to secure immediate possession of the property pending litigation, and (ii) actual, moral and exemplary damages and attorney's fees in the total amount of P10 million. The Corporation received the summons on January 15, 2004.

On February 6, 2004, the Corporation filed its Answer and prayed for the outright dismissal of the case for being baseless and unfounded as the Order canceling FLGLA No. 184 had long been final and executory and can no longer be disturbed. The Corporation claims exemplary and moral damages and attorneys' fees.

On September 16, 2004, the RTC-Culasi granted HGL's prayer for preliminary mandatory injunction, which order was affirmed by the CA-Cebu. The Corporation elevated the case to the SC by way of Certiorari with prayer for Temporary Restraining Order (TRO) and/or Injunction to be issued against HGL, the CA-Cebu and RTC-Culasi. The SC initially granted the TRO on March 2, 2005, but on December 06, 2006, the SC promulgated its decision, which denied the Corporation's Petition for Certiorari and lifted the TRO. On January 18, 2007, the Corporation filed its Motion for Reconsideration and later on January 25, 2007 due to the ruling by the CA in the Caloocan case filed a Supplemental Motion for Reconsideration. On February 14, 2007, the SC denied with finality the Corporation's Motion for Reconsideration and its supplement to the aforesaid motion for lack of merit.

Meanwhile, on July 16, 2007, the RTC-Culasi dismissed the main case, as the two (2) cases filed by HGL was a deliberate violation of the rule on forum shopping. RTC-Culasi further stated in its decision that in both cases, HGL's cause of action rests on the validity of its FLGLA No. 184. HGL filed its Motion for Reconsideration, but on November 20, 2007, RTC-Culasi ruled against HGL. No appeal was taken by HGL.

Thereafter, on February 5, 2008, HGL filed before the SC a Petition for Indirect Contempt docketed as "*HGL Development Corporation, represented by its President, Henry G. Lim, Petitioner vs. Hon. Rafael L.*

*Penuela, in his capacity as Presiding Judge of RTC-Culasi, Antique, Branch 13, and Semirara Coal Corporation (now Semirara Mining and Power Corporation), Respondents, SC G.R. No. 181353*". HGL alleged, among others, that the dismissal of the Culasi case constitutes indirect contempt as HGL was not able to implement the SC's decision dated December 6, 2006 (affirming the earlier order of RTC-Culasi granting HGL's prayer for preliminary mandatory injunction) and resolution dated February 14, 2007, as RTC-Culasi dismissed the main case or the Culasi case on the ground of forum shopping. The Corporation filed its Comments/Opposition to the Petition. Subsequently, the SC required the parties to submit their respective Memoranda. The case is pending to date.

2. **Tax Refund/Credit Case**. The Corporation filed several cases against the Commissioner of Internal Revenue before the Court of Tax Appeals (CTA) for tax credit/refund due to erroneously withheld and remitted VAT on coal sales by National Power Corporation (NPC) in the total amount of ₱190,500,981.23.

   *2.1 CTA Case No. 7717 (For ₱11,847,055.07).* – On October 15, 2009, the CTA granted the Corporation's petition in the amount of ₱11,847,055.07 for VAT withheld for the month of December 2005. The CIR moved for reconsideration. After the Corporation filed its comment on November 21, 2009, the CTA on August 10, 2010 issued a Writ of Execution on its decision dated October 15, 2009. The Writ of Execution was served to BIR on August 13, 2010. Notwithstanding this, the Corporation's tax credit certificate remains pending with BIR.

   2.2. *Commissioner of Internal Revenue vs. Semirara Mining Corporation, G.R. No. 202534 (CTA EB No. 752 [For ₱15,292,054.93]).* – On January 4, 2011, the CTA granted the Corporation's petition in the amount of ₱15,292,054.91 for VAT withheld for the month of January 2007. CIR's Motion for Reconsideration was denied on March 18, 2011. CIR appealed the case to CTA *En Banc (CTA EB No. 752)* but the CTA *En Banc* dismissed the CIR's petition for lack of merit. The CIR again moved to reconsider the *En Banc* decision, but was denied on June 28, 2012. Thereafter, the CIR filed a petition for review on certiorari with the Supreme Court, to which the Corporation filed a comment. The petition remains pending to date.

   2.3. *Commissioner of Internal Revenue vs. Semirara Mining Corporation, G.R. No. 203621 (CTA EB No. 772 [For ₱86,108,626.19]).* – On February 10, 2011, the CTA granted the Corporation's petitions in the amount of ₱86,108,626.10 for VAT withheld for the period covering January 1, 2006 to June 30, 2006. On February 22, 2011, as CIR's Motion for Reconsideration was denied, it elevated the case to CTA *En Banc (CTA EB No. 772)*, but was denied by the CTA En Banc on June 22, 2012. The CIR filed its Motion for Reconsideration but was again denied by CTA on September 17, 2012. The CIR filed with the Supreme Court (SC) a Petition for Review on November 5, 2012, but was denied in a minute resolution dated January 30, 2013. On October 10, 2013 an Entry of Judgment was issued. The Corporation filed its Motion for Issuance of a Writ of Execution with the CTA which was granted on January 21, 2014 and the writ granted on February 18, 2014.

   2.4. *Commissioner of Internal Revenue vs. Semirara Mining Corporation, G.R. No. 202922 (CTA EB No. 793 [For ₱77,253,245.39]).* - On March 28, 2011, the CTA granted SMC's petition in the amount of ₱77,253,245.39 for the period covering July 1, 2006 to December 31, 2006. On April 12, 2011, as Respondent CIR's Motion for Reconsideration was denied on June 3, 2011, the CIR elevated the case to CTA *En Banc (CTA EB No. 793)*, but the latter, on April 23, 2012 dismiss the petition for lack of merit. As the CIR's Motion for Reconsideration was likewise denied on May 29, 2012, it filed a Petition for Review with the Supreme Court. The Corporation filed a Comment on December 28, 2012 to the CIR's Petition. On October 25, 2013, the SC issued a notice granting the CIR's Motion to Admit Reply and a copy of the Reply. The case remains pending to date.

3. **Business Tax Case**. On February 26, 2007, SMC filed a complaint *(SMC vs. Municipality of Calaca, RTC-142, Makati City, Civil Case No. 07-180)* to seek the reversal and cancellation of the tax assessment by the Municipality of Calaca for unpaid business tax for the CY 2003, 2004 and 2005 in the amount of ₱66,685,189.00. The basis of the claim is that since coal is delivered to the port of Calaca and Corporation is doing business there as shown by the existence of an office, the situs of taxation is in Calaca. The Corporation maintains that it does not maintain an office in the Municipality of Calaca, despite delivery to NPC-Calaca, hence, the proper situs of taxation is not in Calaca but its principal office. The Corporation

presented all its witnesses and submitted its formal offer of documentary exhibits. On May 28, 2014, the Court issued its decision denying the Corporation's install appeal, but required the Municipality of Calaca to make re-assessment to conform with the proper sale allocations in accordance with Art. 243(b) of the IRR of the Local Government Code and its assessment should only be based on the proportion of the coal sales which were consummated in Calaca, Batangas. The Corporation filed a Petition for Review with the CTA appealing said decision on August 7, 2014. On October 7, 2014, the CTA issued a Resolution directing the parties to file their respective memoranda. After submission of the same, the case will be submitted for resolution.

4. **Real Property Tax Case**. On February 19, 2008, the Municipality of Caluya, Antique filed a case against the Corporation *(Municipality of Caluya, Antique vs. SMC, Civil Case No. C-051, RTC-Culasi, Branch 13)* for enforcement of the compromise agreement -submitted to the RTC on November 17, 2003 involving the balance of ₱82,979,702.24 in real property taxes for lots located in Semirara Island. The Corporation maintains that the Motion for Execution has no legal basis and is premature due to a clause in the compromise agreement requiring that the parties first determine the correctness of the tax assessments which shall be subject to the verification of the parties. On October 11, 2012, the parties submitted a Compromise Agreement dated July 2, 2012 to the Court for its approval. On November 18, 2014, the Court issued its order approving the Compromise Agreement.

5. **Specific Performance Case**. – The complaint docketed as *Power & Synergy, Inc. vs. SMC, et. al, Civil Case No. Q-10-66936, RTC-QC, Branch 97* alleges fraudulent acts against the Corporation and its directors and officers, and prayed that defendants jointly and severally perform and comply with the terms and conditions under the Consultancy Agreement. PSI is in effect claiming a success fee of ₱1.3 billion (due to increase in coal volume sold to NPC) by the end of 2010. On June 2, 2010, SMC moved for the dismissal for lack of jurisdiction and improper venue in so far as other individual defendants are concerned, and the complaint states no cause of action. The RTC required PSI to pay the correct docket fees, but PSI moved for reconsideration, which was later denied by the Court. On August 22, 2014, the Corporation moved for the dismissal of the case for failure of PSI to comply with the order of the Court to pay the correct docket fees. To date, no action has yet been taken by the Court on said motion.

6. **Forcible Entry Case.** – The complaint docketed as *Gabinete, et. al. vs. SMC, et. al, Civil Case No. 210-C, MCTC-Pandan, Antique* hinges from the alleged entry of the Corporation to a portion of plaintiffs' properties located in Barangay Alegria, Caluya, Antique. The occupation of the Corporation was based on the authority of the new owner of the property. Plaintiffs' prayed to the Court to order defendants to vacate the properties and pay damages and attorney fees. On March 10, 2014 the Corporation submitted its affidavits and position paper as required by the Court. The case is submitted for resolution/decision of the Court.

7. **Annulment of Deeds of Sale Case. –** The complaint docketed as *Gabinete, et. al. vs. SMC, et. al., Civil Case No. C-260, RTC-Culasi, Antique, Branch 13* seeks the annulment of deeds of sale plaintiff executed with the defendant George G. San Pedro covering parcels of land located in Brgy. Alegria, Caluya, Antique due to alleged unsound mind of the plaintiff at the time of execution. After defendants filed their answer, the RTC scheduled the pre-trial conference on February 10, 2014. Plaintiff filed an amended complaint.

8. **Illegal Dismissal Case. –** This is an illegal dismissal case filed by Engr. Bornea docketed as *Bornea, Jr., vs. SMC, et. al., NLRC Case No. RAB-IX-11-00663-11* with the Arbitration Branch of Davao seeking for his reinstatement as the Foreman Supervisor of the Corporation's mining facility in Caluya, Antique. Bornea alleged that there was no justifiable ground for dismissal and due process was not observed. On April 24, 2012, the Labor Arbiter resolved to dismiss the complaint for lack of merit. Complainant appealed the case, but the NLRC-Cagayan de Oro City dismissed the appeal for lack of merit in its Decision dated December 28, 2012. On February 19, 2013, Bornea moved to reconsider the NLRC decision, but the NLRC in its Resolution dated March 27, 2013 dismissed the motion for lack of merit. Despite this, Bornea filed with the CA a Petition for Certiorari under Rule 65. The same remains pending to date.

9. **Declaratory Relief with Injunction Case. –** This is a case filed by the Corporation against the *BIR, Bureau of Customs & Department of Finance under Civil Case No. 13-1171, RTC Makati Br. 146*. On

May 21, 2013 SMC was granted a Certificate of Qualification for Tax Exemption under PD 972 by the DOE for its 36,000,000 liters of diesoline. SMC made 1st partial shipment of 6,16,367 liters. BIR assessed VAT and excise tax on said shipment in the amount of P25 M which was paid under protest. As a result SMC filed a petition for Declaratory Relief with the RTC on October 3, 2013 seeking to enjoin BIR, BOC from implementing BIR RR No. 2-2012 by imposing advance payment of VAT on SMC importation of diesel fuel for its own use and consumption. BIR rationalizes its issuance of RR No. 2-2012 for the purpose of curtailing smuggling. While under said regulations payment of VAT is subject to right of refund by SMC (effectively 0% rated) being exempted from VAT under its COC and PD 972, SMC contested the application of said regulation as it effectively diminishes its exemption granted by law and impairs the rights under its COC pursuant to the non-impairment clause of the Constitution.

On October 30, 2013, SMC secured a 20-day TRO and on November 21, 2013 the court issued a preliminary injunction against the BIR, BOC and DOF in so far as the implementation of said regulation specifically against the Corporation. Defendants moved for reconsideration, but were denied by the Court on February 4, 2014. On February 10, 2014, the Court resolved to grant the Corporation's petition for declaratory relief and declared that in view of the tax exemption provided under PD 972 and the COC, Revenue Regulation No. 2-2012 issued by the respondents was held inapplicable to the Corporation's direct importation of petroleum products.

As a result, the DOF and BOC filed a petition for review on certiorari under Rule 45 of the Rules of Court (ROC) with the Supreme Court on April 8, 2014 while the BIR on May 13, 2014 filed with the Court of Appeals a petition for review under Rule 65 of ROC with prayer for TRO and/or writ of preliminary injunction. To date the case remains pending with the Supreme Court and Court of Appeals, respectively.

10. **Environmental Case (Writ of Kalikasan). –** The case docketed as *Fajardo vs. Semirara Mining Corp., et. al., Civil Case No. C-271, RTC-Culasi, Antique, Branch 13* was filed pursuant to Supreme Court A.M. 09-6-8-SC on Rules of Procedures for Environmental Cases (Rules). Complainant prayed for Temporary Environmental Protection Order (TEPO) for 72 hours from receipt of the complaint for the alleged irresponsible coal mining, serious destruction of the island, pollution of marine and coral reefs, damage to marine life, among others. Defendants filed their respective answers. No TEPO has been issued by the RTC. On February 17, 2015, during the pre-trial conference, the plaintiff filed a Motion to Withdraw complaint which the court in open court granted with the conformity of the company. The Company however has yet to receive a formal order on the dismissal of the case.

Except for the foregoing cases, the Corporation or its subsidiaries is not a party to any pending material legal proceedings. It is not involved in any pending legal proceedings with respect to any of its properties. Apart from the foregoing, therefore, it is not involved in any claims or lawsuits involving damages, which may materially affect it or its subsidiaries.

## PART II – SECURITIES OF THE REGISTRANT

### A. MARKET PRICE OF AND DIVIDENDS ON REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

(1) **Market Information. -**

(a) Principal market where the registrant's common equity is traded. The Corporation is listed in the Philippine Stock Exchange (PSE). There has been no substantial trading since 1983 or 17 years. DMCI Holdings, Inc. (DHI) however in 2004 increased its shareholdings from 74.36% to 94.51%. The National Development Company (NDC) shares were decreased from 21.27% to 4.55% shares and the others from 4.3% to 0.94% shares. None of them sold their shares hence, no substantial trading occurred. These changes in the percentage of holdings resulted from the Equity Restructuring of the Corporation's authorized capital stock and the subscription of DHI to 19,120,581 additional shares in 2004.

In February 2005, new additional 46,875,000 shares were sold to the public by the Corporation in its international offer. Also in the same public offering, DHI as selling shareholder sold 58,171,000 reducing its shareholdings from 94.51% to 60%.

On April 8, 2010 the Corporation sold through PSE its treasury shares equivalent to 19,302,200 at ₱67.00 per share. In June 2010, by way of Stock Rights Offering, the Corporation offered for subscription 59,375,000 common shares to eligible existing stockholders at the ratio of 1:5 shares as of record date, July 1, 2010.

(b) The Corporation's security was traded at PSE at a price of ₱0.40/share on December 23, 2002. There was no trading of the Corporation's securities in 2003 and 2004. The highs and lows (in Pesos) of trading during the past three (3) years are as follows:

| | **High** | **Low** | **Close** |
|---|---|---|---|
| **2012** | | | |
| Jan-Mar | 252.00 | 211.00 | 244.80 |
| Apr-Jun | 257.80 | 200.00 | 218.20 |
| July-Sep | 236.00 | 214.40 | 222.00 |
| Oct-Dec | 234.00 | 217.00 | 233.40 |
| **2013** | | | |
| Jan-Mar | 267.40 | 220.00 | 267.40 |
| Apr-Jun | 305.80 | 225.00 | 276.80 |
| July-Sep | 265.00 | 222.60 | 240.00 |
| Oct-Dec | 306.00 | 240.40 | 288.00 |
| **2014** | | | |
| Jan-Mar | 139.33 | 93.67 | 136.67 |
| Apr-Jun | 139.67 | 116.67 | 122.13 |
| July-Sep | 143.80 | 116.67 | 123.00 |
| Oct-Dec | 142.10 | 115.90 | 142.00 |
| **2015** | | | |
| Jan-Mar[2] | 168.70 | 141.00 | 163.50 |

(2) **Holders. –** The number of shareholders of record as of March 23, 2015 is 669. As of March 10, 2015, the Corporation has 1,068,750,000 common shares issued and outstanding.

| Title Of Class | Name | Number Of Shares Held | % of Total |
|---|---|---|---|
| Common | DMCI Holdings, Inc. | 601,942,599 | 56.32 |
| Common | PCD Nominee Corp. (Filipino) | 133,753,261 | 12.51 |
| Common | Dacon Corporation | 130,825,527 | 12.24 |
| Common | PCD Nominee Corp. (Foreign) | 130,581,134 | 12.22 |
| Common | Others | 71,647,479 | 06.70 |

Names of Top Twenty (20) Stockholders as of March 10, 2015 (Common Stockholders):

| No. | Name of Stockholders | No. of Shares | Percentage[3] |
|---|---|---|---|
| 1. | DMCI Holdings, Incorporated | 601,942,599 | 56.32 |
| 2. | PCD Nominee Corp. (Filipino) | 133,753,261 | 12.51 |
| 3. | Dacon Corporation | 130,825,527 | 12.24 |
| 4. | PCD Nominee Corp. (Foreign) | 130,581,134 | 12.22 |
| 5. | National Development Company | 34,093,974 | 3.19 |
| 6. | DFC Holdings, Inc. | 20,591,229 | 1.93 |
| 7 | Freda Holdings, Inc. | 4,612,883 | 0.43 |
| 8. | Regina Capital Development Corp. | 2,409,000 | 0.23 |
| 9. | Fernwood Investments, Inc. | 2,389,002 | 0.22 |

[2] As of March 10, 2015.
[3] Based on the Corporation's issued and outstanding shares recorded with its Stock and Transfer Agent.

| | | | |
|---|---|---|---|
| 10. | Privatization Management Office | 2,308,350 | 0.22 |
| 11. | Double Spring Investments Corp. | 1,348,992 | 0.13 |
| 12. | Guadalupe Holdings Corporation | 1,045,116 | 0.10 |
| 13. | Augusta Holdings, Inc. | 760,425 | 0.07 |
| 14. | Berit Holdings Corp. | 452,811 | 0.04 |
| 15 | Meru Holdings, Inc. | 346,800 | 0.03 |
| 16. | Cobankiat, Johnny O. | 278,760 | 0.03 |
| 17. | Vendivel, Olga P. | 240,000 | 0.02 |
| 18. | Garcia, Jaime B. | 120,090 | 0.01 |
| 19. | Windermere Holdings Inc. | 105,231 | 0.01 |
| 20. | Fernwood Investments Inc. | 84,327 | 0.01 |

(i) The table sets forth the record or beneficial owners of more than 5% of the outstanding Common Shares of the Corporation, which are entitled to vote and the amount of such record or beneficial ownership as of March 10, 2015:

| Title Of Class | Name | Number Of Shares Held | % of Total |
|---|---|---|---|
| Common | DMCI Holdings, Inc. | 601,942,599 | 56.32 |
| Common | PCD Nominee Corp. (Filipino) | 133,753,261 | 12.51 |
| Common | Dacon Corporation | 130,825,527 | 12.24 |
| Common | PCD Nominee Corp. (Foreign) | 130,581,134 | 12.22 |

(ii) each director and nominee

| Office | Names |
|---|---|
| Chairman & CEO | Isidro A. Consunji |
| Vice-Chairman, President & COO | Victor A. Consunji |
| Vice-President & Director | George G. San Pedro |
| Independent Director | Rogelio M. Murga |
| Independent Director | Victor C. Macalincag |
| Director | Jorge A. Consunji |
| Director | Cesar A. Buenaventura |
| Director | Herbert M. Consunji |
| EVP & Director | Ma. Cristina C. Gotianun |
| Director | Ma. Edwina C. Laperal |
| Director | Josefa Consuelo C. Reyes |

(iii) all directors and officers as a group, and the registrant's present commitments to such persons with respect to the issuance of any class of its common equity.

| Title of class | Name of beneficial owner | Amount and nature of beneficial ownership | | | Citizenship | % |
|---|---|---|---|---|---|---|
| | | Direct | Indirect[4] | Total | | |
| Common | Isidro A. Consunji | 6,036 | 969,918 | 975,954 | Filipino | 0.09% |
| Common | Cesar A. Buenaventura | 18,030 | - | 18,030 | Filipino | 0.00% |
| Common | Victor A. Consunji | 36 | 1,581,414 | 1,581,450 | Filipino | 0.15% |
| Common | Jorge A. Consunji | 36 | 116,837 | 116,873 | Filipino | 0.01% |
| Common | Herbert M. Consunji | 32,280 | - | 32,280 | Filipino | 0.01% |
| Common | Victor C. Macalincag | 804,890 | 19,100 | 823,990 | Filipino | 0.08% |
| Common | George G. San Pedro | 120,090 | - | 120,090 | Filipino | 0.01% |
| Common | Rogelio M. Murga | 1,010 | - | 1,010 | Filipino | 0.00% |

[4] Shares are either held by family members sharing the same household or by a corporation of which the reporting person is a controlling shareholder.

| | | | | | | |
|---|---|---|---|---|---|---|
| Common | Ma. Cristina C. Gotianun | 357 | 1,210,104 | 1,210,461 | Filipino | 0.11% |
| Common | Ma. Edwina C. Laperal | 1,047 | 1,277,694 | 1,278,741 | Filipino | 0.12% |
| Common | Josefa Consuelo C. Reyes | 80,300 | 346,800 | 427,100 | Filipino | 0.04% |
| Common | Jaime B. Garcia | 144,108 | - | 144,108 | Filipino | 0.01% |
| Common | Nena D. Arenas | 3,000 | - | 3,000 | Filipino | 0.00% |
| Common | Antonio R. Delos Santos | 15,000 | - | 15,000 | Filipino | 0.00% |
| Common | Jose Anthony T. Villanueva | 750 | 13,890 | 14,640 | Filipino | 0.00% |
| Common | Sharade E. Padilla | 1,800 | 270 | 2,070 | Filipino | 0.00% |
| Aggregate Ownership of all directors and officers as a group | | **1,228,770** | **5,536,027** | **6,764,797** | Filipino | 0.63% |

(3) **Dividends**. – On April 4, 2005 the Board approved the Company's Dividend Policy, which adopted a minimum of 20% of Net Profit After Tax starting from the period ending December 31, 2005; provided, however, that the Board of Directors shall have the option to declare more than 20% if there is excess cash and less than 20% if no sufficient cash is available. Below are dividends declared for the past two (2) years:

| Year | Board Approval | Nature | Dividend/Share | Record Date | Payment Date |
|---|---|---|---|---|---|
| 2013 | April 30, 2013 | Cash | PHP12.00 | May 17, 2013 | May 29, 2013 |
| 2014 | April 29, 2014 | Cash | PHP12.00 | May 15, 2014 | May 28, 2014 |

(4) **Recent Sales of Unregistered or Exempt Securities**. - No unregistered or exempt securities were sold in 2014, 2013 and 2012.

## PART III-FINANCIAL INFORMATION

## A. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS *(YEARS 2011-2014)*

**Full Years 2013-2014**

### I. PRODUCTION – COMPARATIVE REPORT 2014 vs 2013

**Coal**

Coal mining operations recorded a historical high production in 2014. The Company took advantage of good weather conditions to ramp up coal extraction, as well as waste stripping.

Total materials moved increased 26% YoY to 103.30 million bank cubic meters (bcm) from 82.15 million bcm last year. Strip ratio increased 14% at 11.47:1 from 9.73:1 last year as a result of pre-stripping at Bobog pit. However, strip ratio in Panian remained at a normal level of 9.44:1 this year. Gross product coal production increased by 5% YoY at 7.96 million metric tons (MTs) from 7.57 million MTs, while net product coal, after accounting for survey adjustments, increased 6% YoY at 8.08 million MTs from 7.62 million MTs last year.

Coal sales volume grew 16% YoY at 8.89 million MTs record high from 7.63 million MTs in 2013. Higher sales resulted to lower ending inventory at 386 thousand MTs, a 70% reduction from last year's 1.28 million MTs.

The table below shows the comparative production data for FY 2014 and 2013.

**COMPARATIVE PRODUCTION DATA**

*(in '000, except Strip Ratio)*

| | Q1 '14 | Q2 '14 | Q3 '14 | Q4 '14 | FY '14 | Q1 '13* | Q2 '13 | Q3 '13 | Q4 '13 | FY '13 | %Inc (Dec) |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Total Materials (bcm) | 28,135 | 26,385 | 22,745 | 26,032 | 103,297 | 16,001 | 23,575 | 18,081 | 24,492 | 82,149 | 26% |
| Gross Product Coal (MT) | 2,353 | 2,513 | 2,145 | 950 | 7,961 | 787 | 2,301 | 1,780 | 2,701 | 7,570 | 5% |
| Strip Ratio | 10.69:1 | 9.20:1 | 9.09:1 | 24.60:1 | 11.47:1 | 18.79:1 | 9.10:1 | 9.02:1 | 8.09:1 | 9.73:1 | -14% |
| Net TPC (MT) | 2,329 | 2,488 | 2,123 | 1,144 | 8,084 | 900 | 2,278 | 1,762 | 2,674 | 7,615 | 6% |
| | | | | | | | | | | | |
| Beg. Inventory (MTs) | 1,277 | 1,279 | 1,623 | 1,966 | 1,277 | 1,383 | 460 | 1,137 | 1,311 | 1,383 | -8% |
| End Inventory (MTs) | 1,279 | 1,623 | 1,966 | 386 | 386 | 460 | 1,137 | 1,311 | 1,277 | 1,277 | -70% |

** Survey adjustment resulted to higher TPC vs ROM in Q1 2013*

## SCPC

Total gross generation dropped 22% YoY at 2,840 GWh from 3,638 GWh last year as a result of the prolonged shutdown of Unit 2 in H1. The plant was placed on shut down at the end of December last year for planned maintenance and to install the new Distribution Control System (DCS).

**Unit One**

Average capacity slightly increased to 230 MW from 229 MW last year. Plant performance is almost the same in all aspects, but with 2014 slightly higher against 2013. The unit started slow in the first half of the year but was able to recover in the second half. Forced outage is at the rate of 15.2% compared to 16.8% registered last year, showing a 10% improvement in Unit forced outages. Almost 69% of the forced outages occurring in Q2 and Q3 were due to tube leaks, while slagging accounted for 19% of the total forced outage.

As a result, the unit showed 2% improvement on gross generation at 1,698GWh from 1,667Gwh last year, and capacity factor at 65% from 63%. Availability slightly increased by 1% as against the previous year.

**Unit Two**

The plant was shut down on 31 December 2013 for maintenance and upgrade of the DCS. The target was to finish both activities in 90 days, however, problems on the installation and fine tuning of the DCS were encountered, such that the plant was only re-synchronized to the grid on 13 June. Power generation only stabilized in Q3 until the end of 2014 where dependable capacity was restored to its rated capacity.

As a result of the prolonged shutdown, average capacity dropped 4% YoY at 259 MW from 272 MW last year; capacity factor decreased 42% YoY at 43% from 75%; while gross generation also dropped 42% YoY at 1,141 GWh from 1,971 GWh last year.

The table below shows the comparative production data for 2014 and 2013.

| COMPARATIVE PLANT PERFORMANCE DATA | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| CUSTOMER | Q1 '14 | Q2 '14 | Q3 '14 | Q4 '14 | FY '14 | Q1 '13 | Q2 '13 | Q3 '13 | Q4 '13 | FY '13 | %Inc (Dec) |
| **Gross Generation, GWh** | | | | | | | | | | | |
| Unit 1 | 455 | 327 | 428 | 489 | 1,698 | 466 | 358 | 520 | 323 | 1,667 | *2%* |
| Unit 2 | 33 | 77 | 428 | 603 | 1,141 | 351 | 525 | 512 | 584 | 1,972 | *-42%* |
| **Total Plant** | **489** | **404** | **855** | **1,092** | **2,840** | **816** | **884** | **1,032** | **907** | **3,638** | ***-22%*** |
| **% Availability** | | | | | | | | | | | |
| Unit 1 | 89% | 63% | 85% | 100% | 84% | 95% | 70% | 98% | 70% | 83% | *1%* |
| Unit 2 | 6% | 20% | 76% | 98% | 50% | 63% | 86% | 84% | 97% | 83% | *-39%* |
| **Total Plant** | **48%** | **41%** | **81%** | **99%** | **67%** | **79%** | **78%** | **91%** | **84%** | **83%** | ***-19%*** |
| **Capacity Factor** | | | | | | | | | | | |
| Unit 1 | 70% | 49% | 65% | 75% | 65% | 72% | 54% | 78% | 49% | 63% | *2%* |
| Unit 2 | 5% | 12% | 65% | 92% | 43% | 54% | 79% | 77% | 89% | 75% | *-42%* |
| **Total Plant** | **38%** | **30%** | **65%** | **83%** | **54%** | **63%** | **67%** | **78%** | **69%** | **69%** | ***-22%*** |

## II. MARKETING – COMPARATIVE REPORT YTD 2014 vs. YTD 2013

### Coal

Export sales accounted for majority or 59% of total coal sales in 2014 at 5.25 million MTs. The 54% YoY increase in export sales from 3.40 millions MTs in 2013 is a result of lower demand from power customers as the Company's power Unit 2 experienced a extended downtime after encountering commissioning problems of the newly installed Distribution Control System (DCS). It is worthy to note, however, that despite the decine in global coal prices, higher BTU Semirara coal added premium on export price, which slightly increased by 1% YoY at PHP2,164/MT from PHP2,142 last year.

Conversely, local sales dropped 14% YoY at 3.64 million MTs from 4.23 million MTs last year. This is mainly due to the decrease in off-take by power plants and cement customers.

Sales to power plants decreased 22% YoY at 2.27 million MTs from 2.92 million MTs last year. SCPC reduced its purchases by 29% YoY to 1.51 million MTs from 2.13 million MTs last year with only one unit operational until 13 June. Other customers also reduced their coal liftings as they need to fullfill their existing commitment on their freight contracts for imported coal.

Sales to cement plants likewise decreased 11% YoY at 875 thousand MTs from 980 thousand MTs last year. One customer slowed down its offtake this year as one of its plants was under maintenance.

Meanwhile, sales to other industrial plants increased 53% YoY at 501 thousand MTs from 328 thousand MTs last year. Two customers significantly increased their off-take this year.

Composite average FOB price per MT dropped 3% YoY at PHP2,127 from 2,185 with the continuous softening of global coal prices.

The table below shows the comparative sales volume data for 2014 and 2013.

**COMPARATIVE SALES VOLUME DATA**
*(in '000 MTs)*

| CUSTOMER | Q1 '14 | Q2 '14 | Q3 '14 | Q4 '14 | FY '14 | % | Q1 '13 | Q2 '13 | Q3 '13 | Q4 '13 | FY '13 | % | %Inc (Dec) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Power Plants** | | | | | | | | | | | | | |
| Calaca | 334 | 238 | 377 | 562 | 1,510 | 17% | 608 | 523 | 582 | 420 | 2,132 | 28% | *-29%* |
| Other PPs | 115 | 165 | 243 | 234 | 757 | 9% | 256 | 216 | 159 | 159 | 790 | 10% | *-4%* |
| **TOTAL PPs** | **448** | **403** | **620** | **796** | **2,267** | **62%** | **864** | **739** | **740** | **578** | **2,922** | **69%** | ***-22%*** |
| **Other Industries** | | | | | | | | | | | | | |
| Cement | 242 | 219 | 178 | 236 | 875 | 10% | 361 | 196 | 261 | 161 | 980 | 13% | *-11%* |
| Others | 157 | 95 | 114 | 135 | 501 | 6% | 92 | 89 | 68 | 79 | 328 | 4% | *53%* |
| ***Total Others*** | **399** | **314** | **292** | **371** | **1,376** | ***15%*** | **454** | **285** | **329** | **240** | **1,308** | ***17%*** | ***5%*** |
| **TOTAL LOCAL** | **847** | **716** | **912** | **1,167** | **3,643** | 41% | **1,318** | **1,024** | **1,070** | **818** | **4,230** | 55% | ***-14%*** |
| **EXPORT** | 1,462 | 1,407 | 846 | 1,531 | 5,246 | 59% | 461 | 556 | 497 | 1,887 | 3,401 | 45% | *54%* |
| **GRAND TOTAL** | **2,309** | **2,124** | **1,758** | **2,698** | **8,889** | **100%** | **1,778** | **1,581** | **1,567** | **2,705** | **7,631** | **100%** | ***16%*** |

**POWER**

SCPC's sales decreased 2% YoY at 3,383 GWh from 3,460 GWh last year due to lower energy generation of the power plants, resulting from the prolonged testing and commissioning of the DCS for Unit 2 and high forced outage for Unit 1.

Of the total energy sold, 98% or 3,330 GWh were sold to bilateral contracts and the remaining 2% to the spot market.

MERALCO remained to be the single biggest customer, accounting for 88% of the total energy sold or 90% of the total energy sales to the bilateral contracts; BATELEC I and Trans-Asia comprised 4% and 5%, respectively.

Spot Market Sales is also lower by 64% at 53 GWh against 148 GWh last year.

Of the total energy sold, 78% was sourced from own generation and 22% was purchased from the spot market. SCPC procured power from the spot market during hour intervals where power units were down, or when the plants were running at a de-rated capacity, in order to be able to supply committed capacity to some of its customers. Some contracts still cover the supply of replacement power under a "pass-thru" cost arrangement.

Average price for bilateral contracts dropped 6% YoY at PHP3.55/KWh from PHP3.79/KWh in 2013. The contracts index Newcasle prices has been declining this year.

The table below shows the comparative marketing data for 2014 and 2013.

**COMPARATIVE PLANT PERFORMANCE DATA**
*(in GWh ; PHP)*

| CUSTOMER | Q1 '14 | Q2 '14 | Q3 '14 | Q4 '14 | FY '14 | Q1 '13 | Q2 '13 | Q3 '13 | Q4 '13 | FY '13 | %Inc (Dec) |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Bilateral Contracts | 413 | 886 | 966 | 1,065 | 3,330 | 751 | 838 | 966 | 757 | 3,313 | *1%* |
| Spot Sales | 11 | - | 15 | 27 | 53 | 20 | 10 | 17 | 100 | 148 | *-64%* |
| **Grand Total** | **425** | **886** | **981** | **1,091** | **3,383** | **771** | **849** | **983** | **858** | **3,460** | *-2%* |
| Composite Ave. Price | 4.40 | 3.73 | 3.50 | 3.40 | **3.64** | 3.89 | 3.91 | 3.66 | 5.65 | **4.26** | ***-15%*** |

## III. FINANCE

**A. Sales and Profitability**

Consolidated Revenues, net of eliminating entries, increased 5% YoY at PHP28.59 billion in 2014 from PHP27.33 billion in the previous year. Before elimination, Coal Revenues increased 13% YoY at PHP18.91 billion from PHP16.68 billion last year, mainly due to higher sales volume. On the contrary, SCPC Revenues dropped 17% YoY at PHP 12.31 billion from PHP14.76 billion, due to a slight drop in energy sales volume and lower average price per KWh of PHP3.64/KWh this year against PHP4.26/KWh last year.

Consolidated Cost of Sales increased 35% YoY at PHP18.93 billion from PHP14.11 billion last year. Depreciation dropped 28% YoY at PHP1.93 billion from PHP2.69 billion last year.

Despite higher volume sold, increase in Coal Cost of Sales before elimination is minimal at 4% YoY at PHP12.23 billion from PHP11.73 billion, as a result of significant drop in oil prices and implementation of cost-cutting measures ( i.e. more efficient mine planning and equipment maintenance), to counter declining global coal prices. High production also contributed to the decline in cost of coal sold per MT at PHP1,375 from PHP1,537 in 2013. Coal depreciation decreased 38% YoY at PHP1.00 billion from PHP1.62 billion last year.

SCPC Cost of Sales before elimination increased 44% YoY at PHP9.35 billion from PHP6.51 billion; and 59% YoY after elimination at PHP7.02 billion from PHP4.42 billion last year. Unit 2 was down for scheduled maintenance and for the replacement and upgrading of the DCS since the start of the year. It remained down most of Q2, compounded by occassional forced outage during fine tuning, thus exposing the power segment to high WESM prices for its replacement power to MERALCO and BATELEC I after all the outage allowances for the year were consumed. Power incurred net loss of PHP 2.1 billion from its replacement power purchases from the spot market. As a result, Cost of Sales per KWh increased 47% YoY at PHP2.76 from PHP1.88 last year. SCPC depreciation decreased 15% YoY at PHP861.79 million from PHP1,015.84 million last year.

The resulting consolidated Gross Profit decreased 27% YoY at PHP9.66 billion, with the coal and power segments each contributing PHP6.05 billion and PHP3.61 billion, respectively. Last year's consolidated Gross Profit stood at PHP13.22 billion, PHP3.91 billion from coal and PHP9.31 billion from SCPC. Consolidated Gross profit margin dropped to 34% from 48% last year.

Consolidated Operating Expenses (OPEX) decreased 39% YoY at PHP3.22 billion from PHP5.26 billion. Net of eliminating entries, the coal segment’s OPEX increased 32% YoY at PHP2.25 billion from PHP1.71 billion last year since higher coal Revenues correspondingly increased Government Share by 42% at PHP1.86 billion from PHP1.30 billion last year. Meanwhile, SCPC's General and Administrative Expense, accounted under OPEX after elimination, decreased 74% YoY at PHP926.36 million from PHP3.51 billion last year. The decrease was due to last year’s accelerated depreciation of the plant utility of PHP1.13 billion, prolonged maintenance costs of PHP643.97 million, PHP447.81 write-down on plant equipment and provision for impairment losses of PHP413.91 million. The pre-operating Southwest Luzon Power Generation Corp. (SLPGC), a wholly-owned subsidiary of the Company incorporated to expand its power capacity with the construction of 2 x 150 MW power plants, incurred PHP39.33 million OPEX, representing non-capitalizable expenses incurred during the period. Other pre-operating subsidiaries incurred combined OPEX of PHP2.33 million.

The USD continuously strengthened against the PHP, resulting to the booking of P52.14 million consolidated Forex Losses this period. Last year , the company recognized consolidated forex losses of PHP481.18 million. Bulk of this year's Forex Losses is incurred by the coal segment since most of its loans are USD-denominated, accounting for PHP61.8 million versus last year's losses of PHP373.4 million. The unrealized forex losses recognized during the current year stood at P55.47 million, while the amount recorded last year is at P309.12 million. Meanwhile, with minimal Forex exposure, SCPC recorded losses of PHP 14.4 million as against PHP6.19 million last year on its foreign currency denominated transactions. SLPGC, on the other hand, recorded Forex Gains of PHP24.15 million in 2014.

Higher investible funds, partially offset by lower placement interest rates, resulted to 55% increase YoY on consolidated Finance Income at PHP41.45 million from PHP26.80 million last year. Coal and SCPC earned PHP15.46 milion and PHP19.17 million Finance Income, respectively. SLPGC also earned PHP6.62 million from placements of undisbursed funds.

Consolidated Finance Costs decreased 15% YoY at PHP323.23 million from PHP381.23 million. The coal segment's interest-bearing loans dropped 16% YoY at PHP5.59 billion from PHP6.63 billion last year, resulting to 11% drop YoY of coal Finance Costs at PHP119.94 million from PHP221.61 million last year. Likewise, SCPC's ending interest-bearing loans decreased 28% YoY at PHP3.82 billion from PHP5.34 billion last year after four long-term debt amortizations totaling to PHP1.54 billion in 2014. With lower borrowing rates applied to lower principal, SCPC Finance Cost dropped 10% YoY at PHP197.67 million from PHP221.32 million last year. SLPGC recorded uncapitalizable Finance charges of PHP5.57 million from PHP668 thousand last year.

Consolidated Other Income decreased 27% YoY at PHP205.49 million from PHP281.21 million last year. The coal segment's Other Income in the current period of PHP92.01 million mainly accounts for insurance recoveries. SCPC's Other Income decreased 44% YoY at PHP113.48 million from PHP203.18 million last year as lower fly ash is produced with only one plant running most of first half this year.

The resulting consolidated Net Income Before Tax (NIBT) decreased 15% YoY at PHP6.31 billion from PHP7.40 billion last year.

Both operating business units enjoy Income Tax Holidays (ITH) as Board of Investments-registered companies. Moreover, SCPC recorded Net Operating Loss Carry Over (NOLCO) for losses incurred in purchase of replacement power to service bilateral power supply contracts amounting to PHP2.125 billion million. As a result, the Company recorded consolidated Benefit from Income Tax of PHP552.87 million as against last year's deferred tax benefit of PHP117.84 million. Coal and SLPGC recorded minimal Income Taxes of PHP81.51 million and PHP1.32 million, respectively.

The resulting consolidated Net Income After Tax (NIAT) dropped by 9% YoY at PHP6.86 billion from PHP7.52 billion last year. This is before Other Comprehensive Income/(Loss) of (P7.59) million and P12.59 million, respectively. Net of eliminations, coal generated net income of PHP3.64 billion, while SCPC generated PHP3.24 billion. Pre-operating SPLGC incurred non-capitalizable project expenses, thus recording losses amounting to PHP15.44 million. Before eliminations, coal and power recorded NIAT of PHP7.77 billion and PHP2.59 billion, respectively. With higher outstanding shares after stock dividend declaration, Earnings per Share (EPS) stood at PHP6.42, 9% lower than same period last year's adjusted EPS of PHP7.05.

**B. <u>Solvency and Liquidity</u>**

Internal cash generation in 2014 amounted to PHP11.93 billion. Consolidated loan availments amounted to PHP10.36 billion, representing additional availments of SLPGC from its project financing facility amounting to PHP4.77 billion, short-term borrowings of SCPC amounting to PHP4.15 billion, and PHP1.44 billion medium-term loan of coal to fund maintenance CAPEX. The coal segment recorded proceeds from sale of equipment amounting to PHP336.75 thousand. Moreover, the movement in other non-current assets and liabilitie amounted PHP72.07 million. SLPGC's decrease in Non-Current Liabilities of PHP20.57 million accounts for the net effect between long term debt availment during the year and the amount reclassified to current liabilities equivalent to current portion of long term debt amounting to P378.65 million. SLPGC recorded PHP2.00 billion as proceeds from additional investments from the parent Company. The coal segment recorded proceeds from sale of equipment amounting to PHP336.75 thousand. Combined with beginning Cash of PHP4.82 billion, total consolidated Cash available during the period stood at PHP27.17 billion.

Of the available cash, PHP9.42 billion was used to fund major CAPEX, largely for the power expansion amounting to PHP6.84 billion; while coal and SCPC accounted for PHP1.46 billion and PHP1.11 billion, respectively.

SCPC invested PHP4.18 million to augment its Sinking Fund, while coal booked PHP1.32 billion for exploration and mine development. In addition, Coal spent PHP3.32 million for computer softwares.

The parent company invested PHP2.07 billion in its subsidiaries, mostly to SLPGC for its power expansion project. Coal and SLPGC recorded decrease in Other Non-Current Assets amounting to PHP3.56 million and PHP101.47 million, respectively, while SCPC recorded an increase in the account amounting to PHP4.51 million. The resulting net decrease in Non-Current Assets amounted to PHP100.52 million is due to mainly to reclassification of deferred Input VAT to current assets.

Meanwhile, PHP8.47 billion was spent for debt repayments, PHP5.69 billion for the amortization of long-term debt and short-term debt repayments of SCPC, while the balance of PHP2.78 billion was spent for the coal segment's loan settlements.

The Company declared and paid cash dividends during the period amounting to PHP4.28 billion to its shareholders, while SCPC declared and paid cash dividends of PHP3.50 billion to the parent company.

Net decrease in consolidated Cash during the period amounted to PHP1.14 billion. With a beginning balance of PHP4.82 billion. Consolidated Ending Cash closed at PHP3.68 billion, or a decrease of 24%.

Current ratio dropped to 1.03x from 1.48x as at the start of the year.

**C. <u>Financial Condition</u>**

Consolidated Total Assets increased by 16% YoY at PHP51.90 billion, from PHP44.73 billion as at end 2013. After eliminations, coal and SCPC's Total Assets closed at PHP11.44 billion and PHP20.80 billion, respectively. Pre-operating SLPGC, SBPG, SRPG, SCS, SEU, SCRC and SCIP recorded Total Assets of PHP19.54 billion, PHP3.14 million, PHP3.15 million, PHP101.31 million, PHP3.15 million, PHP7.77 million and PHP2.64 million, respectively.

Consolidated Current Assets closed at PHP12.77 billion, decreasing by 15% YoY from PHP14.80 billion last year. Coal, SCPC, SLPGC, SBPG, SRPG, SCS, SEU, SCRC and SCIP accounted for PHP5.72 billion, PHP4.68 billion, PHP2.16 billion, PHP 3.14 million, PHP 3.15 million, PHP2.82 million, PHP 3.15 million, PHP 7.77 million, and PHP2.64 million, respectively.

Consolidated Cash and Cash Equivalents decreased 24% YoY at PHP3.68 billion from PHP4.82 billion as at end 2013. Cash dividends of PHP4.28 billion used up most of the coal segment's cash, but higher coal sales resulted to ending balance of PHP1.89 billion. SCPC spent PHP5.01 billion mostly for replacement power and debt service totaling to PHP5.86 billion, and recorded a decreased ending cash balance of PHP390.38. SLPGC had undisbursed cash amounting to PHP1.38 billion as at the end of the period after spending PHP6.42 billion for CAPEX during the year.

Consolidated net Receivables slightly increased by 2% YoY at PHP4.13 billion from PHP4.03 billion 2013 ending balance. The coal segment's receivables of PHP1.54 billion, net of elimination, is mainly trade related. Power receivables dropped 11% to PHP2.60 billion from PHP2.94 billion as at the start of the year. These mainly account for the uncollected spot sales in Q4 2013. Due to a wide gap in power demand and supply in the last two months of 2013, spot prices surged. While the Energy Regulatory Commission issued a resolution invalidating market prices on November and December 2013, and instead imposed administrative pricing, a case is still pending before the Supreme Court on the issue.

Included in the Receivables is Due from affiliated companies amounting to PHP 67.12 million, most of which is due to the coal segment amounting to PHP66.86 million, while the remaining amount pertains to SCPC and SLPGC. These account for transfer of materials and shared services with affiliated companies.

Consolidated Net Inventories decreased 40% YoY at PHP2.79 billion from PHP4.63 billion last year. The coal segment's ending inventory dropped 61% to PHP1.42 billion from beginning balance of PHP3.60 billion due to higher coal sold as against production. This is comprised of cost of ending coal inventory of PHP505.18 million and materials spare parts, fuel, and supplies amounting to PH917.47 million. Meanwhile the SCPC's Inventory of PHP1.38 billion is mainly comprised of coal inventory and spareparts inventory for corrective, preventive and predictive maintenance program.

Consolidated Other Current Assets increased 64% YoY at PHP2.17 billion from PHP1.32 billion in 2013. The coal segment's Other Current Assets of PHP873.52 million is mainly comprised of prepaid income taxes and advances to contractors and suppliers amounting to PHP421.80 million and PHP434.18million, respectively. On the other hand, the SCPC's Other Current Assets of PHP328.00 million mainly accounted for advances to Suppliers and prepaid income taxes, PHP211.38 million and PHP92.76 million respectively. SLPGC accounted for PHP967.92 million of VAT input taxes claimable next year.

Consolidated Non-Current Assets increased 31% YoY at PHP39.13 billion from PHP29.93 billion as at end 2013. Coal, SCPC, SLPGC, and SCS accounted for PHP5.71 billion, PHP16.13 billion, PHP17.38 billion, and PHP98.49 million, respectively.

Consolidated net PPE increased 26% YoY to PHP34.45 billion from PHP27.29 billion in 2013. While coal and SCPC recorded CAPEX during the period, the increase is largely due to additional PPE recorded by SLPGC. Coal, SCPC, and SLPGC accounted for net PPE of PHP3.56 billion, PHP14.87 billion, and PHP16.02 billion, respectively.

Consolidated Investment in Sinking Fund remained at almost the same level at PHP521.78 million from PHP517.60 million beginning balance. This accounts for the sinking fund maintained by the power segment.

Consolidated Deferred Tax Assets increased 403% YoY at PHP704.07 million from PHP139.96 million in 2013. The increase is due to the recording of NOLCO for losses incurred in purchase of replacement power to service bilateral power supply contracts. Coal and SCPC accounted for PHP61.33 million and PHP642.74 million, respectively.

Exploration and Evaluation Asset increased 450% YoY at PHP1.91 billion from PHP348.15 million last year. This accounts for the exploratory drilling and pre-stripping activities in Bobog mine, which is expected to be in commercial operation by the end of 2016.

Consolidated Other Non-Current Assets increased 2% YoY to PHP1.73 billion from PHP1.64 billion last year. This is mainly comprised of deferred input VAT on capitalized assets amounting to PHP1.36 billion. Coal, SCPC, SLPGC, and SCS accounted for Other Non-Current Assets of PHP179.02 million, PHP85.39 million, PHP1.36 billion, and PHP98.49 million, respectively.

Consolidated Total Liabilities increased 19% YoY at PHP29.20 billion from PHP24.60 billion in 2013. Coal, SCPC and SLPGC accounted for PHP11.74 billion, PHP5.14 billion, and PHP12.31 billion, respectively.

Consolidated Total Current Liabilities increased 21% YoY at PHP12.14 billion from PHP9.99 billion as at end 2013. This is due to the increase in Trade and Other Payables. Coal, SCPC, and SLPGC accounted for PHP7.82 billion, PHP2.82 billion, and PHP1.50 billion, respectively.

Consolidated Trade and Other Payables increased 42% at PHP8.81 billion from PHP6.19 billion. Coal, SCPC, and SLPGC respectively accounted for PHP6.39 billion, PHP1.30 billion, and PHP1.12 billion, respectively.

Accounts and Other Payable includes Due to Affiliated Companies which dropped 16% YoY at PHP1.79 billion from PHP878.82 million last year. This accounts for supply of materials, services, construction and management contract with affiliated companies.

Short-term loans decreased by 26% at PHP1.22 billion from PHP1.65 billion beginning balance. This accounts for working capital loans of the coal segment during the year.

Consolidated Current Portion of Long-Term Debt decreased 2% YoY at PHP2.11 billion from PHP2.15 billion in 2013 with slightly lesser maturing loans in the next twelve months. Coal, SCPC, and SLPGC accounted for PHP210.18 million, PHP1.53 billion, and 378.65 million, respectively.

Consolidated Total Non-Current Liabilities increased 17% YoY at PHP17.06 billion, from PHP14.61 billion beginning balance due to additional loan availments during the period. Coal, power, and SLPGC accounted for PHP3.93 billion, PHP2.32 billion and PHP10.81 billion, respectively.

Consolidated Long-Term Debt increased 18% YoY at PHP16.09 billion from PHP13.66 billion. SLPGC availed of additional long-term debt from its project finance facility for the power expansion project. Coal had additional Capex financed during the period after servicing maturing loans, while SCPC paid down existing debts. Long-term debt - net of current portion closed at PHP3.72 billion, PHP2.30 billion, and PHP10.07 billion for coal, SCPC and SLPGC, respectively.

Consolidated Pension Liabilities increased 55% YoY at PHP49.03 million from PHP31.65 million. Coal and power accounted for PHP39.57 million and PHP9.46 million, respectively.

Provision for Decommissioning and Site Rehabilitation dropped 11% YoY to PHP175.29 million from PHP196.50 million last year primarily due to the advancement in on-going mine rehabilitation. Coal and power accounted for PHP163.73 million, PHP11.56 million, respectively.

Other Non-Current Liabilities, which accounts for retention payments on contracts under SLPGC decreased 3% YoY at PHP743.91 million from 723.35 million beginning balance.

After accounting for net income generation of PHP6.85 billion and payment of cash dividends of PHP4.28 billion, as well as 200% stock dividends which increased Capital Stock to PHP1.07 billion in 2014, consolidated Stockholders' Equity increased by 13% at PHP22.71 billion from PHP20.13 billion beginning balance.

Debt-to-Equity ratio slightly increased to 1.28:1 from 1.22:1 as at end 2013.

## IV. PERFORMANCE INDICATORS:

1. **Earnings per Share** – The 9% drop in EPS corresponded to the decrease in NIAT in 2014 as compared to the previous year. While coal segment remained strong despite weaker coal prices, SCPC's performance is mediocre this year due to the delay in commissioning of power unit 2 after its scheduled shut down in H1.
2. **Debt-to-Equity Ratio** – Operating businesses continue to pay down debts to allow additional availments for the expansion project. Hence, the Company maintains a low DE, and thus enjoy preferentail borrowing rates.

   **Business Expansion** – The first phase of power expansion is nearing its completion. The 2 x 150 MW power plants are expected to operate in 2015 and to start contributing to the Company's cashflows and earnings. The Company likewise goes back to the drawing board to plan for the next phase of expansion.

   **Expanded Market** – Moving forward, the Company expects to increase its local coal sales with the construction of more coal-fired power plants that are designed to use the specifications of Semirara coal. These include its own the expansion projects. In 2014 however, coal sales in the domestic market dropped as SCPC's power unit 2 was down almost half of the year.
   Meanwhile, the reduced energy generation mostly went to contracted sales. Minimal volume was sold to spot.
5. **Coal Reserves** – Additional coal reserves with high calorific value enabled the coal segment to deliver better quality coal. This gave additional premium to Semirara coal, and significantly contributed in maintaining the composite average coal selling price at almost last year's level despite the drop in global coal prices. Moreover, the use of this high grade coal by Unit 1 of the company's power plant at Calaca, Batangas in the last quarter resulted to increased capacity.

## V. OTHER INFORMATION:

1. There were no known trends, events or uncertainties that have material impact on liquidity.
2. The Corporation provides interim corporate suretyship in favor of the lenders of SCPC for its PHP9.6 billion 7-year loan availed on 26 May 2010. The security may however be suspended within the term of the loan when the conditions set forth in the loan contract are met. SCPC started to amortize the loan in 2011; as at end of the year outstanding balance decreased to PHP3.84 billion. Also, the corporation provides interim corporate suretyship in favor of the lenders of SLPGC for the project debt facility amounting to P11.5 billion to finance the on-going construction of 2x150MW power plant expansion at Calaca, Batangas. As of December 31, 2013, the total amount drawn from said debt facility is P10.49 billion.
3. There are no material off-balance sheet transactions, arrangements, obligations, and other relationships of the Corporation with unconsolidated entities or other persons created during the reporting period.
4. The Corporation has no major purchase commitment of mining equipment, except for the on-going construction of the 1x15 MW CFB Power Plant for its mine operation, a replacement of the

old unit with estimated cost of P1.2 billion. For the meantime, this project is financed by short-term and medium-term loans for conversion to long-term loan when deemed necessary, and the on-going construction of 2x150MW power plant expansion at Calaca, Batangas which is financed by project debt facility with 60-40 debt-to equity ratio.

5. For 2015, we expect an increase in the demand for Semirara Coal in the domestic market with the commissioning of new power plants and small boilers that can utilize 100% Semirara coal. This trend is expected to continue in the succeeding years as a result of the competitiveness of Semirara Coal over imported coal.
6. There are no significant elements of income of loss from continuing operations.
7. There were no subsequent events that came to our knowledge, which are material enough to warrant an adjustment in the consolidated financial statements.
8. The Group's operation is not cyclical or seasonal in nature. Mining activities is continuous throughout the year as coal production output from period to period can be adjusted through efficient mine planning on both short-term and long-term, mitigating negative impact of the rainy season to mine operations. The power generation business is also operational throughout the year as maintenance shutdown is just part of normal operation of the plant and programmed ahead of time.

**Full Years 2012-2013**

**I. PRODUCTION AND OPERATIONS**

**Coal**

On 13 Feb 2013, at around 11:55 PM, a section of the west wall of Panian pit where the Company was concluding its mine operation gave way, affecting 13 personnel. Three have been rescued, five were confirmed dead, and five are still missing. Management immediately voluntarily stopped all mining activities in the site even before the receipt of notice from the Department of Energy (DOE) for stop operations.

On 5 March 2013, DOE issued clearance to the Company to do preparatory activies, excluding coal extraction, for the new area, the North Panian, after it has reviewed and evaluated the work program for the site.

Subsequently, on 19 April 2013, the Company received full clearance from DOE to proceed with the coal production activity. Since then, all mining operations have returned to normal.

The incident at the mine caused a a temporary slump in coal mining operations. However, mining activities were able to catch up, such that total materials moved increased 7% YoY at 82.15 million bank cubic meters (bcm) from 77.07 million bcm last year. Strip ratio increased by 20% YoY at 9.73:1 from 8.66:1 last year. The increase is mainly due to the spike in strip ratio to 18.79:1 in Q1 after the Company stopped producing coal, but continued waste stripping. Run-of-mine (ROM) coal dropped by 5% YoY at 7.86 million metric tons (MTs) from 8.24 million MTs in 2012. A significant 45% drop YoY in washable coal at 727 thousand MTs from 1.31 million MTs last year was recorded as a result of improved coal quality. Net total product coal was almost the same at 7.62 million MTs and 7.63 million MTs in 2013 and 2012, respectively.

Total volume sold increased by 1% YoY at 7.63 million MTs from 7.18 million MTs last year. Coal shipments recorded an improvement in average heating value from 9,510 btu/lbs in 2012 to 9,676 btu/lbs. Coal ending inventory dropped by 8% YoY, closing at 1.28 million MTs from 1.38 million MTs last year as a result of higher sales volume.

The table below shows the comparative quarterly production data for 2013 and 2012.

**COMPARATIVE PRODUCTION DATA**
*(in '000, except Strip Ratio)*

| | Q1 '13 | Q2 '13 | Q3 '13 | Q4 '13 | YTD '13 | Q1 '12 | Q2'12 | Q3'12 | Q4'12 | YTD '12 | %Inc (Dec) |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Total Materials (bcm) | 16,001 | 23,575 | 18,081 | 24,492 | 82,149 | 22,303 | 19,273 | 15,666 | 19,830 | 77,072 | 7% |
| ROM Coal (MT) | 820 | 2,403 | 1,858 | 2,779 | 7,861 | 1,805 | 2,220 | 1,739 | 2,472 | 8,236 | -5% |
| Strip Ratio | 18.79:1 | 9.10:1 | 9.02:1 | 8.09:1 | 9.73:1 | 11.64:1 | 7.97:1 | 8.30:1 | 7.38:1 | 8.66:1 | -10% |
| Net TPC (MT) | 900 | 2,278 | 1,762 | 2,674 | 7,615 | 1,651 | 2,089 | 1,579 | 2,337 | 7,657 | -1% |
| | | | | | | | | | | | |
| COAL WASHING | | | | | | | | | | | |
| Washable Coal (MTs) | 83 | 254 | 195 | 195 | 727 | 344 | 334 | 358 | 278 | 1,314 | -45% |
| Washed Coal (MTs) | 50 | 153 | 117 | 117 | 436 | 206 | 200 | 215 | 167 | 788 | -45% |
| %recovery | 60% | 60% | 60% | 60% | 60% | 60% | 60% | 60% | 60% | 60% | |
| | | | | | | | | | | | |
| Beg. Inventory (MTs) | 1,383 | 460 | 1,137 | 1,311 | 1,383 | 992 | 950 | 963 | 1,276 | 992 | 39% |
| End Inventory (MTs) | 460 | 1,137 | 1,311 | 1,277 | 1,277 | 950 | 963 | 1,276 | 1,383 | 1,383 | -8% |

**Power**

Total energy generation posted a record high in 2013 at 3,638 GWh, the highest in the history of the Calaca Coal Fired Thermal Power plants, posting a 48% YoY from 2,463 GWh in 2012.

Lower maintenance outage offset high forced outage of Unit 1 , raising total operating hours at 7,292 , 83% YoY from 2,697 hours in 2012. Moreover, raised capacity of Unit 1 offset the lower dependable capacity of Unit 2, bringing average capacity to 501 MW from 446 MW last year.

**Unit One**
There is a notable improvement in 2013 as compared to previous year's performance. Average load of 229 MW is 16% above 2012's average load of 197 MW. This is primarily due to an increase in capacity ranging between 230 to 245 as a result of the use of Nalco Soot Remove 9F.

With higher operating hours at 7,292 hours, total generation is 1,667 Gwh, recording a 214% increase YoY compared to 2012's gross generation of 531 Gwh .

Capacity factor of 64% posted a significant 215% increase YoY from only 20% in 2012 as preventive maintenance of the plant drove availability down to 31% or operating hours of only 2,697.

Forced outage was high at 21% due to a leak in the condenser in Q2 and Q4 of 2013 caused by clogging in some of the tubes raising the temperature to increase beyond manageable level resulting to pin hole leaks .

To ensure that the sea water intake is free from any debris which may potentially cause another tube clogging incident, a preventive multi-layered net at sea and took on an active role in educating the neighboring communities on waste management.

**Unit Two**
The planned maintenance shutdown in December 2012 included six critical items, of which only five were executed. Replacement of Heaters 7 and 8 was deferred due to technical issue.

As a result, load was limited to 272 MW out of the rated capacity of 300 MW. This is however 9% higher than average capacity of 249 MW in 2012.

Despite the above limitation, gross generation posted a 2% increase YoY at 1,971 Gwh from 1,932 GWh in 2012.

Availability was however lower at 83% as against 88% in 2012.

The table below shows the comparative production data in 2013 and 2012.

**COMPARATIVE PLANT PERFORMANCE DATA**
*FY2013 VS FY2012*

| | Q1'13 | Q2 '13 | Q3 '13 | Q4 '13 | FY'13 | Q1 '12 | Q2'12 | Q3'12 | Q4 '12 | FY'12 | % Inc (Dec) |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Gross Generation,** *Gwh* | | | | | | | | | | | |
| **Unit 1** | 466 | 358 | 520 | 323 | 1,667 | - | - | 128 | 403 | 531 | *214%* |
| **Unit 2** | 351 | 525 | 512 | 584 | 1,971 | 473 | 478 | 508 | 473 | 1,932 | *2%* |
| **Total Plant** | **816** | **884** | **1,032** | **907** | **3,638** | **473** | **478** | **636** | **876** | **2,463** | ***48%*** |
| | | | | | | | | | | | |
| **% Availability** | | | | | | | | | | | |
| **Unit 1** | 95% | 70% | 98% | 70% | 83% | 0% | 0% | 36% | 87% | 31% | *171%* |
| **Unit 2** | 63% | 86% | 84% | 97% | 83% | 88% | 88% | 92% | 86% | 88% | *-6%* |
| **Total Plant** | **79%** | **78%** | **91%** | **84%** | **83%** | **44%** | **44%** | **64%** | **86%** | **60%** | ***39%*** |
| | | | | | | | | | | | |
| **Capacity Factor** | | | | | | | | | | | |
| **Unit 1** | 72% | 54% | 78% | 49% | 63% | 0% | 0% | 19% | 61% | 20% | *215%* |
| **Unit 2** | 54% | 79% | 77% | 89% | 75% | 72% | 72% | 77% | 72% | 73% | *2%* |
| **Total Plant** | **63%** | **67%** | **78%** | **0%** | **69%** | **36%** | **36%** | **48%** | **67%** | **47%** | ***48%*** |

## II. MARKETING

**Coal**
Higher sales to power plants and exports offset drop in sales to cement plants and other industries. Total coal sales volume increased by 6% YoY at 7.63 million MTs from 7.18 million MTs last year.

The table below shows the comparative quarterly sales volume data for 2013 and 2012.

| COMPARATIVE SALES VOLUME DATA (in '000 MTs) | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **CUSTOMER** | **Q1 '13** | **Q2 '13** | **Q3 '13** | **Q4 '13** | **YTD '13** | **%** | **Q1 '12** | **Q2 '12** | **Q3 '12** | **Q4 '12** | **YTD '12** | **%** | **%Inc (Dec)** |
| **Power Plants** | | | | | | | | | | | | | |
| Calaca | 608 | 523 | 582 | 420 | 2,132 | 28% | 205 | 285 | 545 | 456 | 1,492 | 21% | *43%* |
| Other PPs | 256 | 216 | 159 | 159 | 790 | 10% | 325 | 382 | 203 | 126 | 1,037 | 14% | *-24%* |
| **TOTAL PPs** | **864** | **739** | **740** | **578** | **2,922** | **69%** | **531** | **667** | **748** | **582** | **2,528** | **63%** | ***16%*** |
| **Other Industries** | | | | | | | | | | | | | |
| Cement | 361 | 196 | 261 | 161 | 980 | 13% | 272 | 338 | 224 | 220 | 1,053 | 15% | *-7%* |
| Others | 92 | 89 | 68 | 79 | 328 | 4% | 98 | 105 | 128 | 98 | 430 | 6% | *-24%* |
| ***Total Others*** | **454** | **285** | **329** | **240** | **1,308** | ***17%*** | **370** | **443** | **352** | **318** | **1,482** | ***21%*** | ***-12%*** |
| **TOTAL LOCAL** | **1,318** | **1,024** | **1,070** | **818** | **4,230** | 55% | **901** | **1,110** | **1,100** | **900** | **4,011** | 56% | ***5%*** |
| **EXPORT** | 461 | 556 | 497 | 1,887 | 3,401 | 45% | 771 | 946 | 146 | 1,310 | 3,173 | 44% | *7%* |
| **GRAND TOTAL** | **1,778** | **1,581** | **1,567** | **2,705** | **7,631** | **100%** | **1,672** | **2,056** | **1,245** | **2,211** | **7,184** | **100%** | ***6%*** |

Sales to SCPC increased by 43% YoY at 2.13 million MTs from 1.49 million MTs last year as a result of increased capacity and availability of both power units after rehabilitation.

On the contrary, sales to other power plants dropped by 24% YoY at 790 thousand MTs from 1.04 million MTs last year. Drop in global coal prices encouraged some customers to import cheap coal from offshore market. Moreover, a customer has an outstanding shipping contract that it must utilize to transport coal from Indonesia.

Sales to cement plants likewise dropped 7% YoY at 980 thousand MTs from 1.05 million MTs due to decrease in offtake by a few customers this year.

Despite tapping two new customers this year, sales to other industries also dropped by 24% YoY at 328 thousand MTs from 430 thousand MTs. Some old customers decreased their offtake.

Strong export sales in the last quarter drove export share to 45% of the total pie this year. Total export sales of 3.40 million MTs is 7% higher than last year's 3.17 million MTs. Mining operations are concentrated in the area where coal quality is better, commanding higher export prices.

The 10% YoY decrease in composite average FOB price per MT at PHP2,185 from PHP2,454 last year reflected the drop in global coal prices.

**POWER**

Sales volume increased by 46% YoY at 3,460GWh from 2,365GWh in 2012. This is attributed to the higher energy generation of the newly rehabilitated power plants.

Of the total energy sold, 96% or 3,313 GWh were sold to bilateral contracts, while the remaining 4% were sold in the spot market.

Sales to bilateral contracts increased by 65% YoY at 3,313 GWh from 2,007 GWh in 2012. The improvement is due to increase of contract quantities for MERALCO from the initial 210 MW to 420 MW starting 31 January 2013, and the additional 30 MW non-firm contract capacity for TRANS-ASIA. The non-firm additional contract capacity arrangement with Trans-Asia which is effective starting 16 February 2013, enables SCPC to sell its excess capacity at any given time.

MERALCO maintained to be the biggest customer of SCPC comprising 87% share of the total energy sales for SCPC's bilateral contracts, followed by Trans-Asia and Batelec I at 7% and 5% shares, respectively.

Spot market sales volume is lower at 148GWh in 2013 against 358 GWh in 2012. However Spot Sales Revenue in pesos is higher by 30% in 2013 vs 2012 due to the increase in the spot market prices in Q4.

Of the total energy sold, 99% was sourced from own generation and only 1% was purchased from the spot market. SCPC procured power from the spot market during hour intervals where power units were down, or were running at a derated capacity, in order to supply committed capacity to some of its customers. Contracts with some of its customer still cover the supply of replacement power under a "pass-thru" cost arrangement.

SCPC bilateral contracts yielded lower prices at an average price of PHP3.79 per KWh in 2013 compared to the PHP3.97 per KWh in 2012. This is due to lower prices of pass-thru coal fuel being indexed to the lower Newcastle prices in 2013.

On the other hand, average spot sales increased by 215% YoY at PHP14.98 per KWh from PHP4.75 per KWh in 2012. High spot prices in November and December pulled up price per KWh.

The table below shows the comparative sales volume data in 2013 and 2012.

| COMPARATIVE SALES VOLUME DATA (in GWh) | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **CUSTOMER** | **Q1 '13** | **Q2 '13** | **Q3 '13** | **Q4 '13** | **FY'13** | **Q1 '12** | **Q2'12** | **Q3'12** | **Q4'12** | **FY'12** | **% Inc (Dec)** |
| Bilateral Contracts | 751 | 838 | 966 | 757 | 3,313 | 489 | 427 | 518 | 573 | 2,007 | 65% |
| Spot Sales | 20 | 10 | 17 | 100 | 148 | 1 | 1 | 79 | 278 | 358 | -59% |
| **GRAND TOTAL** | **771** | **849** | **983** | **858** | **3,460** | **489** | **428** | **597** | **851** | **2,365** | **46%** |
| **Composite Ave Price** | **3.89** | **3.91** | **3.66** | **5.65** | **4.26** | **4.14** | **4.41** | **3.73** | **4.15** | **4.09** | **4%** |

## III. FINANCE

**A. Sales and Profitability**

Consolidated Revenues, net of eliminating entries, grew by 13% YoY at PHP27.33 billion as against PHP24.15 billion in 2012. Coal Revenues, before elimination, dropped by 5% YoY at PHP16.68 billion from PHP17.63 billion in 2012 due to lower coal prices this year. On the other hand, energy Revenues increased by 52% YoY at PHP14.76 billion from PHP9.7 billion last year as a result of the 46% increase in energy sales volume and 4% increase in average price per KWh.

Consolidated Cost of Sales decreased by 4% YoY at PHP14.11 billion from PHP14.64 billion last year.

Coal Cost of Sales before elimination declined by 5% YoY at PHP11.73 billion from PHP12.33 billion last year. Strip ratio normalized as at the end of the period from a historical high in Q1 as a result of the accident at the pit that temporarily halted coal extraction. Moreover, the Company implemented some cost-saving measures to counter the drop in coal prices, mining strategy only required shorter hauling distance in North Panian while in-pit dumping allows the mine to decrease number of equipment while maintaining the same excavating capacity, thus 29 units of mining were put on stand-by. Net of elimination, Cost of Coal Sold also dropped by 12% YoY at PHP8.66 billion from PHP9.83 billion last year. Cost of Coal Sold per MT decreased by 10% YoY at PHP1,537 versus PHP1,716 last year.

Power Cost of Sales before elimination increased by 17% YoY at PHP6.51 billion from PHP5.55 billion; and 18% after elimination at PHP4.42 billion from PHP3.75 billion last year. Increase in volume sold accounted for the increase in total cost. Notably, Cost of Sales per KWh decreased by 25% at PHP1.88 from PHP2.35 last year due to minimal spot purchases for replacement power and lower coal fuel average cost this year.

The resulting consolidated Gross Profit in 2013 increased by 39% YoY at PHP13.22 billion with the coal and power segments each contributing PHP3.91 billion and PHP9.31 billion, respectively. Consolidated Gross Profit in 2012 stood at PHP9.51 billion, PHP4.63 billion from coal and PHP4.88 billion from power. Consolidated Gross profit margin improved at 48% from 39% last year.

Consolidated Operating Expenses increased by 55% YoY at PHP5.26 billion from P3.40 billion in 2012. Net of eliminating entries, the coal segment’s Operating Expenses decreased by 17% YoY at PHP1.7 billion from last year’s PHP2.0 billion. Lower coal Revenues decreased Government Share by 16% at PHP1.30 billion from PHP1.56 billion last year. Meanwhile, the power segment's Operating Expenses after elimination increased by 155% YoY at PHP3.5 billion from PHP1.4 billion last year due to acceleration of depreciation on certain equipment/components of Unit 2 whose repair are in-progress during the 90-day scheduled maintenance shutdown of Unit 2 which commenced last week of December 2013. These are to be replaced with new ones. Hence, the the carrying value of the affected equipment/components amounting to Php1.2 billion as of December 31, 2013 was fully provided with depreciation to reflect its true value in the books.

The pre-operating Southwest Luzon Power Generation Corp. (SLPGC), a wholly-owned subsidiary of the Company incorporated to expand its power capacity with the construction of 2 x 150 MW power plants, incurred PHP39.33 million pre-operating expenses, representing salaries and other administrative expenses incurred during the period. Other subsidiaries, Semirara Energy Utilities, Inc. (SEU), Semirara Claystone, Inc. (SCI) and Sem-Cal Industrial Park Developers, Inc (SCIPDI) also incurred Pre-operating Expenses of PHP100.5 thousand, PHP69.17 thousand PHP30.80 thousand for the period, respectively. Two new companies were incorporated during the period as vehicles for additional power expansion projects, they are San Rafael Power Generation Corp. (SRPGC) and Sem-Balayan Power Generation Corp. (SBPGC). Both companies incurred pre-operating expenses of PHP114.89 thousand and PHP194.62 thousand, respectively.

Consolidated Income from Operations increased by 30% YoY at PHP7.96 billion from PHP6.11 billion in 2012. The coal and power segments contributed PHP2.19 billion and PHP5.80, respectively this year, as against PHP3.30 billion and PHP2.27 billion in 2012. The other pre-operating companies, SLPGC, SEU, SCI, SCIPDI, SRPGC, SBPGC incurred losses of PHP39.33 million, PHP100.50 thousand, PHP69.17 thousand, PHP30.80 thousand, PHP114.89 thousand and PHP194.62 thousand, respectively.

As the USD strengthened against the PHP this year, the Company registered consolidated Forex Losses of PHP481.18 million as against Gains of PHP391.00 million last year. Since most of its loans are USD-denominated, bulk of the current period's Forex Losses is incurred by the coal segment which recorded PHP463.94 million losses versus last year's gains of PHP387.83 million. Of this amount, PHP305.93 million are unrealized losses. Meanwhile, with minimal Forex exposure, the power segment incurred Forex Losses of PHP15.49 million as against Gains of PHP3.17 million last year. SLPGC also recorded loss of PHP1.75 million on its foreign exchange transactions

Lower placement interest rates and lower free cash resulted to the decrease in consolidated Finance Income by 67% YoY at PHP26.80 million from PHP82.14 million last year. The coal segment’s investible funds reduced after using most of its cash for equity of SLPGC and to pay off debts toward the end of 2012, thus its Finance Income decreased by 67% at PHP26.80 million from PHP82.14 million last year. The power segment’s Finance Income likewise decreased by 41% at PHP24.58 million from PHP41.53 million last year after using its cash to pay dividends of PHP2.5 billion during the the period. SLPGC recorded Finance Income of PHP217.06 thousand from short-term placements.

Consolidated Finance Costs decreased by 24% YoY at PHP381.23 million from PHP501.28 million. The coal segment’s interest-bearing loans increased by 31% YoY, closing at PHP6.45 billion from PHP4.91 billion, increasing coal Finance Costs by 24% YoY at PHP152.63 million from PHP122.61 million. Meanwhile, the power segment's long-term loan balance dropped by 23% YoY to PHP5.34 billion from PHP6.91 billion last yearthus bringing down power Finance Cost by 41% YoY at PHP221.61 million from PHP376.37 million last year. SLPGC incurred Finance Cost of PHP6.99 million for its project financing.

Consolidated Other Income dropped by 12% YoY at PHP281.21 million from PHP318.45 million. Bulk of last year's Other Income came from gain on sale of retired assets of the coal segment. Notably, the power segment's Other Income increased by 55% YoY at PHP203.18 million from PHP131.26 million last year. Power Unit 2 used more unwashed coal this year, producing more fly ash which is sold to a cement company at a higher price after renegotiating the supply contract on February 2012.

The resulting consolidated Net Income Before Tax (NIBT) increased by 16% YoY at PHP7.40 billion from PHP6.40 billion. SCPC accounted for 78% of the 2013's NIBT, at PHP5.79 billion after elimination. Meanwhile, net of eliminating entries, the coal segment generated NIBT of PHP1.66 billion, while the pre-operating SLPGC, SCI, and SEU, SCIPDI, SBGPC, and SRPGC incurred losses of PHP47.86 million, PHP64.45 thousand, PHP94.73 thousand, PHP32.26 thousand, PHP191.97 thousand, and PHP112.24 thousand, respectively. Before eliminations, power and coal recorded NIBT of PHP4.73 billion and PHP5.19 billion, respectively.

Both operating business units enjoy Income Tax Holidays (ITH) as Board of Investments-registered companies. As a result, the Company accounted for consolidated benefit from deferred income taxes of PHP117.84 million, net of final income taxes and income taxes for unregistered activities of PHP5.01 million and PHP11.69 million respectively. Last year's provision totaled to PHP39.60 million.

Consolidated Net Income After Tax (NIAT) increased by 18% YoY at PHP7.53 billion from PHP6.34 billion last year. Before eliminations, coal and power recorded NIAT of PHP5.34 billion, including PHP2.5 billion dividend income from power segment, and PHP4.71billion, respectively. Meanwhile, after eliminations, the coal and power segments generated NIAT of PHP 1.80 billion, and PHP5.78 billion, respectively. SCI and SCIPDI also recorded a minimal income of PHP45.90 thousand and PHP19.65 thousand, respectively. On the other hand, SLPGC, ,SEU, SBPGC, and SRPGC incurred start-up costs of PHP47.90 million, PHP63.64 thousand, PHP192.5 thousand, and PHP112.77 thousand, respectively. Earnings per Share (EPS) correspondingly increased by 18% YoY at PHP21.11 from PHP17.85 last year.

**B. Solvency and Liquidity**

Consolidated net cash provided by operating activities in 2013 amounted to PHP12.65 billion. Consolidated loan availments amounted to PHP15.52 billion, inclusive of SLPGC's second and third loan drawdowns totalling to PHP6.99 billion. Meanwhile, sale of assets during the year generated PHP135.07 thousand. Net increase in other noncurrent liabilities generated PHP665.41 million, while Acquisition of a subsidiary – net of cash acquired recorded positive cashflow of PHP1.25 billion. With beginning Cash of PHP534.39 million, total consolidated Cash available the period stood at PHP28.84 billion.

Of the available cash, PHP2.45 billion was used to fund major CAPEX, PHP1.59 billion for coal segment, and PHP858 million for the power segment.

Meanwhile, loan repayments amounted to PHP10.75 billion, PHP6.38 billion and PHP 4.37 billion for coal and power, respectively.

The Company declared and paid cash dividends amounting to PHP4.28 billion in 2013.

Additions to Property, Plant and Equipment amounted to PHP8.90 billion, which is mainly composed of the construction-in progress of the 2 x 150MW CFB power plant in Calaca, Batangas and 1 x 15MW power plant for the mine operation at Semirara Island and other mining equipment and some capitalized repairs of the existing 2x300MW Calaca Power Plant during the year. Other investing activities during the period also utilized cash, namely, other CAPEX amounting to PHP4.94 million, additions to sinking fund of PHP10.81 million, and additions to exploration and evaluation assets amounting to PHP298.73 million.

After recording positive Effect of Exchange Rate Changes on Cash and Cash Equivalents of PHP9.64 million, Consolidated net cash generated during the period amounted to PHP4.28 billion. With a beginning balance of PHP534.39 million, consolidated Ending Cash closed at PHP4.82 billion, increasing by 802% YoY. The significant increase is attributed to strong cash generation of operations and the availment of scheduled loan drawdown of SLPGC which is not yet fully spent.

As a result of strong cash generation, current ratio improved at 1.48x from 0.96x in 2012.

**C. Financial Condition**

Consolidated Total Assets stood at PHP44.73 billion, increasing by 24% from beginning balance of PHP36.20 billion. After eliminations, the coal and power segments' Total Assets closed at PHP11.36 billion and PHP21.51 billion, respectively. SLPGC, SCI, SEU, SCIPDI, SBGP, SRPGC recorded Total Assets of PHP11.80 billion, PHP40.61 million, PHP3.16 million, PHP2.62 million, PHP3.13 million, and PHP3.13 million, respectively.

Consolidated Current Assets closed at PHP14.80 billion, 26% higher than beginning balance of PHP11.71 billion. Coal, power, SLPGC, SCI, SEU, SCIPDI, SBPGC, and SRPGC accounted for PHP7.29 billion, PHP6.12 billion, PHP1.37 billion, PHP2.65 million, PHP 3.13 million, PHP2.62 million, PHP 3.13 million, and PHP 3.13 million, respectively.

Consolidated Cash and Cash Equivalents increased by 802% YoY at PHP4.82 billion from PHP534.39 million. The increase in Cash is mainly attributed to loan drawdown by SLPGC and cash generation from operations of the power segment.

Consolidated net Receivables also increased by 13% YoY at PHP4.03 billion from PHP3.58 billion, primarily due to high Trade Receivables of power as a result of uncollected spot revenues in November and December bringing total Trade Receivables of power to PHP3.32 billion. On the other hand Power also booked Allowance for Doubtful Accounts amounting to PHP467.43, bulk of which is the provision set up related to Spot Revenue for Nov and Dec 2013 billing affected by the TRO issued by the Supreme Court. Further, on March 11, 2014, Energy Regulatory Commission's (ERC) Order dated March 3, 2014 in ERC Case No. 2014-021 MC entitled "In the Matter of the Prices in the Wholesale Electricity Spot Market (WESM) for the Supply Months of November and December 2013, was released. Said ERC order affects SEM-Calaca Power Corporation's financial statement as well as the Corporation's Consolidated Financial Statements. However, only additional disclosure was made in the notes to financial statements considering that the Corporation is currently not able to reasonably determine with certainty the effects of the ERC order on its financial statement.

Total Receivables of power stood at PHP2.91 billion. The coal segment's Receivables of PHP1.12 billion are mainly trade related.

Consolidated Net Inventories decreased by 18% YoY at PHP4.63 billion from PHP5.66 billion in 2012. The coal segment's ending Inventory of PHP3.60 billion is mainly comprised of cost of ending coal inventory and materials, fuel and other supplies, while the power segment's Inventory of PHP1.02 billion is mainly comprised of spareparts inventory for its corrective, preventive and predictive maintenance program.

Consolidated Other Current Assets decreased by 32% YoY at PHP1.32 billion from PHP1.94 billion. The coal and power segments' Other Current Assets of PHP853.74 million and PHP436.07 million, respectively, are mainly comprised of creditable withholding taxes and advances to suppliers. SLPGC recorded Other Current Assets of PHP29.89 million mainly for Prepaid Tax.

Consolidated Non-Current Assets increased by 22% YoY at PHP29.93 billion from PHP24.48 billion. Coal, power, SLPGC, SCI and SEU accounted for PHP4.07 billion, PHP15.39 billion, PHP10.43 billion, PHP37.97 billion and PHP30.15 thousand, respectively.

Consolidated net PPE increased by 20% YoY at PHP27.29 billion from PHP22.72 billion as at end of 2012. The increase is due to new acquisitions, particularly of SLPGC , partially offset by depreciation. The equipment involved in the incident at Panian west wall were all fully depreciated. Coal, power, and SLPGC accounted for net PPE of PHP3.39 billion, PHP14.72 billion, and PHP9.18 billion, respectively.

Sinking Fund of the power segment increased by 2% YoY at PHP517.60 million from PHP508.04 million. This represents interest income earned for the equivalent of one quarter repayment posted in the debt service reserve account which is restricted in nature and placed overnight as provided for in the loan agreement covering the long-term loan of the power segment.

Exploration and Evaluation Asset of PHP348.15 is newly set-up by the coal segment accounting for pre-stripping and mine development for Bobog mine.

Consolidated Deferred Tax Assets increased 1,202% at PHP139.96 million from PHP10.75 million. This is mainly accounted by the coal segment amounting to PHP135.18 million. Power recorded PHP4.74 million covering additional provision related to pension expense, while SCI had PHP2.37 thousand NOLCO. SEU also recorded Deferred Tax Assets of PHP30.15 thousand.

Consolidated Other Non-Current Assets increased by 32% YoY at PHP1.64 billion from PHP1.24 billion as at end of in 2012. This is mainly comprised of input VAT withheld on acquisition of capital goods and services of PHP974.90 million, input VAT withheld of Php164.53 million net of impairment allowance, advances for long-term construction contracts and prepaid rent of Php448.66 million, capitalized research and development costs of Php37.96 million and other miscellaneous non-current assets amounting to Php13.70 million. Coal, power, and SLPGC accounted for Other Non-Current Assets of PHP191.53 million, PHP147.89 million, and PHP1.26 billion, respectively.

Consolidated Total Liabilities increased by 27% YoY at PHP24.60 billion from PHP19.32 billion. Coal, power, SLPGC, SCI, SEU, SCIPDI, SBPGC, and SRPGC accounted for PHP10.95 billion, PHP7.12 billion, PHP6.63 billion, PHP44.00 thousand, PHP37.57 thousand, PHP64.76 thousand, PHP27.50 thousand, and PHP27.50 thousand, respectively.

Consolidated Total Current Liabilities decreased by 18% YoY at PHP9.99 billion from PHP12.17. Coal, power, SLPGC, SCI, SEU, SCIPDI, SBPGC and SRPGC accounted for PHP6.58 billion, PHP3.18 billion, PHP234.87 million, PHP44 thousand, PHP37.57 thousand, PHP64.76 thousand, PHP27.50 thousand and PHP27.50 thousand, respectively.

Consolidated Trade and Other Payables dropped by 9% YoY at PHP6.18 billion from PHP6.81 billion beginning balance. The decrease is mainly attributed to settlements of trade payables. Coal, power, SLPGC, SCI, SEU, SCIPDI, SBPGC and SRPGC accounted for PHP4.29 billion, PHP1.66 billion, PHP234.87 million, PHP44 million, PHP37.57 million, PHP64.76 million, PHP27.5 million and PHP27.5 million, respectively.

Short-term loans increased by 842% YoY at PHP1.66 billion from PHP175.65 million beginning balance due to availment by the coal segment of short-term working capital loans during the period.

Consolidated Current Portion of Long-Term Debt dropped by 58% YoY at PHP2.15 billion from PHP5.18 billion due to debt service of maturing loan amortization and refinancing of coal segment's USD loans to take advantage of low interest rates. Coal and power segments accounted for PHP631.52 million and PHP1.52 billion, respectively.

Consolidated Total Non-Current Liabilities increased by 104% YoY at PHP14.61 billion from PHP7.15 billion due to increase in long-term debt net of current portion. Coal, power, and SLPGC accounted for PHP4.16 billion, PHP3.82 billion and PHP5.68 billion, respectively.

Consolidated Long-Term Debt increased by 95% YoY at PHP13.68 billion from PHP7.00 billion. This is primarily due to the drawdown of SLPGC from its project financing facility amounting to PHP6.99 billion, and loan availments of medium-term loans by the coal segment to fund for additional mining equipment, as well as refinancing of maturing loans. Coal, power, and SLPGC accounted for PHP4.16billion, PHP3.82 billion and PHP5.68 billion, respectively.

Provision for Decommissioning and Site Rehabilitation increased by 215% YoY at PHP196.50 million from PHP62.45 million. This accounted for coal and power provisions of PHP185.89 million and PHP10.62 million, respectively. The increase is mainly due to the coal segment's increase in mine rehabilitation contingency.

Pension Liabilities decreased by 13% YoY at PHP31.65 million from PHP36.55 million. Coal and power recorded Pension Liabilities of PHP22.10 million and PHP9.55 million, respectively. Other non-current liabilities increased by 1148% YoY at PHP723.35 million from PHP57.94 million. The amount accounted for the payable of SLPGC retention payable on long-term contract payments to contractor for the building of the power plants.

After accounting for income generation of PHP7.53 billion and payment of cash dividends of PHP4.28 billion during the period, consolidated Stockholders' Equity increased by 19% YoY at PHP20.13 billion from PHP16.87 billion in 2012.

Additional loan availments increased Debt-to-Equity ratio by 7% YoY at 1.22:1 from 1.15:1 last year.

**VI. PERFORMANCE INDICATORS:**

1. **Earnings per Share** – The continued growth in the Company's profitability is reflected in its increasing EPS. While coal showed strong performance in 2013, power was outstanding, with the reliable operations of both power plants after they have been rehabilitated. Moreover, high spot prices in November and December augmented the power segment's profitability.
2. **Debt-to-Equity Ratio** – Low DE ratio gives the Company more room to take on more debts to finance its expansion activities. Given the favorable borrowing climate, debt remains to be the cheapest funding source.
3. **Business Expansion** – The Company enjoys the unique advantage of operating coal-fired power plants using its own coal for fuel. It's integrated business provides more opportunities for synergistic growth, especially with the current investment climate where funding is cheap and power supply is tight.
4. **Expanded Market** – Higher capacity and availability of the rehabilitated power units increased requirement for Semirara coal. Moreover, new coal-fired power plants designed to use the grade of Semirara coal, including the expansion projects of the Company, are expected to come online.
   Meanwhile, the power supply contract with Meralco creates a reliable and stable market for the power segment being a base load plant. Moreover, the open access regime for electricity began commercial operation in June. This will provide the power segment alternative distribution outlets, such as the Retail Electricity Suppliers (RES) or large power consumers.
5. **Improved coal quality** – Quality enhancing measures are continuously implemented in the mining operations to improve customer satisfaction and maximize returns. On the other hand, low grade and washable coal are strategically used to feed power Unit 2.

**VII. OTHER INFORMATION:**

9. There were no known trends, events or uncertainties that have material impact on liquidity.
10. The Corporation provides interim corporate suretyship in favor of the lenders of SCPC for its PHP9.6 billion 7-year loan availed on 26 May 2010. The security may however be suspended within the term of the loan when the conditions set forth in the loan contract are met. SCPC started to amortize the loan in 2011; as at end of the year outstanding balance decreased to PHP5.38 billion. Also, the corporation provides interim corporate suretyship in favor of the lenders of SLPGC for the project debt facility amounting to P11.5 billion to finance the on-going construction of 2x150MW power plant expansion at Calaca, Batangas. As of December 31, 2013, the total amount drawn from said debt facility is P5.7 billion.
11. There are no material off-balance sheet transactions, arrangements, obligations, and other relationships of the Corporation with unconsolidated entities or other persons created during the reporting period.
12. The Corporation has no major purchase commitment of mining equipment, except for the on-going construction of the 1x15 MW CFB Power Plant for its mine operation, a replacement of the old unit with estimated cost of P1.2 billion. For the meantime, this project is financed by short-term and medium-term loans for conversion to long-term loan when deemed necessary, and the on-going construction of 2x150MW power plant expansion at Calaca, Batangas which is financed by project debt facility with 60-40 debt-to equity ratio.
13. For 2013, we expect an increase in the demand for Semirara Coal in the domestic market with the commissioning of new power plants and small boilers that can utilize 100% Semirara coal. This trend is expected to continue in the succeeding years as a result of the competitiveness of Semirara Coal over imported coal.
14. There are no significant elements of income of loss from continuing operations.
15. There were no subsequent events that came to our knowledge, which are material enough to warrant an adjustment in the consolidated financial statements, except for the effect of Energy Regulatory Commission's (ERC) Order dated March 3, 2014 in ERC Case No. 2014-021 MC entitled "In the Matter of the Prices in the Wholesale Electricity Spot Market (WESM) for the Supply Months of November and December 2013, which was released on March 11, 2014. Said ERC order affects SEM-Calaca Power Corporation's financial statement as well as the Corporation's Consolidated Financial Statements. However, only additional disclosure was made in the notes to financial statements considering that the Corporation is currently not able to reasonably determine with certainty the effects of the ERC order on its financial statement.
16. The Group's operation is not cyclical or seasonal in nature. Mining activities is continuous throughout the year as coal production output from period to period can be adjusted through efficient mine planning on both short-term and long-term, mitigating negative impact of the rainy season to mine operations. The power generation business is also operational throughout the year as maintenance shutdown is just part of normal operation of the plant and programmed ahead of time.

**Full Years 2011-2012**

**I. PRODUCTION AND OPERATIONS**

**COAL**

Total materials moved in 2012 decreased by 9% at 77,072,255 from 85,060,883 bank cubic meters (bcm) last year due to longer hauling cycle and lower operating days. During the year, mining operations were concentrated at the lowest level of the pit, thus resulting to longer hauling cycle. Meanwhile, total rainfall this year of 2,771 mm is 2% lower than last year.

The advance stripping activities in the previous periods benefit the current period's mining operations as activities in 2012 were more focused on coal production rather than overburden stripping. As a result, strip ratio dropped by 15% at 8.66:1 from 10.13:1 last year. This explains the 5% increase in run-of-mine (ROM) coal production at 8,235,875 metric tons (MTs) from 7,840,467 MTs last year, despite the decrease in material movement. Coal recovery improved with the sale of unwashed coal to subsidiary Sem-Calaca Power Generation Corporation (power segment) for the use of its Unit 2. Hence, net total product coal increased by 8% at 7,656,849 MTs from 7,118,460 MTs last year.

Ending inventory increased by 39% at 1,382,607 MTs from beginning inventory of 991,887 MTs also as a result of higher coal recovery.

The table below shows the quarterly comparative production data for 2012 and 2011.

| COMPARATIVE PRODUCTION DATA (in '000, except Strip Ratio) | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Q1 '12 | Q2 '12 | Q3 '12 | Q4'12 | YTD '12 | Q1 '11 | Q2'11 | Q3'11 | Q4'11 | YTD '11 | %Inc (Dec) |
| Total Materials (bcm) | 22,303 | 19,273 | 15,666 | 19,830 | 77,072 | 26,850 | 22,294 | 16,120 | 19,797 | 85,061 | -9% |
| ROM Coal (MT) | 1,805 | 2,220 | 1,739 | 2,472 | 8,236 | 1,822 | 2,296 | 1,837 | 1,887 | 7,840 | 5% |
| Strip Ratio | 11.64:1 | 7.97:1 | 8.30:1 | 7.38:1 | 8.66:1 | 14.03:1 | 9.00:1 | 8.06:1 | 9.78:1 | 10.13:1 | -15% |
| Net TPC (MT) | 1,651 | 2,089 | 1,579 | 2,337 | 7,657 | 1,642 | 2,149 | 1,646 | 1,682 | 7,118 | 8% |
| | | | | | | | | | | | |
| COAL WASHING | | | | | | | | | | | |
| Washable Coal (MTs) | 344 | 334 | 358 | 278 | 1,314 | 408 | 313 | 434 | 470 | 1,625 | -19% |
| Washed Coal (MTs) | 206 | 200 | 215 | 167 | 788 | 245 | 188 | 261 | 282 | 975 | -19% |
| %recovery | 60% | 60% | 60% | 60% | 60% | 60% | 60% | 60% | | 60% | |
| | | | | | | | | | | | |
| Beg. Inventory (MTs) | 992 | 950 | 963 | 1,276 | 992 | 491 | 469 | 74 | 237 | 491 | 102% |
| End Inventory (MTs) | 950 | 963 | 1,276 | 1,383 | 1,383 | 469 | 74 | 237 | 992 | 992 | 39% |

**POWER**

**UNIT 1**

When Calaca Power Plant assets were acquired in December 2009, Unit 1 can only generate 160 MW or 53% of its rated capacity using pure Semirara Coal. The rehabilitation of the unit was centered on improving the loading capacity to at least 220 MW or 73% of its rated capacity.

The rehabilitation of the plant started in August 2011 and end in July 2012. It took more than a year of planning to cover all major repair works. The rehab project suffered delays in the commissioning stage to ensure the safe and reliable operation of the plant. The original equipment manufacturers (OEMs), Foster Wheeler for the boiler and Toshiba for the Turbine/Generator, supervised the repair to commissioning of the Unit. Although delayed, the unit can now load 235 MW or 77% of its rated capacity, an improvement of 24% or 75 MW on pure Semirara Coal.

Generation capacity is low at 20% in the five months of running against 27% last year but the average load is significantly higher at 197 MW against 155 MW. In general, the unit is now better in terms of generation capacity and efficiency.

Unit availability was only 2,697 hours or 31% compared to 54% last year since Unit 1 was down for about 7 months during the current period due to the rehabilitation works. Total energy generated was 531 Gwh or 27% down compared to last year.

**UNIT 2**

Unit 2 is on its second year of operation after its rehabilitation in the last quarter of 2010.

The unit performed better this year in all aspects of operation compared to last year. Gross generation has increased by 71% or 1,932 Gwh. Unit availability improved from 60% to 88% and force outage was limited to only 12% from 36% last year. Running hours in 2012 is remarkably higher at 7,761 hours than 2011 48% increase.

Loading capacity is limited to 260 MW due to some leaks on two of its high pressure heaters 7 & 8. The average load capacity during the current period is at 249 MW or 20% more than last year.

The table below shows the quarterly comparative plant performance for 2012 and 2011.

| COMPARATIVE PLANT PERFORMANCE DATA YTD'12 vs YTD'11 | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Q1 '12 | Q2 '12 | Q3 '12 | Q4 '12 | YTD '12 | Q1 '11 | Q2'11 | Q3'11 | Q4'11 | YTD '11 | %Inc (Dec) |
| Gross Generation, *Gwh* | | | | | | | | | | | |
| Unit 1 | - | - | 128 | 403 | 531 | 243 | 245 | 239 | - | 727 | -27% |
| Unit 2 | 473 | 478 | 508 | 473 | 1,932 | 189 | 395 | 181 | 367 | 1,132 | 71% |
| Total Plant | 473 | 478 | 636 | 876 | 2,463 | 432 | 641 | 420 | 367 | 1,860 | 32% |
| | | | | | - | | | | | - | |
| % Availability | | | | | | | | | | | |
| Unit 1 | 0% | 0% | 36% | 87% | 31% | 70% | 74% | 70% | 0% | 54% | -43% |
| Unit 2 | 88% | 88% | 92% | 86% | 88% | 49% | 83% | 37% | 71% | 60% | 48% |
| Total Plant | 44% | 44% | 64% | 86% | 60% | 59% | 78% | 54% | 35% | 57% | 5% |
| | | | | | | | | | | | |
| Capacity Factor | | | | | | | | | | | |
| Unit 1 | 0% | 0% | 19% | 61% | 20% | 0% | 0% | 36% | 0% | 28% | -27% |
| Unit 2 | 72% | 72% | 77% | 72% | 73% | 29% | 60% | 27% | 56% | 43% | 70% |
| Total Plant | 18% | 18% | 24% | 33% | 47% | 17% | 24% | 16% | 14% | 35% | 32% |

## II. MARKET

**COAL**

Total coal sold in 2012 increased by 10% at 7.18 million MTs compared to 6.52 million MTs in 2011. Q1 2012 sales of 1.67 million MTs was 2% higher than 1.64 million MTs sold in Q1 2011, however, Q2 2012 sales volume of 2.06 million MTs was 18% lower as against 2.52 million MTs in Q2 2011, while Q3 sales continued to drop by 15% at 1.25 million MTs this year from 1.46 million MTs in 2011. Q4 sales recovered with an increase of 145% at 2.21 million MTs from 902 thousand MTs last year.

The table below shows the quarterly comparative coal sales volume data for 2012 and 2011.

| COMPARATIVE SALES VOLUME DATA (in '000 MTs) | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| CUSTOMER | Q1 '12 | Q2 '12 | Q3 '12 | Q4 '12 | YTD '12 | % | Q1 '11 | Q2 '11 | Q3 '11 | Q4 '11 | YTD '11 | % | %Inc (Dec) |
| **Power Plants** | | | | | | | | | | | | | |
| Calaca | 205 | 285 | 545 | 456 | 1,492 | 21% | 412 | 320 | 420 | 256 | 1,408 | 22% | *6%* |
| Other PPs | 325 | 382 | 203 | 126 | 1,037 | 14% | 384 | 325 | 569 | 270 | 1,547 | 24% | *-33%* |
| **TOTAL PPs** | **531** | **667** | **748** | **582** | **2,528** | **63%** | **795** | **645** | **989** | **525** | **2,955** | **72%** | ***-14%*** |
| **Other Industries** | | | | | | | | | | | | | |
| Cement | 272 | 338 | 224 | 220 | 1,053 | 15% | 187 | 145 | 146 | 182 | 660 | 10% | *59%* |
| Others | 98 | 105 | 128 | 98 | 430 | 6% | 197 | 60 | 107 | 111 | 475 | 7% | *-9%* |
| ***Total Others*** | **370** | **443** | **352** | **318** | **1,482** | ***21%*** | **384** | **205** | **254** | **292** | **1,135** | ***17%*** | ***31%*** |
| **TOTAL LOCAL** | **901** | **1,110** | **1,100** | **900** | **4,011** | 56% | **1,180** | **850** | **1,242** | **818** | **4,090** | 63% | ***-2%*** |
| **EXPORT** | 771 | 946 | 146 | 1,310 | 3,173 | 44% | 462 | 1,665 | 218 | 85 | 2,430 | 37% | *31%* |
| **GRAND TOTAL** | **1,672** | **2,056** | **1,245** | **2,211** | **7,184** | **100%** | **1,641** | **2,516** | **1,460** | **902** | **6,519** | **100%** | ***10%*** |

Sale to power plants decreased by 14% this year at 2.53 million MTs from 2.96 million MTs last year. Although Q1 and Q2 off-take of the power segment were lower this year as compared to last year as rehabilitation of Unit 1 was completed only in Q3, coal off-take increased in the second half. As a result, the power segment's total coal purchases increased by 6% at 1.49 million MTs this year from 1.41 million MTs last year. Meanwhile deliveries to other power plants dropped in the second half, resulting to a 33% drop YoY at 1.04 million MTs this year from 1.55 million MTs in 2011.

On the other hand, with three new customers this year, sales to cement plants increased by 59% at 1.05 million MTs from 660 thousand MTs last year.

The 9% drop in sales to other local customers was mainly caused by weaker purchases by some small traders in Q1 and Q4 this year. Deliveries to other industrial plants totaled to 430 thousand MTs from 475 thousand MTs in 2011.

The increase in sales to cement plants helped offset the decrease in deliveries to power plants and other industrial customers, thus softening the drop in total local sales at 2% to 4.01 million MTs this year from 4.09 million MTs in 2011.

On the other hand, export sales rebounded in Q4, bringing total exports to 3.17 million MTs this year or a 31% growth from last year's 2.43 million MTs.

All supply contracts with the Corporation are already priced at market. As a result, the drop in global coal prices brought down composite average FOB price per MT this year to PHP2,453, a 20% decrease from last year's PHP3,078.

**POWER**

The power segment's 2012 recorded sales for bilateral contracts increased to 2,007 GWH from 1,553GWh in 2011 or 29% improvement. This mainly came from the contract with MERALCO which was effective since 26 December 2011.

MERALCO is still the single biggest customer of the power segment in 2012, accounting for 80% share of the total energy sales to bilateral contracts. BATELEC I and Trans-Asia accounted for 12% and 6% market share, respectively.

Meanwhile, spot market sales dropped by 26% from 472 GWh in 2011 to 348 GWh in 2012. The decrease in spot sales was due to the increase in contracted power which effectively reduced the excess capacity for sale in the spot market.

Total energy sold in 2012 posted at 2,355 GWh 2012, 85% directly to the customers through bilateral contracts, and 15% to the spot market. Total energy sales increased by 16% from 2,025 GWh recorded in 2011.

Of the total energy sold, 99% was sourced from the generation of the power plants, while 1% was purchased from the spot market.

Spot market prices in 2012 were more volatile compared to 2011. This is due to the abrupt forced outages and scheduled maintenance of major power plants which decreased the supply in the months of May to July 2012. Also, It was observed that the demand increased by an average of 4% in 2012. These two factors caused the increase of spot prices in the market.

In the last quarter of 2012, spot prices escalated due to the planned outages of Ilijan Block A (600 MW) and Sta. Rita Mod 30 (256 MW) amidst the increased demand as business activities stepped up until Christmas Eve. This situation in the market provided Unit 1 an opportunity to generate more Revenues as power generated during the plant's testing were sold to the spot market.

The table below shows the quarterly comparative sales volume data and composite average price for 2012 and 2011.

| COMPARATIVE SALES VOLUME DATA (in GWh) | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| CUSTOMER | Q1'12 | Q2'12 | Q3'12 | Q4'12 | YTD'12 | Q1'11 | Q2'11 | Q3'11 | Q4'11 | YTD'11 | % Inc (Dec) |
| Bilateral Contracts | 489 | 427 | 518 | 573 | 2,007 | 362 | 457 | 398 | 336 | 1,553 | 29% |
| Spot Sales | 0.59 | 1 | 68 | 278 | 347 | 94 | 215 | 75 | 88 | 472 | -26% |
| **GRAND TOTAL** | **489** | **428** | **586** | **851** | **2,354** | **456** | **671** | **474** | **425** | **2,025** | **16%** |
| **Composit Ave Price** | **4.14** | **4.41** | **3.79** | **4.19** | **4.12** | **4.58** | **4.79** | **4.51** | **5.12** | **4.75** | **-13%** |

## III. FINANCE

### A. Sales and Profitability

Consolidated Revenues, net of eliminating entries, dropped by 6% YoY at PHP24.15 billion from PHP24.15 billion last year. Although coal sales volume increased, lower composite average price/MT pulled down coal Revenues before elimination to PHP17.63 billion this year from PHP20.06 billion last year. Net of eliminations, Coal Revenues dropped by 11% YoY at PHP14.45 billion from PHP16.20 billion last year. On the other hand, higher energy generation offset the decrease in average price per kwhr caused by the decrease in international coal price index. As a result, energy sales slightly improved by 1% at PHP9.70 billion from PHP9.61 billion last year.

Consolidated Cost of Sales decreased by 12% at PHP14.64 billion from PHP16.66 billion last year. Before elimination, Cost of Coal Sold dropped by 12% at PHP12.33 billion from PHP14.01 billion last year due to lower cost/MT sold. Net of elimination, Cost of Coal Sold likewise dropped by 12% YoY at PHP9.82 billion from PHP11.10 billion. Cost of Coal Sold per MT dropped by 24% compared to last year due mainly to higher units of production and tightening control on some mine overhead costs. This partially offsets the decline in Revenues due to lower average coal prices.

In the same note, power Cost of Energy Sales before elimination reduced by 14% at PHP5.53 billion from PHP6.40 billion last year. Minimal spot purchases for replacement power and lower coal fuel average cost this year accounted for the decrease in cost.

The resulting consolidated Gross Profit increased by 4% at PHP9.51 billion, with the coal power segments each contributing PHP5.42billion and PHP4.10 billion, respectively. Last year's consolidated Gross Profit stood at PHP9.15 billion last year, PHP5.94 billion from coal and PHP3.21billion from power. Consolidated Gross profit margin improved to 39% from 35% last year.

Consolidated Operating Expenses increased by 19% at PHP3.39 billion from PHP2.86 billion last year. Net of eliminating entries, the coal segment's Operating Expenses increased by 10% at PHP2.03 billion from last year's PHP1.84 billion as lower Cost of Sales increased Government Share by 5% at PHP1.56 billion from PHP1.48 billion last year. The power segment's Operating Expenses after elimination also went up by 32% at PHP1.34 billion from PHP1.02 billion last year due to writedown of net book value of replaced major components and parts relative to the rehabilitation of Unit 1 amounting to PHP341 million. The pre-operating Southwest Luzon Power Generation Corp. (SLPGC), a wholly-owned subsidiary of the Corporation incorporated to expand its power capacity with the construction of 2 x 150 MW power plants, incurred PHP23.86 million pre-operating expenses, representing taxes, licenses and fees incurred during the year. Another subsidiary, Sem-Cal Industrial Park Developers, Inc. (SIPDI) and Semirara Claystone Inc. also incurred Pre-operating Expenses of PHP37 thousand and PHP64 thousand during the period, respectively.

Consolidated Forex Gains posted a remarkable PHP391 million as against losses of PHP38.32 million last year. The PHP continued to strengthen against the USD during the year. Since most of its loans are USD-denominated, bulk of this year's Forex Gains is attributed to the coal segment which recognized PHP387.83 million versus last year's Loss of PHP26.01 million. Meanwhile, with minimal Forex exposure, the power segment's Forex Gains registered at PHP3.17 million as against Losses of PHP12.31 million last year.

Lower cash and lower placement interest rates resulted to the decrease in consolidated Finance Income by 39% at PHP82.15 million from PHP134.88 million last year. The coal segment's investible funds reduced after its additional equity infusion of PHP2.5 billion to SLPGC, thus its Finance Income decreased by 83% at PHP13.12 million from PHP79.45 million last year. On the other hand, the power segment's Finance Income increased by 24% at PHP68.95 million from PHP55.43 million due to higher short-term placement income from SLPGC in the first half of 2012 with its higher cash level, coming from the proceeds of the initial drawdown from the project loan facility and equity infusion by the parent, parked in short-term placements.

Consolidated Finance Costs slightly increased by 4% at PHP501.28 million from PHP483.29 million last year. The coal segment's interest-bearing loans increased by 6% at PHP4.91 billion from PHP4.62 billion last year. Although interest rates are lower this year, Finance Costs increased by 17% at PHP122.61 million from PHP104.93 million last year as it only started paying off short-term debts toward the end of the year. Meanwhile, the power segment's total ending interest-bearing loans balance dropped to PHP7.35 billion from PHP8.84 billion last year. Of this amount, P550 million reflects the new availment by SLPGC. With the availment of short-term working capital loans during the year, the power segment's Finance Costs slightly increased at PHP378.67 million from PHP378.36 million last year.

Consolidated Other Income increased by 209% at PHP308.90 million from PHP99.91 million generated by the coal segment last year from gain on sale of retired assets. After eliminating the PHP 1.5 billion Dividend Income from the power segment, the coal segment's Other Income this year, increased by 78% at PHP177.63 million from PHP99.91 million last year, included gain on sale of retired assets, sale of electricity and insurance claims. Meanwhile, the power segment's Other Income of PHP131.26 million this year is mainly composed of sale of fly ash.

The resulting consolidated Income Before Tax stood at PHP6.40 billion, with the coal and power segments contributing PHP3.83 billion and PHP2.57 billion, respectively; meanwhile SLPGC registered a loss of 3.56 million. This year's consolidated Income Before Tax posted a 6% growth over last year's PHP6.01 billion.

Both operating business units enjoy Income Tax Holidays (ITH) as Board of Investments (BOI)-registered companies. Moreover, on 20 September 2012, the coal segment received the approval of its BOI registration for Bobog Mine, another mine site to be developed next to the current active Panian mine. The ITH benefit will start upon commercial operation of the new mine. SLPGC's application for BOI registration was also approved during the year. With these tax holidays, consolidated Provision for Income Tax remained minimal at PHP39.45 million this year. In 2011, consolidated Benefit from Income Tax posted at PHP22.17 million. The coal and power segments' tax provision this year stood at PHP1.3 million and PHP28.0 million, respectively.

The resulting consolidated Net Income After Tax posted a 5% growth at PHP6.36 billion from PHP6.031 billion last year. Coal and power segments respectively generated PHP3.82 billion and PHP2.54 billion this year, while SLPGC recorded a net loss of PHP8.0 million. Earnings per Share (EPS) correspondingly increased by 5% at PHP17.85 from PHP16.93 last year.

**B. Financial Condition, Solvency and Liquidity**

Consolidated cash provided by operating activities this year amounted to PHP.6.40 billion. Consolidated loan availments totaled to PHP4.47 billion. Meanwhile, sale of assets during the year generated PHP127.49 million, while increase in Other Noncurrent Liabilities of PHP57.94 million resulted to a positive impact to the cash flow. With Beginning Cash of PHP5.01 billion, total consolidated Cash available for the period stood at PHP17.27 billion.

Of the available cash, PHP5.37 billion was used to fund major CAPEX; PHP3.99 billion for the power plant expansion under construction in progress, PHP1.15 billion for mining equipment, and PHP237.54 million for the existing power plants.

The Corporation also paid cash dividends of PHP12 per share or a total of PHP4.27 billion. Of this amount, PHP1.5 billion was contributed by the power segment in form of cash dividend paid to the parent company.

Meanwhile, PHP5.30 billion was spent for debt repayments, PHP2.03 billion for the maturing obligations of power, and PHP3.26 for the coal segment.

Other investing activities during the period also utilized cash, namely, additions to investments and advances amounting to PHP 17.25 million which included investment in sinking fund and retirement benefit direct payments of PHP1.93 million.

With this year's intensive expenditures, consolidated Ending Cash closed at PHP534.39 billion, a significant 89% drop from last year's PHP5.01 billion due to investments made in the power segment and long-term debt service.

The consolidated current ratio as of end of the current period went down at 0.97x versus 1.25x in 2011 due to reclassification of long-term debt to current portion and short-term refinancing of long-term debt principally from the coal segment, capitalizing the lower LIBOR rate and spreads for USD short-term borrowings coupled with stronger Philippine peso.

**C. Financial Condition**

Consolidated Total Assets stood at PHP36.19 billion, reflecting a 2% increase from beginning balance of PHP35.63 billion due to acquisition of new mining equipment for refleeting of retired units and rehabilitation of Power Unit 1. After eliminations, the coal and power segments' Total Assets closed at PHP11.37 billion and PHP20.83 billion, respectively. SLPGC, SCI and SIPDI recorded Total Assets of PHP3.97 billion, PHP2.5 million and PHP2.6 million, respectively.

Consolidated Current Assets dropped by 9% to PHP11.71 billion from PHP14.12 billion as at end of 2011. Coal, power, SLPGC, SCI and SIPDI accounted for PHP7.88 billion, PHP3.76 billion, PHP64.19 million, PHP2.5 million and PHP2.57 million, respectively.

Consolidated Cash and Cash Equivalents' 89% decrease to PHP534.39 million from PHP5.01 billion beginning balance mainly accounted for the decrease in consolidated Current Assets. The substantial decrease in Cash is attributable to payment of dividends and payment of Trade and Other Payables, particularly the down payment for the 2 x 150MW power plant expansion.

On the other hand, Net Receivables increased by 11% at PHP3.58 billion from PHP3.22 billion last year mainly from increased receivables of electricity sales and coal export sales towards the end of the year. The coal and power segments Receivables of PHP1.28 billion and PHP2.3 billion, respectively, are mainly trade related.

Consolidated Net Inventories likewise increased by 23% at PHP5.66 billion from PHP4.59 billion as at the end of 2011. The coal segment's ending Inventory of PHP4.54 billion is mainly comprised of cost of ending coal inventory and materials and supplies, while the power segment's Inventory of PHP1.16 billion is mainly comprised of coal inventory and spareparts inventory for corrective, preventive and predictive maintenance program.

Consolidated Other Current Assets increased by 48% at PHP1.94 billion from PHP1.31 billion in 2011. The coal segment's Other Current Assets of PHP1.64 billion is mainly comprised of creditable withholding taxes, advances to suppliers, and pre-paid insurance. The power segment's Other Current Assets of PHP262 million mainly accounted for advances to suppliers and pre-paid insurance.

Consolidated Non-Current Assets grew by 14% at PHP24.47 billion from PHP21.50 billion as at end of 2011. Coal, power, and SLPGC accounted for PHP3.49 billion, PHP17.07 billion, and PHP3.9 billion, respectively.

The increase in consolidated non-current assets is largely attributed to the 10% increase in consolidated net PPE of PHP22.72 billion from PHP20.74 billion in 2011. Down payments were made to suppliers for the expansion of power capacity under SLPGC, while the coal segment also purchased replacement mining equipment for its retired assets. Coal, power, and SLPGC accounted for net PPE of PHP3.39 billion and PHP16.46 billion, and PHP2.88 billion, respectively.

Consolidated Investments posted a minimal increase of 4% at PHP508.04 million from PHP490.79 million beginning balance. This accounts for the sinking fund maintained by the power segment.

Consolidated Deferred Tax Assets of PHP1.54 million accounted for the power segment's provision for decommissioning and site rehabilitation of PHP1.52 million and PHP19.36 thousand NOLCO of Semirara Claystone, Inc., another subsidary of the Corporation. In 2011, consolidated Deferred Tax Assets closed at PHP17.41 million.

Consolidated Other Non-Current Assets increased by 382% to PHP1.24 billion from PHP257.38 million in 2011. This is mainly comprised of advances to contractor, input VAT withheld and pre-paid rent. Coal, power, and SLPGC accounted for Other Non-Current Asset of PHP115 million and PHP94 million, and PHP1.03 billion, respectively.

Consolidated Total Liabilities decreased by 7% at PHP19.29 billion from PHP20.82 billion last year. Coal, power, SLPGC, SCI and SIPDI accounted for PHP9.78 billion, PHP8.31 billion, PHP675 million, PHP44 thousand and PHP67 thousand, respectively.

The drop in Total Liabilities is primarily due to the reduction in Consolidated Total Long-term Liabilities which decreased by 26% at PHP7.12 bilion from PHP9.52 billion in 2011. Coal, power, SLPGC accounted for PHP9.8 billion, PHP9.6 billion, PHP675 million, respectively.

After settlement of the balance of the coal segment's government share for prior year of P905.0 million and payment of other trade accounts for both coal and power segments, consolidated Trade and Other Payables decreased by 7% at PHP6.81 billion from PHP7.30 billion beginning balance. Coal, power, SLPGC and SIPDI respectively accounted for PHP4.82 billion, PHP1.93 billion, PHP69.98 million, PHP65 thousand and PHP87 thousand of Trade and Other Payables.

Consolidated Current Portion of Long-Term Debt likewise increased by 73% at PHP5.18 billion from PHP2.99 billion as at end of 2011 since majority of the loans availed for CAPEX will mature next year, which recorded a closing balance of PHP3.37 billion and PHP1.51 billion, respectively.

On the other hand, consolidated Total Non-Current Liabilities decreased by 25% at PHP7.12 billion, from PHP9.52 billion in 2011. Coal, power, and SLPGC accounted for PHP1.16 billion, PHP5.35 billion and PHP605 million, respectively.

Consolidated Long-Term Debt decreased by 12% at PHP7.0. billion from PHP9.47 billion beginning balance, primarily due to reclassification to short-term of maturing CAPEX loans of the coal segment and power segment's debt servicing. This caused the decrease in Total Non-Current Liabilities. Coal, power, and SLPGC accounted for PHP1.12 billion, PHP5.34 billion and PHP547 million, respectively.

Provision for Decommissioning and Site Rehabilitation increased by 31% at PHP62.45 million from PHP47.58 million due to an additional provision made by the coal segment after its contract area was expanded to include portions of Caluya and Sibay islands.

During the year, the Corporation recognized consolidated Pension Liabilty of PHP5.85 million. After dividend payment of PHP4.28 billion and accounting of income generation of PHP6.36 billion, consolidated Stockholders' Equity increased by 14% at PHP16.89 billion from PHP14.81 billion as at end of 2011.

Debt-to-Equity ratio improved by 18% at 1.15:1 from 1.41:1 as at the start of the year.

**VIII. PERFORMANCE INDICATORS:**

1. **Earnings per Share** – Despite the drop in global coal prices, the Corporation was able to recognize an increase in profits this year, translating to an improved EPS. Cost management in the coal segment and success in rehabilitating both units of the power segment are factors that paved the way for the Corporation's continued remarkable performance during the year.
2. **Debt-to-Equity Ratio** – The Corporation's healthy balance sheet allowed it to pay off debts. Hence despite incurring an additional PHP 550 million loan for the expansion of the power capacity, DE improved as at the end of the year. The Corporation's strong financial condition enables it to enjoy the best commercial terms for its financing requirements.
3. **Business Expansion** – Taking an extra step in its forward integration to the power business, the Corporation started with its expansion plans to put up another 2 x 150 MW power plants during the year. This will further maximize the value of its coal reserves as these plants are designed to use unwashed coal, thus improving coal recovery.
4. **Expanded Market** – The successful breakthrough in the export market in 2007 paved way for the increased acceptance of Semirara coal amongst local users. The thrust of the Corporation now is to further develop its local market, and slowly displace export sales with domestic deliveries as the latter give better margins.
   Meanwhile, the power segment limitted its exposure to the volatility of the spot market by signing bilateral contracts, both firm and non-firm. As base load plants, it is more ideal to have a stable market for the generated electricity.
5. **Improved coal quality** – The consistent implemention of measures to improve or enhance coal quality resulted to increased acceptance both in the export and domestic markets. Meanwhile, to improve coal recovery and cost efficiency, the power plants started to burn unwashed coal during the year. This also provides additional income to the power segment as sale of fly ash dramatically increased.

**IX. OTHER INFORMATION**

1. There were no known trends, events or uncertainties that have material impact on liquidity.
2. The Corporation provides interim corporate suretyship in favor of the lenders of SCPC for its PHP9.6 billion 7-year loan availed on 26 May 2010. The security may however be suspended within the term of the loan when the conditions set forth in the loan contract are met. SCPC started to amortize the loan in 2011; as at end of the year outstanding balance decreased to PHP8.75 billion.

3. There are no material off-balance sheet transactions, arrangements, obligations, and other relationships of the Corporation with unconsolidated entities or other persons created during the reporting period.
4. The Corporation has issued purchase orders to suppliers for mining equipment amounting to P180 million for delivery Q1 2012. Additional mining equipment worth USD7.65 million will be purchased in 2012 with various delivery dates falling on the second half 2012. Moreover a 1 x 15 MW CFB Power Plant will be constructed in Semirara Island for its mine operation, a replacement of the old unit with estimated cost of P1.2 billion. The equipment purchases will be financed with medium-term loans that match the life of the assets while the power plant will be financed via long term loan, all to be sourced from local banks.
5. For 2012, we expect an increase in the demand for Semirara Coal in the domestic market with the commissioning of new power plants and small boilers that can utilize 100% Semirara coal. This trend is expected to continue in the next two years as a result of the competitiveness of Semirara Coal over imported coal.
6. There are no significant elements of income of loss from continuing operations.
7. There were no subsequent events that came to our knowledge, which are material enough to warrant an adjustment in the consolidated financial statements.
8. The Group's operation is not cyclical or seasonal in nature. Mining activities is continuous throughout the year as coal production output from period to period can be adjusted through efficient mine planning on both short-term and long-term, mitigating negative impact of the rainy season to mine operations. The power generation business is also operational throughout the year as maintenance shutdown is just part of normal operation of the plant and programmed ahead of time.

## B. INFORMATION ON INDEPENDENT ACCOUNTANT AND OTHER RELATED MATTERS

The principal accountants and external auditors of the Corporation and its Subsidiaries[5] is the accounting firm SyCip Gorres Velayo & Co. (SGV). Pursuant to the General Requirements of SRC Rule 68, paragraph 3 (Qualifications and Reports of Independent Auditors), the Corporation and its Subsidiaries have engaged the services of SGV as external auditor, and Ms. Cyril Jasmin B. Valencia is the Partner-In-Charge starting 2012 or less than five years following the regulatory policy of audit partner rotation every five years.

1. External Audit Fees and Services
   a. **Audit & Audit Related Fees-** The Corporation and its Subsidiaries paid its external auditors the following fees in the past two (2) years:

| In Millions Pesos with VAT | |
|---|---|
| 2014 | 4.9[6] |
| 2013 | 4.6[7] |
| **Total** | 9.5[8] |

   b. **Tax Fees** - There are no fees billed in each of the last fiscal years for professional services rendered by the SGV for tax accounting, compliance, advice, planning and any other form of tax services.
   c. **All Other Fees** – In 2014, non-audit fees paid to SGV amounted to P991,200 for engagements in performing a technical assessment service on IT vulnerabilities and as an independent party to count and/or validate the votes at the Annual Stockholders' Meeting. There are no significant fees paid in 2013 for products and services provided by SGV other than services reported under item a. above.

2. There have been no changes in or disagreement with the Corporation and its Subsidiaries' accountant on accounting and financial disclosures.

3. The Corporation's Audit Committee oversees the external audit function on behalf of the Board of Directors (Board). It recommends the appointment, reappointment or replacement of external auditor to the Board. It is charged with the evaluation of the audit work engagements, its scope, fees and terms for approval of the Board. The Audit Committee also reviews non-audit services and taxation advice, if any, by the external auditor. At the conclusion of the annual audit, it discusses with Management and the external auditor significant reporting issues. Lastly, the Audit Committee reviews external audit findings in respect of any significant deficiencies or weaknesses in controls and ensures that

[5] SCPC and SLPGC were incorporated in November 2009 and August 2011, respectively.
[6] Includes Subsidiaries audit fees of P2.6 Million.
[7] Includes Subsidiaries audit fees of P2.4 Million.
[8] Audit and non audit-related fees; no fees for other assurance and related services were paid.

Management responds appropriately with timely corrective actions, including audit adjusting entries noted or proposed but passed as immaterial or otherwise. The current members of the Audit Committee of the Corporation are as follows: (1) Victor C. Macalincag (Chairman); (2) Victor A. Consunji (Member); and Rogelio M. Murga (Member).

## PART IV – DISCUSSION ON COMPLIANCE WITH LEADING PRACTICE ON CORPORATE GOVERNANCE

*Please refer to the attached 2014 Annual Corporate Governance Report*

**UPON THE WRITTEN REQUEST OF ANY STOCKHOLDER, THE CORPORATION WILL PROVIDE, WITHOUT CHARGE, A HARD COPY OF THE CORPORATION'S DEFINITIVE INFORMATION STATEMENT, ANNUAL REPORT IN SEC FORM 17-A AND THE CORPORATION'S LATEST QUARTERLY REPORT IN SEC FORM 17-Q DULY FILED WITH THE SECURITIES AND EXCHANGE COMMISSION. THE STOCKHOLDER MAY BE CHARGED A REASONABLE COST FOR PHOTOCOPYING THE EXHIBITS.**

**ALL REQUESTS MAY BE SENT TO THE FOLLOWING:**

**SEMIRARA MINING AND POWER CORPORATION**
2/F DMCI Plaza,
2281 Don Chino Roces Avenue, Makati City
Philippines
ATTENTION: **JOHN R. SADULLO**
VP-Legal & Corporate Secretary

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

The management of **SEMIRARA MINING AND POWER CORPORATION** is responsible for the preparation and fair presentation of the consolidated financial statements for the years ended December 31, 2014 and 2013, including the additional components attached therein, in accordance with Philippine Financial Reporting Standards. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

The Board of Directors reviews and approves the consolidated financial statements and submits the same to the stockholders.

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

Signed this 6th day of March 2015.

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

**JUNALINA S. TABOR**
Chief Finance Officer

**SUBSCRIBED AND SWORN**, to before me on this MAR 19 2015 day of March 2015, at Makati City, Metro Manila, affiants exhibited to me:

| Name | Passport/CTC No. | Expiry Date/Place Issued |
|---|---|---|
| Isidro A. Consunji | EB2033364 | March 6, 2016/DFA, Manila |
| Junalina S. Tabor | EB9486755 | October 30, 2018 /DFA NCR Central |

who has satisfactory proven to me their identities through their valid identification cards bearing their photographs and signatures, and that they are the same persons who personally signed before me the foregoing and acknowledged that they executed the same.

Doc. No. 441;
Page No. 89;
Book No. II;
Series of 2015.

**ATTY. REDENCIO C. VILLARIVERA**
Notary Public for Makati City
For the term ending 31 December 2015
Roll No. 45335; Appointment No. M-365
4th Floor, Dacon Building, No. 2281
Pasong Tamo Extension, Makati City
IBP No.0995318/Feb.2, 2015/Makati
PTR No.4789099/Feb.3,2015/Makati
MCLE Compliance No. IV-0020719

## Semirara Mining and Power Corporation and Subsidiaries
*(Formerly Semirara Mining Corporation and Subsidiaries)*

Consolidated Financial Statements
December 31, 2014 and 2013
and Years Ended December 31, 2014, 2013 and 2012

and

Independent Auditors' Report

SGV
Building a better
working world

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

Tel: (632) 891 0307
Fax: (632) 819 0872
ey.com/ph

BOA/PRC Reg. No. 0001,
December 28, 2012, valid until December 31, 2015
SEC Accreditation No. 0012-FR-3 (Group A),
November 15, 2012, valid until November 16, 2015

# INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Semirara Mining and Power Corporation

We have audited the accompanying consolidated financial statements of Semirara Mining and Power Corporation and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2014 and 2013, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2014, and a summary of significant accounting policies and other explanatory information.

## *Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Philippine Financial Reporting Standards, 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.

## *Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion***

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Semirara Mining and Power Corporation and its subsidiaries as at December 31, 2014 and 2013, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2014 in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.

Cyril Jasmin B. Valencia

Cyril Jasmin B. Valencia
Partner
CPA Certificate No. 90787
SEC Accreditation No. 1229-A (Group A),
May 31, 2012, valid until May 30, 2015
Tax Identification No. 162-410-623
BIR Accreditation No. 08-001998-74-2012,
April 11, 2012, valid until April 10, 2015
PTR No. 4751335, January 5, 2015, Makati City

March 6, 2015

## SEMIRARA MINING AND POWER CORPORATION AND SUBSIDIARIES
**(Formerly Semirara Mining Corporation and Subsidiaries)**

# CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

| | December 31 | |
|---|---|---|
| | **2014** | 2013 |
| **ASSETS** | | |
| **Current Assets** | | |
| Cash and cash equivalents (Notes 4, 29 and 30) | **₱3,683,125,544** | ₱4,819,307,265 |
| Receivables (Notes 5, 18, 29 and 30) | **4,127,721,276** | 4,031,651,937 |
| Inventories (Notes 6 and 8) | **2,792,331,113** | 4,629,560,568 |
| Other current assets (Notes 7 and 28) | **2,169,449,877** | 1,319,685,738 |
| Total Current Assets | **12,772,627,810** | 14,800,205,508 |
| **Noncurrent Assets** | | |
| Property, plant and equipment (Note 8) | **34,452,040,736** | 27,286,155,824 |
| Investment in sinking fund (Notes 9, 13, 29 and 30) | **521,780,873** | 517,603,224 |
| Exploration and evaluation asset (Note 10) | **1,914,437,638** | 348,152,638 |
| Deferred tax assets (Note 25) | **704,195,424** | 139,957,352 |
| Other noncurrent assets (Notes 11, 28, 29 and 30) | **1,536,293,213** | 1,635,316,348 |
| Total Noncurrent Assets | **39,128,747,884** | 29,927,185,386 |
| | **₱51,901,375,694** | ₱44,727,390,894 |
| **LIABILITIES AND EQUITY** | | |
| **Current Liabilities** | | |
| Trade and other payables (Notes 14, 18, 29 and 30) | **₱8,805,562,841** | ₱6,184,656,544 |
| Short-term loans (Notes 12, 29 and 30) | **1,218,753,398** | 1,655,079,934 |
| Current portion of long-term debt (Notes 13, 29 and 30) | **2,113,885,350** | 2,151,158,019 |
| Total Current Liabilities | **12,138,201,589** | 9,990,894,497 |
| **Noncurrent Liabilities** | | |
| Long-term debt - net of current portion (Notes 13, 29 and 30) | **16,088,724,435** | 13,657,488,332 |
| Provision for decommissioning and site rehabilitation (Note 15) | **175,295,942** | 196,504,051 |
| Pension liabilities (Note 19) | **49,029,893** | 31,645,362 |
| Other noncurrent liabilities (Notes 11 and 18) | **743,912,319** | 723,346,948 |
| Total Noncurrent Liabilities | **17,056,962,589** | 14,608,984,693 |
| Total Liabilities | **29,195,164,178** | 24,599,879,190 |
| **Equity** | | |
| Capital stock (Notes 16 and 29) | **1,068,750,000** | 356,250,000 |
| Additional paid-in capital (Notes 16 and 29) | **6,675,527,411** | 6,675,527,411 |
| Remeasurement gains (losses) on pension plan (Notes 19 and 29) | **(13,471,337)** | (5,876,670) |
| Retained earnings (Notes 17 and 29) | | |
| Unappropriated | **12,675,405,442** | 10,801,610,963 |
| Appropriated | **2,300,000,000** | 2,300,000,000 |
| Total Equity | **22,706,211,516** | 20,127,511,704 |
| | **₱51,901,375,694** | ₱44,727,390,894 |

*See accompanying Notes to Consolidated Financial Statements.*

## SEMIRARA MINING AND POWER CORPORATION AND SUBSIDIARIES
**(Formerly Semirara Mining Corporation and Subsidiaries)**

# CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

| | Years Ended December 31 | | |
|---|---|---|---|
| | **2014** | 2013 | 2012 |
| **REVENUE** (Note 32) | | | |
| Coal | **₱16,276,929,798** | ₱12,573,569,245 | ₱14,450,155,334 |
| Power | **12,308,411,291** | 14,757,590,738 | 9,700,092,214 |
| | **28,585,341,089** | 27,331,159,983 | 24,150,247,548 |
| **COST OF SALES** (Notes 20 and 32) | | | |
| Coal | **10,228,011,439** | 8,664,871,498 | 9,825,154,753 |
| Power | **8,699,475,102** | 5,445,624,630 | 4,818,786,103 |
| | **18,927,486,541** | 14,110,496,128 | 14,643,940,856 |
| **GROSS PROFIT** | **9,657,854,548** | 13,220,663,855 | 9,506,306,692 |
| **OPERATING EXPENSES** (Notes 21 and 32) | **(3,220,999,377)** | (5,264,517,633) | (3,398,375,301) |
| **INCOME FROM OPERATIONS** | **6,436,855,171** | 7,956,146,222 | 6,107,931,391 |
| **OTHER INCOME (CHARGES)** | | | |
| Finance income (Notes 23 and 32) | **41,452,768** | 26,804,566 | 82,144,317 |
| Finance costs (Notes 22 and 32) | **(323,228,324)** | (381,229,343) | (501,280,033) |
| Foreign exchange gains (losses) - net (Note 32) | **(52,140,999)** | (481,177,225) | 391,000,330 |
| Other income (Notes 24 and 32) | **205,488,733** | 281,208,758 | 318,448,268 |
| | **(128,427,822)** | (554,393,244) | 290,312,882 |
| **INCOME BEFORE INCOME TAX** | **6,308,427,349** | 7,401,752,978 | 6,398,244,273 |
| **PROVISION FOR (BENEFIT FROM) INCOME TAX** (Notes 25 and 32) | **(552,867,130)** | (117,838,304) | 39,604,266 |
| **NET INCOME** | **6,861,294,479** | 7,519,591,282 | 6,358,640,007 |
| **OTHER COMPREHENSIVE INCOME** | | | |
| **Items not to be reclassified to profit or loss in subsequent periods** | | | |
| Remeasurement gains (losses) on pension plan (Note 19) | **(10,849,524)** | 17,984,320 | (23,418,326) |
| Income tax effect | **3,254,857** | (5,395,296) | 7,025,498 |
| | **(7,594,667)** | 12,589,024 | (16,392,828) |
| **TOTAL COMPREHENSIVE INCOME** | **₱6,853,699,812** | ₱7,532,180,306 | ₱6,342,247,179 |
| **Basic/Diluted Earnings per Share** (Note 26) | **₱6.42** | ₱7.04 | ₱5.95 |

*See accompanying Notes to Consolidated Financial Statements.*

## SEMIRARA MINING AND POWER CORPORATION AND SUBSIDIARIES
**(Formerly Semirara Mining Corporation and Subsidiaries)**

# CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

| | Capital Stock (Note 16) | Additional Paid-in Capital (Note 16) | Unappropriated Retained Earnings (Note 17) | Appropriated Retained Earnings (Note 17) | Remeasurement Gains (Losses) on Pension Plan (Note 19) | Total |
|---|---|---|---|---|---|---|
| | | | **For the Year Ended December 31, 2014** | | | |
| **Balances as of January 1, 2014** | **₱356,250,000** | **₱6,675,527,411** | **₱10,801,610,963** | **₱2,300,000,000** | **(₱5,876,670)** | **₱20,127,511,704** |
| Comprehensive income | | | | | | |
| Net income | – | – | **6,861,294,479** | – | – | **6,861,294,479** |
| Other comprehensive loss | – | – | – | – | **(7,594,667)** | **(7,594,667)** |
| Total comprehensive income | – | – | **6,861,294,479** | – | **(7,594,667)** | **6,853,699,812** |
| Stock dividends declared | **712,500,000** | – | **(712,500,000)** | – | – | – |
| Cash dividends declared | – | – | **(4,275,000,000)** | – | – | **(4,275,000,000)** |
| **Balances as of December 31, 2014** | **₱1,068,750,000** | **₱6,675,527,411** | **₱12,675,405,442** | **₱2,300,000,000** | **(₱13,471,337)** | **₱22,706,211,516** |
| | | | For the Year Ended December 31, 2013 | | | |
| **Balances as of January 1, 2013** | ₱356,250,000 | ₱6,675,527,411 | ₱9,157,019,681 | ₱700,000,000 | (₱18,465,694) | ₱16,870,331,398 |
| Comprehensive income | | | | | | |
| Net income | – | – | 7,519,591,282 | – | – | 7,519,591,282 |
| Other comprehensive income | – | – | – | – | 12,589,024 | 12,589,024 |
| Total comprehensive income | – | – | 7,519,591,282 | – | 12,589,024 | 7,532,180,306 |
| Appropriation | – | – | (1,600,000,000) | 1,600,000,000 | – | – |
| Cash dividends declared | – | – | (4,275,000,000) | – | – | (4,275,000,000) |
| **Balances as of December 31, 2013** | ₱356,250,000 | ₱6,675,527,411 | ₱10,801,610,963 | ₱2,300,000,000 | (₱5,876,670) | ₱20,127,511,704 |

| | Capital Stock (Note 16) | Additional Paid-in Capital (Note 16) | Unappropriated Retained Earnings (Note 17) | Appropriated Retained Earnings (Note 17) | Remeasurement Gains (Losses) on Pension Plan (Note 19) | Total |
|---|---|---|---|---|---|---|
| | | | For the Year Ended December 31, 2012 | | | |
| **Balances as of January 1, 2012** | ₱356,250,000 | ₱6,675,527,411 | ₱7,073,379,674 | ₱700,000,000 | (₱2,072,866) | ₱14,803,084,219 |
| Comprehensive income | | | | | | |
| Net income | – | – | 6,358,640,007 | – | – | 6,358,640,007 |
| Other comprehensive income | – | – | – | – | (16,392,828) | (16,392,828) |
| Total comprehensive income | – | – | 6,358,640,007 | – | (16,392,828) | 6,342,247,179 |
| Cash dividends declared | – | – | (4,275,000,000) | – | – | (4,275,000,000) |
| **Balances as of December 31, 2012** | ₱356,250,000 | ₱6,675,527,411 | ₱9,157,019,681 | ₱700,000,000 | (₱18,465,694) | ₱16,870,331,398 |

*See accompanying Notes to Consolidated Financial Statements.*

## SEMIRARA MINING AND POWER CORPORATION AND SUBSIDIARIES
**(Formerly Semirara Mining Corporation and Subsidiaries)**

# CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Years Ended December 31 | | |
|---|---|---|---|
| | **2014** | 2013 | 2012 |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Income before income tax | **₱6,308,427,349** | ₱7,401,752,978 | ₱6,398,244,273 |
| Adjustments for: | | | |
| Depreciation and amortization (Notes 8, 11, 20 and 21) | **1,984,125,281** | 3,852,000,854 | 2,864,685,264 |
| Finance costs (Note 22) | **323,228,324** | 381,229,343 | 501,280,033 |
| Net unrealized foreign exchange losses (gains) | **57,873,085** | 309,119,279 | (222,718,411) |
| Pension expense (Note 19) | **17,284,869** | 19,939,843 | 8,286,117 |
| Loss on disposal and write-down of property, plant and equipment (Notes 8 and 21) | **110,976** | 449,910,879 | 341,146,346 |
| Gain on sale of equipment (Notes 8 and 24) | **(336,750)** | (135,073) | (127,491,090) |
| Provision for (reversal of) allowance for inventory obsolescence (Note 6) | **(12,154,784)** | 4,120,197 | – |
| Finance income (Note 23) | **(41,452,768)** | (26,804,566) | (82,144,317) |
| Provision for (reversal of) allowance for doubtful accounts (Notes 5, 21 and 24) | **–** | 443,650,080 | (9,552,129) |
| Provision for (reversal of) impairment losses (Notes 11, 21 and 24) | **–** | (61,549,364) | 47,150,717 |
| Operating income before changes in operating assets and liabilities | **8,637,105,582** | 12,773,234,450 | 9,718,886,803 |
| Changes in operating assets and liabilities: | | | |
| Decrease (increase) in: | | | |
| Receivables | **92,816,713** | (894,499,145) | (1,153,130,701) |
| Inventories | **1,853,389,992** | 1,147,739,715 | (871,624,332) |
| Other current assets | **(862,837,500)** | 604,555,167 | (706,604,467) |
| Increase (decrease) in trade and other payables | **2,481,608,982** | (635,524,320) | 345,413,475 |
| Cash generated from operations | **12,202,083,769** | 12,995,505,867 | 7,332,940,778 |
| Contributions to the fund (Note 19) | **(10,749,863)** | (6,857,636) | (1,929,088) |
| Interest received | **41,822,817** | 26,801,810 | 76,576,301 |
| Interest paid | **(299,397,199)** | (355,711,778) | (468,137,685) |
| Income taxes paid | **(8,116,083)** | (5,074,275) | (5,248,207) |
| Net cash provided by operating activities | **11,925,643,441** | 12,654,663,988 | 6,934,202,099 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Additions to: | | | |
| Property, plant and equipment (including borrowing cost) (Notes 8 and 31) | **(9,418,691,745)** | (8,897,742,645) | (5,369,645,794) |
| Exploration and evaluation asset (Notes 8 and 10) | **(1,317,485,410)** | (298,731,356) | – |
| Investment in sinking fund (Note 9) | **(4,177,649)** | (10,812,036) | (17,252,032) |
| Computer software (Note 11) | **(3,318,631)** | (4,936,722) | (1,052,066) |
| Decrease (increase) in other noncurrent assets (Note 11) | **32,997,722** | (332,430,801) | (1,033,157,655) |
| Proceeds from sale of equipment (Note 8) | **336,750** | 135,073 | 127,491,109 |
| Increase in other noncurrent liabilities (Note 11) | **39,075,247** | 665,407,994 | 57,938,954 |
| Acquisition of a subsidiary-net of cash acquired (Note 2) | **–** | 1,250,000 | – |
| Net cash used in investing activities | **(10,671,263,716)** | (8,877,860,493) | (6,235,677,484) |

| | Years Ended December 31 | | |
|---|---|---|---|
| | **2014** | 2013 | 2012 |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Proceeds from loans | **₱10,357,708,086** | ₱15,522,112,961 | ₱4,466,523,614 |
| Payments of: | | | |
| Dividends (Note 17) | **(4,275,000,000)** | (4,275,000,000) | (4,275,000,000) |
| Loans | **(8,470,867,131)** | (10,748,643,259) | (5,297,823,378) |
| Net cash provided by (used in) financing activities | **(2,388,159,045)** | 498,469,702 | (5,106,299,764) |
| **EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS** | **(2,402,401)** | 9,643,294 | (63,074,352) |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | **(1,136,181,721)** | 4,284,916,491 | (4,470,849,501) |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR** | **4,819,307,265** | 534,390,774 | 5,005,240,275 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** (Note 4) | **₱3,683,125,544** | ₱4,819,307,265 | ₱534,390,774 |

*See accompanying Notes to Consolidated Financial Statements.*

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 1. Corporate Information

Semirara Mining and Power Corporation (the Parent Company) is a corporation incorporated in the Philippines on February 26, 1980. The Parent Company's registered and principal office address is at 2nd Floor, DMCI Plaza Building, 2281 Pasong Tamo Extension, Makati City. The Parent Company is a majority-owned (56.32%) subsidiary of DMCI Holdings, Inc. (DMCI-HI), a publicly listed entity in the Philippines and its ultimate Parent Company.

The Parent Company and its subsidiaries will be collectively referred herein as "the Group".

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

The Parent Company's shares of stock are listed and are currently traded at the Philippine Stock Exchange (PSE).

On August 18, 2014, the Securities and Exchange Commission (SEC) approved the change in the corporate name of Semirara Mining Corporation to "Semirara Mining and Power Corporation". This change was sought to reflect the forward integration of the Parent Company's business as a coal supplier or producer to power generation through its wholly-owned subsidiaries.

The consolidated financial statements as of December 31, 2014 and 2013 and for each of the three years in the period ended December 31, 2014 were endorsed for approval by the Audit Committee on February 25, 2015 and were authorized for issue by the Executive Committee of the Board of Directors (BOD) on March 6, 2015.

## 2. Summary of Significant Accounting Policies

Basis of Preparation
The consolidated financial statements have been prepared using the historical cost basis. The consolidated financial statements are prepared in Philippine Peso (₱), which is also the Group's functional currency. All amounts are rounded off the nearest peso, except when otherwise indicated.

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

Basis of Consolidation
The consolidated financial statements comprise the financial statements of the Group as of December 31, 2014 and 2013, and for each of the three years in the period ended December 31, 2014.

The consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances. All significant intercompany balances and transactions, including income, expenses and dividends, are eliminated in full. Profits and losses resulting from intercompany transactions that are recognized in assets are eliminated in full.

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

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

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

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

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

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

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

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

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

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary
- Derecognizes the carrying amount of any non-controlling interests
- 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 profit or loss
- Reclassifies the Parent Company's share of components previously recognized in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities

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

| | **Effective Percentages of Ownership** | | |
|---|---|---|---|
| | **2014** | 2013 | 2012 |
| Sem-Calaca Power Corporation (SCPC) | **100.00%** | 100.00% | 100.00% |
| Southwest Luzon Power Generation Corporation (SLPGC) | **100.00** | 100.00 | 100.00 |
| SEM-Cal Industrial Park Developers, Inc. (SIPDI) | **100.00** | 100.00 | 100.00 |
| Semirara Claystone, Inc. (SCI) | **100.00** | 100.00 | 100.00 |
| Semirara Energy Utilities, Inc. (SEUI) | **100.00** | 100.00 | – |
| St. Raphael Power Generation Corporation (SRPGC) | **100.00** | 100.00 | – |
| SEM-Balayan Power Generation Corporation (SBPGC) | **100.00** | 100.00 | – |
| Sem-Calaca RES Corporation (SCRC)* | **100.00** | 100.00 | – |

**Wholly owned subsidiary of SCPC*

Except for SCPC, the Parent Company's subsidiaries have not yet started commercial operations as of December 31, 2014.

*SCPC*
On July 8, 2009, DMCI-HI was declared as winning bidder for the sale of the 2 x 300 megawatt (MW) Batangas Coal-Fired Power Plant (the Power Plant) located in San Rafael, Calaca, Batangas by the Power Sector Assets and Liabilities Management Corporation (PSALM) on an "as is where is basis". The agreed Purchase Price amounted to $368.87 million.

On December 1, 2009, the Parent Company was authorized by the Board of Directors (BOD) to advance the amount of ₱7.16 billion to SCPC for the latter to purchase the Power Plant from PSALM and meet its financial obligation under APA and Land Lease Agreement (LLA).

On December 2, 2009, DMCI-HI assigned all of its rights and obligations under the APA and LLA to SCPC and PSALM consented to this assignment. Closing of the APA was also on December 2, 2009, upon which control, possession, risk of loss or damage and obligation to operate the Power Plant and rights to its revenues was turned over to SCPC and legal title will transfer only upon full payment of the agreed Purchase Price.

On March 7, 2011, the advances mentioned above were converted by the Parent Company into SCPC's common shares of 7,998.75 million.

*SLPGC*
On August 31, 2011, SLPGC was incorporated to acquire, design, develop, construct, expand, invest in, and operate electric power plants, and engage in business of a Generation Company in

accordance with RA No. 9136, otherwise known as Electric Power Industry Reform Act of 2001 (EPIRA); to invest in, operate and engage in missionary electrification as a Qualified Third Party under EPIRA and its implementing rules and regulations; and to design, develop, assemble and operate other power related facilities, appliances and devices.

*SIPDI*
On April 24, 2011, SIPDI was incorporated to acquire, develop, construct, invest in, operate and maintain an economic zone capable of providing infrastructures and other support facilities for export manufacturing enterprises, information technology enterprises, tourism economic zone enterprises, medical tourism economic zone enterprises, retirement economic zone enterprises and/or agro-industrial enterprises, inclusive of the required facilities and utilities, such as light and power system, water supply and distribution system, sewerage and drainage system, pollution control devices, communication facilities, paved road network, and administration building as well as amenities required by professionals and workers involved in such enterprises, in accordance with R.A. No. 7916, as amended by R.A. No. 8748, otherwise known as the Special Economic Zone Act of 1995.

*SCI*
On November 29, 2012, SCI was incorporated to engage in, conduct, and carry on the business of manufacturing, buying, selling, distributing, marketing at wholesale and retail insofar as may be permitted by law, all kinds of goods, commodities, wares and merchandise of every kind and description including pottery earthenware, stoneware, bricks, tiles, roofs and other merchandise produce from clay; to enter into all contracts for export, import, purchase requisition, sale at wholesale or retail and other disposition for its own account as principal or in representative capacity as manufacturer's representative, merchandise broker, indentor, commission merchant, factors or agents, upon consignment of all goods, wares, merchandise or products natural or artificial.

*SEUI*
On February 18, 2013, SEUI was incorporated to perform Qualified Third Party (QTP) functions pursuant to Section 59 of Republic Act 9136, otherwise known as the "Electric Power Industry Reform Act of 2001 ("EPIRA") and its Implementing Rules & Regulations". DOE-Circular No. 2004-06-006 of the Department of Energy defines QTP as an alternative service provider authorized to serve remote and unviable areas pursuant to Section 59 of the EPIRA Law. The new company intends to act as the QTP over Barangays of Semirara, Tinogboc and Alegria, all located at Semirara Island, Caluya, Antique.

*SRPGC*
On September 10, 2013, SRPGC was incorporated to acquire, construct, erect, assemble, rehabilitate, expand, commission, operate and maintain power-generating plants and related facilities for the generation of electricity, including facilities to purchase, manufacture, develop or process fuel for the generation of such electricity; to sell electricity to any person or entity through electricity markets, by trading, or by contract; to administer, conserve and manage the electricity generated by power-generating plants, owned by SRPGC or by a third party, to invest in or acquire corporations or entities engaged in any of the foregoing activities.

*SBPGC*
On September 9, 2013, SBPGC was incorporated to acquire, construct, erect, assemble, rehabilitate, expand, commission, operate and maintain power-generating plants and related facilities for the generation of electricity, including facilities to purchase, manufacture, develop or process fuel for the generation of such electricity, to sell electricity to any person or entity through electricity markets, by trading, or by contract, to administer, conserve and manage the electricity

generated by power-generating plants, owned by SBPGC or by a third party, to invest in or acquire corporations or entities engaged in any of the foregoing activities.

*SCRC*
SCRC is a stock corporation registered with SEC on September 14, 2009, primarily to sell electricity to any person or entity through electricity markets, by trading, or by contract, to administer, conserve and manage the electricity generated by power-generating plants, owned by its affiliates or by a third party, to invest in or acquire corporations or entities engaged in any of the foregoing activities.

Prior to 2013, DMCI-HI owns 100% of common shares of SCRC. However, on March 15, 2013, DMCI-HI assigned all of its 1.25 million shares in SCRC to SCPC at ₱1.00 par value or in the total amount of ₱1.25 million, making it as a wholly owned subsidiary of SCPC.

On September 25, 2013, SCPC infused additional 6.75 million shares totaling ₱8.00 million.

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

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

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. 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 change to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units or groups of cash generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or group of units.

Each unit or group of units to which the goodwill is allocated:
- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and

- is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with PFRS 8, *Operating Segment.*

Where goodwill forms part of a cash-generating unit (group of cash generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

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

Acquisitions of non-controlling interests are accounted for as transactions with owners in their capacity as owners and therefore no goodwill or profit or loss is recognized as a result.

Adjustments to noncontrolling interests arising from transactions that do not involve the loss of control are based on a proportionate amount of the net assets of the subsidiary.

Changes in Accounting Policies and Disclosures
The accounting policies adopted are consistent with those of the previous financial year except for the following new and amended PFRS, Philippine Accounting Standards (PAS) and Philippine Interpretations of International Financial Reporting Interpretations Committee (IFRIC) which became effective on January 1, 2014. Except as otherwise indicated, the adoption of these new accounting standards and amendments have no material impact on the Group's financial statements.

The nature and the impact of each new standard and amendment are described below:

- Investment Entities (Amendments to PFRS 10, *Consolidated Financial Statements*, PFRS 12, *Disclosure of Interests in Other Entities*, and PAS 27, *Separate Financial Statements*)
  These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under PFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. The amendments must be applied retrospectively, subject to certain transition relief.

  These amendments have no impact to the Group, since none of the entities within the Group qualifies to be an investment entity under PFRS 10.

- PAS 32, *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities* (Amendments)
  These amendments clarify the meaning of 'currently has a legally enforceable right to set-off' and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting and are applied retrospectively. These amendments have no impact on the Group.

- PAS 39, *Financial Instruments: Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting* (Amendments)
  These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria and retrospective application is required. These amendments have no impact to the Group.

- PAS 36, *Impairment of Assets - Recoverable Amount Disclosures for Non-Financial Assets* (Amendments)
  These amendments remove the unintended consequences of PFRS 13, *Fair Value Measurement*, on the disclosures required under PAS 36. In addition, these amendments require disclosure of the recoverable amounts for assets or cash-generating units (CGUs) for which impairment loss has been recognized or reversed during the period.

  The application of these amendments has no material impact on the disclosure in the Group's financial statements.

- Philippine Interpretation IFRIC 21, *Levies* (IFRIC 21)
  IFRIC 21 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. Retrospective application is required for IFRIC 21.

  The adoption of this interpretation did not impact the Group because it has been applying the same principle contained in this interpretation in current and past transactions.

- Annual Improvements to PFRSs (2010-2012 cycle)
  In the 2010 – 2012 annual improvements cycle, seven amendments to six standards were issued, which included an amendment to PFRS 13, *Fair Value Measurement*. The amendment to PFRS 13 is effective immediately and it clarifies that short-term receivables and payables with no stated interest rates can be measured at invoice amounts when the effect of discounting is immaterial. This amendment has no impact on the Group.

- Annual Improvements to PFRSs (2011-2013 cycle)
  In the 2011 – 2013 annual improvements cycle, four amendments to four standards were issued, which included an amendment to PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards–First-time Adoption of PFRS*. The amendment to PFRS 1 is effective immediately. It clarifies that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but permits early application, provided either standard is applied consistently throughout the periods presented in the entity's first PFRS financial statements. This amendment has no impact on the Group as it is not a first time PFRS adopter.

<u>New standards and interpretations issued but not yet effective</u>
The Group will adopt the following standards and interpretations when these become effective. Except as otherwise indicated, the Group does not expect the adoption of these new and amended PFRS and Philippine Interpretations to have significant impact on its financial statements.

- PFRS 9, *Financial Instruments* – Classification and Measurement (2010 version)
  PFRS 9 (2010 version) reflects the first phase on the replacement of PAS 39 and applies to the classification and measurement of financial assets and liabilities as defined in PAS 39, *Financial Instruments: Recognition and Measurement*. PFRS 9 requires all financial assets to be measured at fair value at initial recognition. A debt financial asset may, if the fair value option (FVO) is not invoked, be subsequently measured at amortized cost if it is held within a business model that has the objective to hold the assets to collect the contractual cash flows and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding. All other debt instruments are

subsequently measured at fair value through profit or loss. All equity financial assets are measured at fair value either through other comprehensive income (OCI) or profit or loss. Equity financial assets held for trading must be measured at fair value through profit or loss. For FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. All other PAS 39 classification and measurement requirements for financial liabilities have been carried forward into PFRS 9, including the embedded derivative separation rules and the criteria for using the FVO. The Group will not adopt the standard before the completion of the limited amendments and the second phase of the project.

PFRS 9 (2010 version) is effective for annual periods beginning on or after January 1, 2015. This mandatory adoption date was moved to January 1, 2018 when the final version of PFRS 9 was adopted by the Philippine Financial Reporting Standards Council (FRSC). Such adoption, however, is still for approval by the Board of Accountancy (BOA).

In compliance with SEC Memorandum Circular No. 3, Series of 2012, the Group has conducted study on the impact of an early adoption of PFRS 9. After careful consideration of the results on the impact of evaluation, the Group has decided not to early adopt PFRS 9 for its 2014 annual financial reporting.

- Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate*
  This interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The SEC and the FRSC have deferred the effectivity of this interpretation until the final Revenue standard is issued by the IASB and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed. Adoption of the interpretation when it becomes effective will not have any impact on the financial statements of the Group.

The following new standards and amendments issued by the IASB were already adopted by the FRSC but are still for approval by the BOA:

Effective January 1, 2015

- PAS 19, *Employee Benefits – Defined Benefit Plans: Employee Contributions* (Amendments)
  PAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognize such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is effective for annual periods beginning on or after January 1, 2015. It is not expected that this amendment would be relevant to the Group, since the Group has no defined benefit plans with contributions from employees or third parties.

- Annual Improvements to PFRSs (2010-2012 cycle)
  The Annual Improvements to PFRSs (2010-2012 cycle) are effective for annual periods beginning on or after January 1, 2015 and are not expected to have a material impact on the Group. They include:

- PFRS 2, *Share-based Payment – Definition of Vesting Condition*
  This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including:
  - A performance condition must contain a service condition
  - A performance target must be met while the counterparty is rendering service
  - A performance target may relate to the operations or activities of an entity, or to those of another entity in the same group
  - A performance condition may be a market or non-market condition
  - If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied.

- PFRS 3, *Business Combinations – Accounting for Contingent Consideration in a Business Combination*
  The amendment is applied prospectively for business combinations for which the acquisition date is on or after July 1, 2014. It clarifies that a contingent consideration that is not classified as equity is subsequently measured at fair value through profit or loss whether or not it falls within the scope of PAS 39, *Financial Instruments: Recognition and Measurement* (or PFRS 9, *Financial Instruments*, if early adopted). The Group shall consider this amendment for future business combinations.

- PFRS 8, *Operating Segments – Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets*
  The amendments are applied retrospectively and clarify that:
  - An entity must disclose the judgments made by management in applying the aggregation criteria in the standard, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar'.
  - The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

- PAS 16, *Property, Plant and Equipment*, and PAS 38, *Intangible Assets – Revaluation Method – Proportionate Restatement of Accumulated Depreciation and Amortization*
  The amendment is applied retrospectively and clarifies in PAS 16 and PAS 38 that the asset may be revalued by reference to the observable data on either the gross or the net carrying amount. In addition, the accumulated depreciation or amortization is the difference between the gross and carrying amounts of the asset.

- PAS 24, *Related Party Disclosures – Key Management Personnel*
  The amendment is applied retrospectively and clarifies that a management entity, which is an entity that provides key management personnel services, is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services.

- Annual Improvements to PFRSs (2011-2013 cycle)
  The Annual Improvements to PFRSs (2011-2013 cycle) are effective for annual periods beginning on or after January 1, 2015 and are not expected to have a material impact on the Group. They include:

- PFRS 3, *Business Combinations – Scope Exceptions for Joint Arrangements*
  The amendment is applied prospectively and clarifies the following regarding the scope exceptions within PFRS 3:
  - Joint arrangements, not just joint ventures, are outside the scope of PFRS 3.
  - This scope exception applies only to the accounting in the financial statements of the joint arrangement itself.

- PFRS 13, *Fair Value Measurement – Portfolio Exception*
  The amendment is applied prospectively and clarifies that the portfolio exception in PFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of PAS 39 (*or PFRS 9, as applicable*).

- PAS 40, *Investment Property*
  The amendment is applied prospectively and clarifies that PFRS 3, and not the description of ancillary services in PAS 40, is used to determine if the transaction is the purchase of an asset or business combination. The description of ancillary services in PAS 40 only differentiates between investment property and owner-occupied property (i.e., property, plant and equipment).

<u>Effective January 1, 2016</u>

- PAS 16, *Property, Plant and Equipment*, and PAS 38, *Intangible Assets – Clarification of Acceptable Methods of Depreciation and Amortization* (Amendments)
  The amendments clarify the principle in PAS 16 and PAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets. The amendments are effective prospectively for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group given that the Group has not used a revenue-based method to depreciate its non-current assets.

- PAS 16, *Property, Plant and Equipment*, and PAS 41, *Agriculture – Bearer Plants* (Amendments)
  The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of PAS 41. Instead, PAS 16 will apply. After initial recognition, bearer plants will be measured under PAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of PAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, PAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*, will apply. The amendments are retrospectively effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group as the Group does not have any bearer plants.

- PAS 27, *Separate Financial Statements – Equity Method in Separate Financial Statements* (Amendments)
  The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying PFRS and electing to change to the equity method in its separate financial

statements will have to apply that change retrospectively. For first-time adopters of PFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to PFRS. The amendments are effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments will not have any impact on the Group's consolidated financial statements.

- PFRS 10, *Consolidated Financial Statements* and PAS 28, *Investments in Associates and Joint Ventures* – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
  These amendments address an acknowledged inconsistency between the requirements in PFRS 10 and those in PAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. These amendments are effective from annual periods beginning on or after January 1, 2016.

- PFRS 11, *Joint Arrangements – Accounting for Acquisitions of Interests in Joint Operations* (Amendments)
  The amendments to PFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant PFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to PFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

  The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group.

- PFRS 14, *Regulatory Deferral Accounts*
  PFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of PFRS. Entities that adopt PFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. PFRS 14 is effective for annual periods beginning on or after January 1, 2016. Since the Group is an existing PFRS preparer, this standard would not apply.

- Annual Improvements to PFRSs (2012-2014 cycle)
  The Annual Improvements to PFRSs (2012-2014 cycle) are effective for annual periods beginning on or after January 1, 2016 and are not expected to have a material impact on the Group. They include:

- PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations – Changes in Methods of Disposal*
  The amendment is applied prospectively and clarifies that changing from a disposal through sale to a disposal through distribution to owners and vice-versa should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in PFRS 5. The amendment also clarifies that changing the disposal method does not change the date of classification.

- PFRS 7, *Financial Instruments: Disclosures – Servicing Contracts*
  PFRS 7 requires an entity to provide disclosures for any continuing involvement in a transferred asset that is derecognized in its entirety. The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and arrangement against the guidance in PFRS 7 in order to assess whether the disclosures are required. The amendment is to be applied such that the assessment of which servicing contracts constitute continuing involvement will need to be done retrospectively. However, comparative disclosures are not required to be provided for any period beginning before the annual period in which the entity first applies the amendments.

- PFRS 7 - *Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements*
  This amendment is applied retrospectively and clarifies that the disclosures on offsetting of financial assets and financial liabilities are not required in the condensed interim financial report unless they provide a significant update to the information reported in the most recent annual report.

- PAS 19, *Employee Benefits – regional market issue regarding discount rate*
  This amendment is applied prospectively and clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.

- PAS 34, *Interim Financial Reporting – disclosure of information 'elsewhere in the interim financial report'*
  The amendment is applied retrospectively and clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g., in the management commentary or risk report).

<u>Effective January 1, 2018</u>

- PFRS 9, *Financial Instruments* – Hedge Accounting and amendments to PFRS 9, PFRS 7 and PAS 39 (2013 version)
  PFRS 9 (2013 version) already includes the third phase of the project to replace PAS 39 which pertains to hedge accounting. This version of PFRS 9 replaces the rules-based hedge accounting model of PAS 39 with a more principles-based approach. Changes include replacing the rules-based hedge effectiveness test with an objectives-based test that focuses on the economic relationship between the hedged item and the hedging instrument, and the effect of credit risk on that economic relationship; allowing risk components to be designated as the hedged item, not only for financial items but also for non-financial items, provided that the

risk component is separately identifiable and reliably measurable; and allowing the time value of an option, the forward element of a forward contract and any foreign currency basis spread to be excluded from the designation of a derivative instrument as the hedging instrument and accounted for as costs of hedging. PFRS 9 also requires more extensive disclosures for hedge accounting.

PFRS 9 (2013 version) has no mandatory effective date. The mandatory effective date of January 1, 2018 was eventually set when the final version of PFRS 9 was adopted by the FRSC. The adoption of the final version of PFRS 9, however, is still for approval by BOA.

The adoption of PFRS 9 is not expected to have any significant impact on the Group's financial statements.

- PFRS 9, *Financial Instruments* (2014 or final version)
  In July 2014, the final version of PFRS 9, *Financial Instruments*, was issued. 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. PFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of PFRS 9 is permitted if the date of initial application is before February 1, 2015.

  The adoption of PFRS 9 is not expected to have any significant impact on the Group's financial statements.

The following new standard issued by the IASB has not yet been adopted by FRSC

- IFRS 15, *Revenue from Contracts with Customers*
  IFRS 15 was issued in May 2014 and 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 IFRS 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 IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2017 with early adoption permitted. The Group is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date once adopted locally.

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

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

Financial Assets and Financial Liabilities

*Date of recognition*

The Group recognizes a financial asset or a financial liability on the consolidated statement of financial position when it becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the settlement date.

*Initial recognition of financial instruments*

Financial assets and financial liabilities are recognized initially at fair value. Transaction costs are included in the initial measurement of all financial assets and financial liabilities, except for financial instruments measured at fair value through profit or loss (FVPL). Financial assets in the scope of PAS 39 are classified as either financial assets at FVPL, loans and receivables, held-to-maturity (HTM) financial assets, or available-for-sale (AFS) financial assets, as appropriate.

Financial liabilities are classified as either financial liabilities at FVPL or other financial liabilities.

As of December 31, 2014 and 2013, the Group's financial assets and financial liabilities are of the nature of loans and receivables and other financial liabilities.

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

*Day 1 difference*

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

*Loans and receivables*

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

After initial measurement, the loans and receivables are subsequently measured at amortized cost using the effective interest rate (EIR) method, less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR and transaction costs. The amortization is included in "Finance income" in the consolidated statement of comprehensive income.

Gains and losses are recognized in the consolidated statement of comprehensive income when the loans and receivables are derecognized or impaired as well as through amortization process.

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

Other financial liabilities include trade and other payables, short-term loans and long-term debt. All loans and borrowings are initially recognized at the fair value of the consideration received less directly attributable transaction costs.
After initial recognition, short-term loans and long-term debts are subsequently measured at amortized cost using the EIR method.

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

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

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

*Loans and receivables*
For loans and receivables carried at amortized cost, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assessed for impairment. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment for impairment.

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

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

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

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

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

<u>Derecognition of Financial Instruments</u>

*Financial assets*

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

- The rights to receive cash flows from the asset have expired, or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through'arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

*Financial liabilities*
A financial liability is derecognized when the obligation under the liability is discharged or cancelled or has expired.

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

Offsetting of Financial Instruments
Financial assets and financial liabilities are only offset and the net amount is reported in the consolidated statement of financial position if, and only if, there is a legally enforceable right to set off the recognized amounts and the Group intends to either settle on a net basis, or to realize the asset and settle the liability simultaneously.

Fair Value Measurement
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 by the Group.

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

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

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

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

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

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

Inventories
Inventories are valued at the lower of cost and net realizable value (NRV). NRV is the estimated selling price in the ordinary course of business, less estimated costs necessary to make the sale for coal inventory or replacement cost for spare parts and supplies. Cost is determined using the weighted average production cost method for coal inventory and the moving average method for spare parts and supplies.

The cost of extracted coal includes stripping costs and other mine-related costs incurred during the period and allocated on per metric ton basis by dividing the total production cost with total volume of coal produced. Except for shiploading cost, which is a component of total minesite cost, all other production related costs are charged to production cost.

Spare parts and supplies are usually carried as inventories and are recognized in the consolidated statement of comprehensive income when consumed. Inventories transferred to property, plant and equipment are used as a component of self-constructed property, plant and equipment and are recognized as expense during useful life of that asset. Transfers of inventories to property, plant and equipment do not change the carrying amount of the inventories.

Exploration and Evaluation Asset
Exploration and evaluation activity involves the search for mineral resources, the determination of technical feasibility and the assessment of commercial viability of an identified resource.

Exploration and evaluation activity includes:
- Researching and analyzing historical exploration data
- Gathering exploration data through geophysical studies
- Exploratory drilling and sampling
- Determining and examining the volume and grade of the resource
- Surveying transportation and infrastructure requirements
- Conducting market and finance studies

License costs paid in connection with a right to explore in an existing exploration area are capitalized and amortized over the term of the permit.

Once the legal right to explore has been acquired, exploration and evaluation expenditure is charged to consolidated statement of comprehensive income as incurred, unless the Group's management concludes that a future economic benefit is more likely than not to be realized. These costs include materials and fuel used, surveying costs, drilling costs and payments made to contractors.

In evaluating whether the expenditures meet the criteria to be capitalized, several different sources of information are used. The information that is used to determine the probability of future benefits depends on the extent of exploration and evaluation that has been performed.

Expenditure is transferred from 'Exploration and evaluation asset' to 'Mine properties' which is included under 'Property, plant and equipment' once the work completed to date supports the future development of the property and such development receives appropriate approvals.

After transfer of the exploration and evaluation asset, all subsequent expenditure on the construction, installation or completion of infrastructure facilities is capitalized in 'Mine properties'. Development expenditure is net of proceeds from the sale of ore extracted during the development phase.

Stripping Costs
As part of its mining operations, the Group incurs stripping (waste removal) costs both during the development phase and production phase of its operations. Stripping costs incurred in the development phase of a mine, before the production phase commences (development stripping), are capitalized as part of the cost of mine properties and subsequently amortized over its useful life using units of production method. The capitalization of development stripping costs ceases when the mine/component is commissioned and ready for use as intended by management.

Stripping activities undertaken during the production phase of a surface mine (production stripping) are accounted for as set out below. After the commencement of production further development of the mine may require a phase of unusually high stripping that is similar in nature to development phase stripping. The costs of such stripping are accounted for in the same way as development stripping (as discussed above).

Stripping costs incurred during the production phase are generally considered to create two benefits, being either the production of inventory or improved access to the coal body to be mined in the future. Where the benefits are realized in the form of inventory produced in the period, the production stripping costs are accounted for as part of the cost of producing those inventories. Where the benefits are realized in the form of improved access to ore to be mined in the future, the costs are recognized as a noncurrent asset, referred to as a stripping activity asset, if the following criteria are met:

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

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

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

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

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

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

Mining Reserves
Mining reserves are estimates of the amount of coal that can be economically and legally extracted from the Group's mining properties. The Group estimates its mining reserves and mineral resources based on information compiled by appropriately qualified persons relating to the geological data on the size, depth and shape of the coal body, and require complex geological judgments to interpret the data. The 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 coal body. Changes in the reserve or resource estimates may impact the carrying value of exploration and evaluation asset, mine properties, property, plant and equipment, provision for decommissioning and site rehabilitation and depreciation and amortization charges.

Property, Plant and Equipment
Upon completion of mine construction, the assets are transferred into property, plant and equipment. Items of property, plant and equipment except land are carried at cost less accumulated depreciation and any impairment in value.

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

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

Mine properties consists of stripping activity asset and expenditures transferred from 'Exploration and evaluation asset' once the work completed supports the future development of the property. Mine properties are depreciated or amortized on a unit-of-production basis over the economically recoverable reserves of the mine concerned.

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

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

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

| | Years |
|---|---|
| Mining, tools and other equipment | 2 to 13 |
| Power plant and buildings | 10 to 25 |
| Roads and bridges | 17 |

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

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

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. When assets are retired, or otherwise disposed of, the cost and the related accumulated depreciation are removed from the accounts. Any gain or loss arising on the derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated statement of comprehensive income in the year the item is derecognized.

Computer Software

Computer software, included under "Other noncurrent assets", is measured on initial recognition at cost, which comprises its purchase price plus any directly attributable costs of preparing the asset for its intended use. Computer software is carried at cost less any accumulated amortization on a straight line basis over their useful lives of three (3) to five (5) years and any impairment in value.

Amortization of computer software is recognized under the "Cost of sales" in the consolidated statement of comprehensive income.

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

Impairment of Nonfinancial Assets

The Group assesses at each reporting date whether there is an indication that its nonfinancial assets (e.g., inventories, property, plant and equipment and computer software) may be impaired. If any such indication exists, or when an annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount.

*Property, plant and equipment and computer software*

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

In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples or other available fair value indicators.

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

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

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

*Inventories*
NRV tests are performed at least annually and represent the estimated sales price based on prevailing price at reporting date, less estimated cost necessary to make the sale for coal inventory or replacement costs for spare parts and supplies. If there is any objective evidence that the inventories are impaired, impairment losses are recognized in the consolidated statement of comprehensive income, in those expense categories consistent with the function of the assets, as being the difference between the cost and NRV of inventories.

Intangible Assets
Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition.

Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Internally generated intangibles, excluding capitalized development costs, are not capitalized and the related expenditure is reflected in the consolidated statement of comprehensive income in the period in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

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

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

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

*Research and development costs*
Research costs are expensed as incurred. Development expenditures on an individual project are recognized as an intangible asset when the Group can demonstrate:

- The technical feasibility of completing the intangible asset so that the asset will be available for use or sale
- Its intention to complete and its ability to use or sell the asset
- How the asset will generate future economic benefits
- The availability of resources to complete the asset
- The ability to measure reliably the expenditure during development
- The ability to use the intangible asset generated

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortization and accumulated impairment losses. Amortization of the asset begins when development is complete and the asset is available for use. It is amortized over the period of expected future benefit. Amortization is recorded in cost of sales of the consolidated statement of comprehensive income. During the period of development, the asset is tested for impairment annually.

The Group has assessed the useful life of the development costs based on the expected usage of the asset. The useful life of capitalized development costs is twenty (20) years.

Input Value-Added Taxes (VAT)
Input tax represents the VAT due or paid on purchases of goods and services subjected to VAT that the Group can claim against any future liability to the Bureau of Internal Revenue (BIR) for output VAT on sale of goods and services subjected to VAT. The input tax can also be recovered as tax credit under certain circumstances against future income tax liability of the Group upon approval of the BIR and/or Bureau of Customs. Input tax is stated at its estimated net realizable values. A valuation allowance is provided for any portion of the input tax that cannot be claimed against output tax or recovered as tax credit against future income tax liability. Input tax is recorded under current and noncurrent assets in the consolidated statement of financial position.

Other Assets
Other assets pertain to resources controlled by the Group as a result of past events and from which future economic benefits are expected to flow to the Group.

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

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

All other assets are classified as noncurrent.
A liability is current when either:

- It is expected to be settled in the normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within 12 months after reporting date; or
- There is no unconditional right to defer the settlement of the liability for at least 12 months after reporting date.

The Group classifies all other liabilities as noncurrent.

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

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

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

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

*Spot electricity sales*
Revenue from spot electricity sales derived from the sale to the spot market of excess generated electricity over the contracted energy using price determined by the spot market, also known as Wholesale Electricity Spot Market (WESM), the market where electricity is traded, as mandated by Republic Act (RA) No. 9136 of the Department of Energy (DOE).

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

*Other income*
Other income is recognized when earned.

Cost of Sales

*Cost of coal*

Cost of coal includes directly related production costs such as cost of fuel and lubricants, materials and supplies, depreciation and other related costs. These costs are recognized when incurred.

*Cost of power*

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

Operating Expenses

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

Borrowing Costs

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

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

Other Comprehensive Income (Loss)

This pertains to items of income and expense that are not recognized in the profit or loss for the year in accordance with PFRS.

Pension Costs

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

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

Defined benefit costs comprise the following:

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

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

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

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

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

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

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

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

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

Income Tax

*Current tax*

Current 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 tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at reporting date.

*Deferred tax*

Deferred tax is provided on all temporary differences, with certain exceptions, at reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

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

Deferred tax assets are not recognized when they arise from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of transaction, affects neither the accounting income nor taxable income or loss. Deferred tax liabilities are not provided on nontaxable temporary differences associated with investments in domestic subsidiaries, associates and interests in joint ventures.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred tax assets to be utilized.

Deferred tax assets and liabilities are measured at the tax rate that is expected to apply to the period when the asset is realized or the liability is settled, based on tax rate and tax laws that have been enacted or substantially enacted at financial reporting date.

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

Provisions

Provisions are recognized only when the Group has: (a) a present obligation (legal or constructive) as a result of a past event; (b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and (c) a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

*Provision for decommissioning and site rehabilitation*
The Group records the present value of estimated costs of legal and constructive obligations required to restore operating locations in the period in which the obligation is incurred. The nature of these restoration activities includes 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 in the consolidated statements of comprehensive income as a finance cost. Additional disturbances or changes in rehabilitation costs will be recognized as additions or charges to the corresponding assets and rehabilitation liability when they occur. For closed sites, changes to estimated costs are recognized immediately in the consolidated statement of comprehensive income.

<u>Leases</u>
The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date. It requires consideration as to whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

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

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

A lease is classified as an operating lease if it does not transfer substantially all of the risks and rewards incidental to ownership. Operating lease payments are recognized in cost of coal sales under "Outside Services" in the consolidated statement of comprehensive income on a straight line basis over the lease term.

<u>Foreign Currency Transactions and Translation</u>
The Group's financial statements are presented in Philippine peso, which is also the functional currency. Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency closing rate at reporting date. All differences are taken to the consolidated statement of comprehensive income.

<u>Equity</u>
The Group records common stocks at par value and amount of contribution in excess of par value is accounted for as an additional paid-in capital. Incremental costs incurred directly attributable to the issuance of new shares are deducted from proceeds.

Retained earnings represent accumulated earnings of the Group less dividends declared, if any. Dividends on common stocks are recognized as a liability and deducted from equity when they are declared. Dividends for the year that are approved after reporting date are dealt with as an event after reporting date. Retained earnings may also include effect of changes in accounting policy as may be required by the standard's transitional provisions.

Earnings per Share

Basic earnings per share (EPS) is computed by dividing the net income for the year attributable to common shareholders (net income less dividends on convertible redeemable preferred shares) by the weighted average number of common shares issued and outstanding during the year and adjusted to give retroactive effect to any stock dividends declared during the period.

Diluted EPS is computed by dividing the net income for the year attributable to common shareholders by the weighted average number of common shares outstanding during the year adjusted for the effects of dilutive convertible redeemable preferred shares. Diluted EPS assumes the conversion of the outstanding preferred shares. When the effect of the conversion of such preferred shares is anti-dilutive, no diluted EPS is presented.

Operating Segments

The Group's operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. The Group generally accounts for intersegment revenues and expenses at agreed transfer prices. Income and expenses from discontinued operations are reported separate from normal income and expenses down to the level of income after taxes. Financial information on operating segments is presented in Note 33 to the consolidated financial statements.

Contingencies

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

Events after Reporting Date

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

## 3. Significant Accounting Judgments, Estimates and Assumptions

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

Judgment

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

a. *Determining functional currency*
   The Group, based on the relevant economic substance of the underlying circumstances, has determined its functional currency to be the Philippine Peso. It is the currency of the economic environment in which the Group primarily operates.

b. *Operating lease commitments - the Group as lessee*
   The Group has entered into various contract of lease for office space, equipment and land. The Group has determined that all significant risks and benefits of ownership on these properties will be retained by the lessor. In determining significant risks and benefits of ownership, the Group considered the substance of the transaction rather than the form of the contract (see Note 28).

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

d. *Stripping costs*
   The Group incurs waste removal costs (stripping costs) during the development and production phases of its surface mining operations. During the production phase, stripping costs (production stripping costs) can be incurred both in relation to the production of inventory in that period and the creation of improved access and mining flexibility in relation to ore to be mined in the future. The former are included as part of the costs of inventory, while the latter are capitalized as a stripping activity asset, where certain criteria are met. Significant judgment is required to distinguish between development stripping and production stripping and to distinguish between the production stripping that relates to the extraction of inventory and what relates to the creation of a stripping activity asset.

   Once the Group has identified its production stripping for each surface mining operation, it identifies the separate components of the coal bodies for each of its mining operations. An identifiable component is a specific volume of the coal body that is made more accessible by the stripping activity. Significant judgment is required to identify and define these components, and also to determine the expected volumes of waste to be stripped and coal body to be mined in each of these components. These assessments are undertaken for each individual mining operation based on the information available in the mine plan. The mine plans and, therefore, the identification of components, will vary between mines for a number of reasons. These include, but are not limited to, the type of commodity, the geological characteristics of the coal body, the geographical location and/or financial considerations.

   Judgment is also required to identify a suitable production measure to be used to allocate production stripping costs between inventory and any stripping activity asset(s) for each component. The Group considers that the ratio of the expected volume of waste to be stripped for an expected volume of ore to be mined for a specific component of the coal body, is the most suitable production measure. Furthermore, judgments and estimates are also used to apply the units of production method in determining the depreciable lives of the stripping activity asset.

e. *Contingencies*
The Group is currently involved in various legal proceedings. The estimate of the probable costs for the resolution of these claims has been developed in consultation with outside counsel handling the Group's defense in these matters and is based upon an analysis of potential results. The Group currently does not believe that these proceedings will have a material adverse effect on its financial position. It is possible, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the strategies relating to these proceedings (see Note 28).

Management's Use of Estimates and Assumptions
The key assumptions concerning the future and other sources of estimation uncertainty at reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

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

The Group's coal sales arrangement with its customers includes reductions of invoice price to take into consideration charges for penalties and bonuses. These price adjustments depend on the estimated quality of the delivered coal. These estimates are based on final coal quality analysis on delivered coal.

There is no assurance that the use of estimates may not result in material adjustments in future periods.

The amounts of revenue from coal sales are disclosed in Note 32.

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

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

The above assessment resulted to an additional allowance of ₱443.65 million in 2013. There were no additional provisions in 2014 as management has assessed that the existing level is adequate for risk of non-collection.

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

c. *Estimating stock pile inventory quantities*
The Group estimates the stock pile inventory by conducting a topographic survey which is performed by in-house surveyors and third-party surveyors. The survey is conducted on a monthly basis with a reconfirmatory survey at year end. The process of estimation involves a

predefined formula which considers an acceptable margin of error of plus or minus 5%. Thus, an increase or decrease in the estimation threshold for any period would differ if the Group utilized different estimates and this would either increase or decrease the profit for the year.

The amount of coal pile inventory is disclosed in Note 6.

d. *Estimating allowance for obsolescence in spare parts and supplies*
The Group estimates its allowance for inventory obsolescence in spare parts and supplies based on periodic specific identification. The Group provides 100% allowance for obsolescence on items that are specifically identified as obsolete.

The amount and timing of recorded inventory obsolescence for any period would differ if the Group made different judgments or utilized different estimates. An increase in the allowance for inventory obsolescence would increase the Group's recorded operating expenses and decrease its current assets.

The carrying amount of spare parts and supplies is disclosed in Note 6.

e. *Estimating development costs*
Development costs are capitalized in accordance with the accounting policy. Initial capitalization of costs is based on management's judgment that technological and economical feasibility is confirmed. In determining the amounts to be capitalized, management makes assumptions regarding the expected future cash generation of the project, discount rates to be applied and the expected period of benefits.

Capitalized development costs are disclosed in Note 11.

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

The estimated provision for decommissioning and site rehabilitation is disclosed in Note 15.

g. *Estimating useful lives of property, plant and equipment and computer software (except land)*
The Group estimated the useful lives of its property, plant and equipment and computer software based on the period over which the assets are expected to be available for use.
The Group reviews annually the estimated useful lives of property, plant and equipment and computer software based on factors that include asset utilization, internal technical evaluation, and technological changes, environmental and anticipated use of the assets.

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

In 2013, management has determined that components of its Unit II of its power plant will have to be dismantled and repaired in the first quarter of 2014. These components have original remaining lives of 2-15 years in the books. Because of the planned activity, management has accelerated the depreciation of these components and recognized an additional depreciation of ₱1.11 billion in 2013.

The carrying values of the property, plant and equipment and computer software are disclosed in Notes 8 and 11, respectively.

h. *Estimating impairment for nonfinancial assets*
The Group assesses impairment on property, plant and equipment, computer software and input VAT withheld 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.

As described in the accounting policy, the Group estimates the recoverable amount as the higher of the assets fair value and value in use. 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.

The carrying values of the property, plant and equipment, computer software and input VAT withheld are disclosed in Notes 8 and 11, respectively.

i. *Deferred tax assets*
The Group reviews the carrying amounts of deferred tax assets at each reporting date. Deferred tax assets, including those arising from unutilized tax losses require management to assess the likelihood that the Group will generate taxable earnings in future periods and in reference to its income tax holiday status in order to utilize recognized deferred tax assets. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Group to realize the net deferred tax assets recorded at reporting date could be impacted.

In 2014 and 2013, the Group has various deductible temporary differences and NOLCO for which deferred tax assets are not recognized (see Note 25).

j. *Estimating pension and other employee benefits*
The cost of defined benefit pension plan and the present value of the pension liabilities are determined using actuarial valuations. The actuarial valuation involves making various assumptions. These assumptions are described in Note 19 and include among others, the

determination of the discount rates and future salary increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, defined benefit liabilities are highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

In determining the appropriate discount rate, management considers the interest rates of government bonds that are denominated in the currency in which the benefits will be paid, with extrapolated maturities corresponding to the expected duration of the defined benefit liability. Future salary increases are based on expected future inflation rates and other relevant factors.

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

## 4. Cash and Cash Equivalents

This account consists of:

| | **2014** | 2013 |
|---|---|---|
| Cash on hand and in banks | **₱1,523,452,817** | ₱3,302,824,538 |
| Cash equivalents | **2,159,672,727** | 1,516,482,727 |
| | **₱3,683,125,544** | ₱4,819,307,265 |

Cash in banks earns interest at the respective bank deposit rates. Cash equivalents include short-term placements made for varying periods of up to three months depending on the immediate cash requirements of the Group and earn interest at the respective prevailing short-term placement rates ranging from 1.00% to 2.75% and 1.00% to 4.63% in 2014 and 2013, respectively.

In 2014, 2013 and 2012, total interest income earned from cash and cash equivalents amounted to ₱34.33 million, ₱13.77 million and ₱63.70 million, respectively (see Note 23).

## 5. Receivables

This account consists of:

| | **2014** | 2013 |
|---|---|---|
| Trade receivables - outside parties | **₱4,272,936,012** | ₱4,393,716,197 |
| Trade receivables - related parties (Note 18) | **67,121,866** | 75,553,612 |
| Others | **290,652,639** | 65,371,369 |
| | **4,630,710,517** | 4,534,641,178 |
| Less allowance for doubtful accounts | **502,989,241** | 502,989,241 |
| | **₱4,127,721,276** | ₱4,031,651,937 |

*Trade receivables - outside parties*
These are receivables from electricity sales and coal sales.

Receivables from electricity sales are claims from power distribution utilities, spot market and other customers for the sale of contracted energy and spot sales transactions. These are generally on a 30-day credit term and are carried at original invoice amounts less discounts and rebates.

Receivables from coal sales are noninterest-bearing and generally have 30 - 45 days' credit terms.

- Export sales - coal sold to international market which is priced in US Dollar.
- Local sales - coal sold to domestic market which is priced in Philippine Peso.

*Trade receivables - related parties*
Receivables from related parties are noninterest-bearing and collectible over a period of one year.

*Others*
Others include advances to site contractors, officers, employees and receivable from sale of fly ashes. These are generally non-interest bearing and are collectible over a period of one year.

Movements in the allowance for doubtful accounts are as follows:

| | **2014** | | |
|---|---|---|---|
| | **Trade receivables - outside parties** | **Other Receivables** | **Total** |
| At January 1 | **₱497,173,882** | **₱5,815,359** | **₱502,989,241** |
| Provision (Note 21) | **–** | **–** | **–** |
| At December 31 | **₱497,173,882** | **₱5,815,359** | **₱502,989,241** |

| | 2013 | | |
|---|---|---|---|
| | Trade receivables - outside parties | Other Receivables | Total |
| At January 1 | ₱53,523,802 | ₱5,815,359 | ₱59,339,161 |
| Provision (Note 21) | 443,650,080 | – | 443,650,080 |
| At December 31 | ₱497,173,882 | ₱5,815,359 | ₱502,989,241 |

Provision for doubtful accounts is included in the "Operating Expenses" in the consolidated statements of comprehensive income (see Note 21).

## 6. Inventories

This account consists of:

| | **2014** | 2013 |
|---|---|---|
| Spare parts and supplies at NRV | **₱2,240,860,599** | ₱2,691,508,783 |
| Coal pile inventory at cost | **551,470,514** | 1,938,051,785 |
| | **₱2,792,331,113** | ₱4,629,560,568 |

Coal pile inventory are stated at cost, which is lower than NRV. The cost of coal inventories recognized as cost of sales in the consolidated statements of comprehensive income amounted to ₱10.23 billion, ₱8.66 billion and ₱9.83 billion for each of the three years ended December 31, 2014, 2013 and 2012, respectively (see Note 20).

Coal pile inventory at cost included capitalized depreciation of ₱4.03 million and ₱121.83 million in 2014 and 2013, respectively (see Note 8).

The rollforward analysis for inventory obsolescence follows:

| | **2014** | 2013 |
|---|---|---|
| Beginning balance | **₱57,407,122** | ₱53,286,925 |
| Provision for the year | **–** | 4,120,197 |
| Reversal during the year | **(12,154,784)** | – |
| Ending balance | **₱45,252,338** | ₱57,407,122 |

Provision for inventory obsolescence is recorded under "Materials and supplies" of cost of coal sales (see Note 20).

## 7. **Other Current Assets**

This account consists of:

| | **2014** | 2013 |
|---|---|---|
| Advances to suppliers | **₱836,286,751** | ₱743,277,544 |
| Input value-added tax (VAT) | **762,482,193** | – |
| Creditable withholding tax | **514,561,071** | 505,361,225 |
| Prepaid insurance | **16,326,140** | – |
| Prepaid rent (Notes 11 and 28) | **4,544,839** | 4,544,839 |
| Others | **35,248,883** | 66,502,130 |
| | **₱2,169,449,877** | ₱1,319,685,738 |

*Input VAT*
Input VAT represents VAT imposed on the Group by its suppliers and contractors for the acquisition of goods and services required under Philippine taxation laws and regulations. Input VAT is applied against Output VAT. The balance is recoverable in future periods.

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

*Creditable withholding tax*
Creditable withholding tax pertains to the amount withheld by the Group's customers from their income payment. This will be claimed as tax credit and will be used against future income tax payable.

*Others*
Others include prepayments on insurance and other charges.

## 8. Property, Plant and Equipment

The rollforward of this account follow:

| | 2014 | | | | | |
|---|---|---|---|---|---|---|
| | **Land** | **Mining, Tools and Other Equipment** | **Power Plant and Buildings** | **Roads and Bridges** | **Equipment in Transit and Construction in Progress** | **Total** |
| **At Cost** | | | | | | |
| At January 1 | **₱376,811,469** | **₱15,937,232,282** | **₱19,998,004,172** | **₱827,359,725** | **₱10,810,033,880** | **₱47,949,441,528** |
| Additions | **–** | **1,110,423,802** | **63,933,040** | **–** | **8,244,334,903** | **9,418,691,745** |
| Transfers from Construction in Progress | **–** | **–** | **1,428,851,086** | **–** | **(1,428,851,086)** | **–** |
| Disposals (Note 21) | **–** | **(102,475,004)** | **–** | **–** | **–** | **(102,475,004)** |
| Adjustment (Note 15) | **–** | **(18,509,876)** | **–** | **–** | **–** | **(18,509,876)** |
| At December 31 | **376,811,469** | **16,926,671,204** | **21,490,788,298** | **827,359,725** | **17,625,517,697** | **57,247,148,393** |
| **Accumulated Depreciation** | | | | | | |
| At January 1 | **₱–** | **₱14,254,278,801** | **₱6,109,300,941** | **₱299,705,962** | **₱–** | **₱20,663,285,704** |
| Depreciation (Notes 20 and 21) | **–** | **1,170,809,625** | **1,008,546,642** | **54,829,714** | **–** | **2,234,185,981** |
| Disposals (Note 21) | **–** | **(102,364,028)** | **–** | **–** | **–** | **(102,364,028)** |
| At December 31 | **–** | **15,322,724,398** | **7,117,847,583** | **354,535,676** | **–** | **22,795,107,657** |
| **Net Book Value** | **₱376,811,469** | **₱1,603,946,806** | **₱14,372,940,715** | **₱472,824,049** | **₱17,625,517,697** | **₱34,452,040,736** |

| | 2013 | | | | | |
|---|---|---|---|---|---|---|
| | Land | Mining, Tools and Other Equipment | Power Plant and Buildings | Roads and Bridges | Equipment in Transit and Construction in Progress | Total |
| **At Cost** | | | | | | |
| At January 1 | ₱376,605,100 | ₱15,029,849,283 | ₱18,285,364,211 | ₱365,683,504 | ₱5,758,633,831 | ₱39,816,135,929 |
| Additions (Note 15) | 206,369 | 1,240,732,413 | 166,401,954 | – | 7,623,590,853 | 9,030,931,589 |
| Transfers from Construction in Progress | – | – | 2,110,514,583 | 461,676,221 | (2,572,190,804) | – |
| Writedown (Note 21) | – | – | (564,276,576) | – | – | (564,276,576) |
| Disposals (Note 21) | – | (333,349,414) | – | – | – | (333,349,414) |
| At December 31 | 376,811,469 | 15,937,232,282 | 19,998,004,172 | 827,359,725 | 10,810,033,880 | 47,949,441,528 |
| **Accumulated Depreciation** | | | | | | |
| At January 1 | ₱– | ₱12,780,776,247 | ₱4,019,560,994 | ₱291,043,871 | ₱– | ₱17,091,381,112 |
| Depreciation (Notes 20 and 21) | – | 1,800,290,010 | 2,210,667,602 | 8,662,091 | – | 4,019,619,703 |
| Writedown (Note 21) | – | – | (120,927,655) | – | – | (120,927,655) |
| Disposals (Note 21) | – | (326,787,456) | – | – | – | (326,787,456) |
| At December 31 | – | 14,254,278,801 | 6,109,300,941 | 299,705,962 | – | 20,663,285,704 |
| **Net Book Value** | ₱376,811,469 | ₱1,682,953,481 | ₱13,888,703,231 | ₱527,653,763 | ₱10,810,033,880 | ₱27,286,155,824 |

Equipment in transit and construction in progress accounts mostly pertain to purchased mining equipment that are in transit and various buildings and structures that are under construction as of December 31, 2014 and 2013. In 2013, construction in progress includes capitalized rehabilitation costs for Units 1 and 2 of SCPC's power plant and construction of SLPGC's 2 x 150 megawatt (MW) coal-fired thermal power plant. The rehabilitation of Unit 1 of SCPC power plant was completed in January 2013 and the rehabilitation of Unit 2 of SCPC power plant was completed in August 2014. In 2014, construction in progress mostly pertains to SLPGC's on-going construction of thermal power plant.

The capitalized borrowing cost included in the construction in progress account amounted to ₱333.84 million and ₱101.38 million on December 31, 2014 and 2013, respectively. The average capitalization rate is 3.18% and 3.36% in 2014 and 2013 (see Note 13).

Decommissioning costs are included in the respective assets. The impact of annual re-estimation is shown in the rollforward as an adjustment (see Note 15).

In 2014, 2013 and 2012, the Group sold various equipment at a gain amounting to ₱0.34 million, ₱0.14 million and ₱127.49 million, respectively (see Note 24).

The Group incurred a loss from property, plant and equipment write-down due to the replacement of generation units and retirement of mining equipment amounted to ₱0.11 million, ₱449.91 million and ₱341.15 million in 2014, 2013 and 2012, respectively (see Note 21).

The cost of fully depreciated assets that are still in use amounted to ₱11.09 billion and ₱11.30 billion as of December 31, 2014 and 2013, respectively.

As security for timely payment, discharge, observance and performance of the loan provisions, SCPC creates, establishes, and constitutes in favor of the Security Trustee, for the benefit of all secured parties, a first ranking real estate and chattel mortgage on present and future real assets and chattels owned by SCPC with carrying values of ₱14.88 billion and ₱14.72 billion as of December 31, 2014 and 2013, respectively.

As security for timely payment, discharge, observance and performance of the loan provisions, SLPGC creates, establishes, and constitutes in favor of the Security Trustee, for the benefit of all secured parties, a first ranking real estate and chattel mortgage on present and future real assets and chattels owned by SLPGC with carrying values of ₱16.02 billion and ₱9.18 billion as of December 31, 2014 and 2013, respectively.

The construction of SLPGC's coal-fired power plant commenced in the early part of 2012. As of December 31, 2014, the Group expects to complete the power plant in the third quarter of 2015. Total estimated cost of completed project is ₱20.40 billion.

Depreciation and amortization follow:

| | **2014** | 2013 | 2012 |
|---|---|---|---|
| Included under: | | | |
| Inventories (Note 6) | **₱4,034,790** | ₱121,831,125 | ₱188,777,615 |
| Exploration and evaluation asset (Note 10) | **248,799,589** | 49,421,284 | – |
| Cost of coal sales (Note 20): | | | |
| Depreciation and amortization | **822,278,521** | 1,114,654,804 | 1,322,458,941 |
| Hauling and shiploading costs | **10,807,640** | 65,215,174 | 120,679,537 |
| Cost of power sales (Note 20): | | | |
| Cost of coal | | | |
| Depreciation and amortization | **235,668,040** | 470,558,388 | 413,387,676 |
| Hauling and shiploading costs | **1,928,373** | 23,554,054 | 34,267,091 |
| Depreciation | **861,787,310** | 1,015,838,969 | 928,981,130 |
| Operating expenses (Note 21) | **51,655,398** | 1,162,179,465 | 44,910,889 |
| | **₱2,236,959,661** | ₱4,023,253,263 | ₱3,053,462,879 |
| Depreciation and amortization of: | | | |
| Property, plant and equipment | **₱2,234,185,981** | ₱4,019,619,703 | ₱3,049,055,621 |
| Computer software (Note 11) | **2,773,680** | 3,633,560 | 4,407,258 |
| | **₱2,236,959,661** | ₱4,023,253,263 | ₱3,053,462,879 |

## 9. Investment in Sinking Fund

In a special meeting of the BOD of SCPC held on March 9, 2010, the BOD authorized SCPC to establish, maintain, and operate trust and investment management accounts with Banco de Oro Unibank, Inc. (BDO), - Trust and Investment Group. The sinking fund constitutes the Debt

Service Reserve Account (DSRA) per Sec. 3.5, part C of the Omnibus Loan and Security Agreement (OLSA) dated May 20, 2010. The DSRA maintaining balance shall be equivalent to the minimum amount of the sum of one quarterly principal installment and one quarterly interest payment on the loan. This is required to be maintained until last repayment date. The Omnibus Agreement provided that the Security Trustee shall invest and reinvest the monies on deposit in said Collateral Accounts (see Note 13). All investments made shall be in the name of the Security Trustee and for the benefit of the Collateral Accounts. BDO Unibank, Inc. - Trust and Investment Group made an Investment in Sinking Fund amounting ₱521.78 million and ₱517.60 million as of December 31, 2014 and 2013, respectively.

Interest from sinking fund amounted to ₱6.67 million, ₱12.17 million and ₱17.21 million in 2014, 2013 and 2012, respectively (see Note 23).

## 10. **Exploration and Evaluation Asset**

| | **2014** | 2013 |
|---|---|---|
| At January 1 | **₱348,152,638** | ₱– |
| Addition | **1,566,285,000** | 348,152,638 |
| At December 31 | **₱1,914,437,638** | ₱348,152,638 |

These costs are related to exploratory drilling and activities in Bobog minesite. This mine site is situated around one kilometer away from the current active Panian mine. Expected coal release is on the last quarter of 2016 with an estimated initial production of 1.50 million metric tons based on the most recent 5-year mine plan, using the in-house estimate of recoverable coal reserve of 40.00 million metric tons. The Competent Person report dated December 29, 2014 showed mineable reserve of 71.00 million metric tons with recoverable coal reserve of 64.00 million metric tons, after superimposing an optimum pit over the existing coal resources delineated at Bobog by extensive drilling.

## 11. **Other Noncurrent Assets and Other Noncurrent Liabilities**

Other Noncurrent Assets

| | **2014** | 2013 |
|---|---|---|
| Input VAT | **₱1,173,397,202** | ₱974,897,425 |
| Five percent (5%) input VAT withheld - net of allowance for impairment losses of ₱25.98 million | **164,526,094** | 164,526,094 |
| Capitalized development costs for clay business | **98,486,533** | 37,962,843 |
| Prepaid rent (Note 28) | **89,936,396** | 94,450,487 |
| Computer software - net | **4,225,881** | 3,680,929 |
| Environmental guarantee fund (Notes 29 and 30) | **1,500,000** | 1,500,000 |
| Advances to contractors (Note 18) | – | 354,321,064 |
| Others | **8,765,946** | 8,522,345 |
| | **1,540,838,052** | 1,639,861,187 |
| Less current portion of prepaid rent (Note 7) | **4,544,839** | 4,544,839 |
| | **₱1,536,293,213** | ₱1,635,316,348 |

*Input VAT*
Input VAT represents VAT imposed on the Group by its suppliers and contractors for the acquisition of goods and services required under Philippine taxation laws and regulations. Input VAT is applied against Output VAT. The noncurrent portion of Input VAT pertains to the unamortized portion of Input VAT on purchase of capital goods spread evenly between the life of the capital goods or five years, whichever is lower. The balance is recoverable in future periods.

*Advances to contractors*
Advances to contractors account represent payments made in advance for the ongoing construction. The advances shall be settled through recoupment against the contractors' billings.

*Five percent (5%) input VAT withheld*
As a result of the enactment of RA No. 9337 effective November 1, 2005, National Power Corporation (NPC) started withholding the required 5% input VAT on the VAT exempt coal sales.

On March 7, 2007, the Parent Company obtained a ruling from the Bureau of Internal Revenue (BIR) which stated that the sale of coal remains exempt from VAT. In 2007, the Parent Company filed for refund or issuance of Tax Credit Certificates (TCCs) covering a total amount of ₱190.50 million with the BIR representing VAT erroneously withheld by NPC from December 2005 to January 2007. Due to BIR inaction on the claim, the same was eventually elevated to the Court of Tax Appeals (CTA). On October 13, 2009, CTA granted the Parent Company's petition for a refund/issuance of TCCs on erroneously withheld VAT for its December 2005 sales amounting to ₱11.85 million. On August 10, 2010, the CTA issued a Writ of Execution and was served to BIR on August 13, 2010. To date the BIR has yet to comply with the Writ of Execution.

On February 10, 2011, the CTA rendered its decision granting the claim of the Parent Company for a refund or issuance of a TCC for an amount of ₱86.11 million covering VAT erroneously withheld by NPC from January 1, 2006 to June 30, 2006. The BIR filed the corresponding petitions and motion with the CTA but was denied. On November 5, 2012, the BIR went to the Supreme Court (SC) via Petition for Review on Certiorari. Said BIR petition was denied by the SC. Later on June 9, 2013, BIR's Motion for Reconsideration was denied by the SC and on October 10, 2013 an Entry of Judgment was issued. The Writ of Execution was later issued by the CTA on February 18, 2014. To date, writ has yet to be served to the BIR as all the requirements to complete service are still being complied.

On March 28, 2011 the CTA rendered its decision granting the Parent Company's claim for refund or issuance of TCCs in the amount of ₱77.25 million. BIR's petitions and motion for reconsideration with the CTA En Banc were all denied in a Resolution dated May 29, 2012. Later the BIR elevated the case to the SC. To date the case remains pending with the SC.

On January 4, 2011, the CTA rendered its decision in favor of the Parent Company for refund/TCC in the amount of ₱15.3 million. The BIR elevated the case to the SC where the case remains pending.

In 2012, management has estimated that the refund will be recovered after ten (10) to fifteen (15) years. Consequently, the claim for tax refund was provided with provision for impairment losses amounting to ₱47.15 million (see Note 21).

Because of the above developments in 2013, management reassessed the timeline of collection to be in 5 years (instead of 15 years). A re-estimation of the realizable value was made by the management using discounted cash flows with the assumption of collection in 5 years and discount rate of 2.91%. This resulted to a reversal of ₱61.55 million provision for impairment losses reflected as "Other income" in the consolidated statements of comprehensive income in 2013 (see Note 24).

In 2014, management assessed that the timeline of collection is still 5 years.

Movements in allowance for impairment losses of the 5% input VAT withheld:

| | **2014** | 2013 |
|---|---|---|
| At January 1 | **₱25,975,688** | ₱87,525,052 |
| Reversal (Note 24) | – | (61,549,364) |
| At December 31 | **₱25,975,688** | ₱25,975,688 |

*Capitalized development costs*
SCI has capitalized development expenditures amounting to ₱98.47 million. Development costs for goods, commodities, wares and merchandise including potter earthenware, stoneware, bricks, tiles, roofs and other merchandise produce from clay are recognized as an intangible asset.

*Prepaid rent*
Prepaid rent under other noncurrent assets pertain to the long-term portion of rent of SCPC to PSALM on December 2, 2009 for the 25 years lease of land. Long-term portion of the prepaid rent amounted to ₱85.39 million and ₱89.91 million in 2014 and 2013, respectively (see Note 28).

*Computer software*
Movements in computer software account follow:

| | **2014** | 2013 |
|---|---|---|
| **At Cost** | | |
| At January 1 | **₱29,784,459** | ₱24,847,737 |
| Additions | **3,318,632** | 4,936,722 |
| At December 31 | **33,103,091** | 29,784,459 |
| **Accumulated Amortization** | | |
| At January 1 | **26,103,530** | 22,469,970 |
| Amortization (Note 8) | **2,773,680** | 3,633,560 |
| At December 31 | **28,877,210** | 26,103,530 |
| **Net Book Value** | **₱4,225,881** | ₱3,680,929 |

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

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

Other Noncurrent Liabilities

Other noncurrent liabilities pertain to the retention contract payment that is being withheld from the contractors as guaranty for any claims against them. As of December 31, 2014 and 2013, retention payable amounted to ₱743.91 million and ₱723.35 million, respectively (see Note 18).

12. **Short-term Loans**

Short-term loans represent various unsecured promissory notes from local banks with interest rates ranging from 1.13% to 2.50% and 1.17% to 3.00% in 2014 and 2013, respectively, and are payable within one year.

The carrying amount of these short-term loans as of December 31, 2014 and 2013 amounted to ₱1.22 billion and ₱1.66 billion, respectively.

The interest expense on these short-term loans recognized under "Finance Cost" amounted to ₱63.34 million, ₱58.04 million and ₱34.54 million in 2014, 2013 and 2012, respectively (see Note 22).

13. **Long-term Debt**

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

| | **2014** | 2013 |
|---|---|---|
| Mortgage payable | **₱14,268,877,410** | ₱11,017,948,783 |
| Bank loans | **3,933,732,375** | 4,790,697,568 |
| | **18,202,609,785** | 15,808,646,351 |
| Less current portion of: | | |
| Mortgage payable | **1,903,701,350** | 1,519,639,144 |
| Bank loans | **210,184,000** | 631,518,875 |
| | **2,113,885,350** | 2,151,158,019 |
| | **₱16,088,724,435** | ₱13,657,488,332 |

Mortgage Payable

*SLPGC*

On February 4, 2012, SLPGC entered into an ₱11.50 billion Omnibus Agreement with Banco de Oro, Unibank (BDO), Bank of the Philippine Island (BPI) and China Banking Corporation (CBC) as Lenders. As security for the timely payment of the loan and prompt observance of all the provision of the Omnibus Agreement, the 67% of issued and outstanding shares of SLPGC owned by the Parent Company were pledged on this loan. The proceeds of the loan are used for the engineering, procurement and construction of 2 x 150 MW coal-fired thermal power plant.

Breakdown of the syndicated loan is as follows:

| | |
|---|---|
| BDO | ₱6,000,000,000 |
| BPI | 3,000,000,000 |
| CBC | 2,500,000,000 |
| | ₱11,500,000,000 |

Details of the loan follow:

a. Interest: At applicable interest rate (PDST-F + Spread or BSP Overnight Rate, whichever is higher). Such interest shall accrue from and including the first day of each interest period up to the last day of such interest period. The Facility Agent shall notify all the Lenders of any adjustment in an interest payment date at least three banking days prior to the adjusted interest payment date.

b. Repayment: The principal amount shall be paid in twenty-seven equal consecutive quarterly installments commencing on the fourteenth quarter from the initial borrowing date. Final repayment date is ten (10) years after initial borrowing.

The first drawdown was made on May 24, 2012 amounting to ₱550.00 million. While in April and November of 2013, second and third drawdowns were made which amounted to ₱2.89 billion and ₱2.26 billion, respectively. In 2014, drawdowns amounted to ₱4.79 billion. Total drawn amounted to ₱10.49 billion and ₱5.70 billion as of December 31, 2014 and 2013, respectively. The amount of undrawn borrowing facilities that may be available in the future amounts to ₱1.01 billion as of December 31, 2014.

As of December 31, 2014 and 2013, amortization of debt issuance cost recognized as part of "Property, plant and equipment" account in the consolidated statements of financial position amounted to ₱7.31 million and ₱2.33 million, respectively.

Rollforward of debt issuance cost follows:

| | **2014** | 2013 |
|---|---|---|
| At January 1 | **₱25,936,242** | ₱2,505,839 |
| Additions | **23,935,952** | 25,757,187 |
| Amortization | **(7,313,892)** | (2,326,784) |
| At December 31 | **₱42,558,302** | ₱25,936,242 |

Mortgage payable by SLPGC provide certain restrictions and requirements with respect to, among others, maintain and preserve its corporate existence, comply with all of its material obligations under the project agreements, maintain at each testing date a Debt-to-Equity ratio not exceeding two times, grant loans or make advances and disposal of major property. These restrictions and requirements were complied with by SLPGC as of December 31, 2014 and 2013.

Provision in the loan indicates that the borrower shall pay to the lenders, a commitment fee equivalent to one-half (1/2%) per annum of any portion of a scheduled drawdown amount that remains undrawn after the lapse of the relevant scheduled drawdown. As of December 31, 2014 and 2013, SLPGC has paid commitment fee amounting to ₱4.85 million and ₱6.99 million, respectively and these were recognized under the "Finance costs" account in the consolidated statements of comprehensive income.

*SCPC*

On May 20, 2010, SCPC entered into a ₱9.60 billion Omnibus Loan Security Agreement ("Agreement") with BDO, BPI and Philippine National Bank (PNB) as Lenders, the Parent Company as Pledgor, BDO Capital and Investment Corporation as Lead Arranger and Sole Bookrunner, BPI Capital Corporation and PNB Capital and Investment Corp. as Arrangers, and BDO Unibank, Inc., Trust and Investments Group as Security Trustee, Facility Agent and Paying Agent. The loan was fully drawn by SCPC on the same date.

Mortgage payable by SCPC was collateralized by all monies in the Collateral accounts, supply receivables, proceeds of any asset and business continuity insurance, project agreements and first-ranking mortgage on present and future real assets. Further, 67% of issued and outstanding shares in SCPC owned by the Parent Company were also pledged on this loan.

Breakdown of the syndicated loan is as follows:

| | |
|---|---|
| BDO Unibank | ₱6,000,000,000 |
| BPI | 2,000,000,000 |
| PNB | 1,600,000,000 |
| | ₱9,600,000,000 |

The Agreement was entered into to finance the payments made to PSALM pursuant to the APA and LLA, and ongoing plant rehabilitation and capital expenditures.

Details of the loan follow:

a. Interest: At a floating rate per annum equivalent to the three (3) months Philippine Dealing System Treasury-Fixing (PDST-F) benchmark yield for treasury securities as published on the PDEx page of Bloomberg (or such successor electronic service provider at approximately 11:30 a.m. (Manila Time) on the banking day immediately preceding the date of initial borrowing or start of each interest period, as applicable, plus a spread of 175 basis points.

b. Repayment: The principal amount shall be payable in twenty-five equal consecutive quarterly installments commencing on the twelfth month from the initial borrowing date. Final repayment date is seven (7) years after initial borrowing.

Rollforward of the deferred finance cost follows:

| | **2014** | 2013 |
|---|---|---|
| At January 1 | **₱33,552,454** | ₱55,304,037 |
| Amortization (Note 22) | **(16,360,856)** | (21,751,583) |
| At December 31 | **₱17,191,598** | ₱33,552,454 |

Amortization of debt finance cost recognized under "Finance cost" account in the consolidated statements of comprehensive income amounted to ₱16.36 million, ₱21.75 million and ₱27.12 million for the years 2014, 2013 and 2012, respectively (see Note 22).

As of December 31, 2014, there is no more available borrowing facility that can be drawn.

Local Bank Loans

*Parent Company*

| Loan Type | Dates of Availment | Outstanding Balance 2014 | 2013 | Maturity | Interest Rate | Payment Terms | Covenants/Collaterals |
|---|---|---|---|---|---|---|---|
| | | (In Millions) | | | | | |
| Loan 1 | 2013 | **₱1,462.97** | ₱341.68 | 2016 | Floating rate, aggregate of the margin (1.20%) and LIBOR, to be repriced every 3months to 6months | Interest payable in arrears for the relevant interest period and principal repayable in semi-annual installments commencing on the 12th month after the date of the Agreement until date of final maturity | Proceeds of the loan shall be used to refinance existing debts, and finance capital expenditure requirements<br><br>Financial Covenants: Current Ratio not less than 1:1, Debt-Equity Ratio not exceeding 2:1, Debt-EBITDA Ratio not exceeding 3:1; compliant |
| Loan 2 | Various availments in 2013 and 2014 | **1,924.28** | 2,743.31 | 2016 | Floating rate to be repriced every 3 months | Interest payable every 3months, principal to be paid on maturity date | Proceeds of the loan will be used to finance capital expenditures and general corporate purposes<br><br>Financial Covenants: Current Ratio not less than 1:1 and Debt-Equity Ratio not to exceed 2:1; compliant |

(Forward)

| Loan Type | Dates of Availment | Outstanding Balance 2014 | 2013 | Maturity | Interest Rate | Payment Terms | Covenants/Collaterals |
|---|---|---|---|---|---|---|---|
| | | (In Millions) | | | | | |
| Loan 3 | 2014 | **₱474.30** | ₱1,553.83 | 2016 | Floating rate to be repriced every 3 months | Interest payable every 3months, principal to be paid on maturity date | Proceeds of the loan were restricted for capital expenditure requirements and refinancing of existing debts<br><br>Financial Covenants: Current Ratio not less than 1:1 and Debt-Equity Ratio not to exceed 2:1; compliant |
| Loan 4 | 2014 | **72.18** | 151.88 | 2016 | Floating rate to be repriced every 3 months | Interest payable every 3months, principal to be paid on maturity date | Unsecured loans<br><br>Current Ratio not less than 1:1 and Debt-Equity Ratio not to exceed 2:1; compliant |
| | | **₱3,933.73** | ₱4,790.70 | | | | |

Interest expenses on long-term debt recognized under “Finance Cost” amounted to ₱196.77 million, ₱256.78 million and ₱399.59 million in 2014, 2013 and 2012, respectively (see Note 22).

As of December 31, 2014, there is no more available borrowing facility that can be drawn.

The maturities of long-term debt at nominal values as of December 31, 2014 follow:

| | 2014 | 2013 |
|---|---|---|
| Due in: | | |
| 2014 | **₱–** | ₱2,151,158,019 |
| 2015 | **2,113,885,350** | 3,144,722,527 |
| 2016 | **6,798,902,915** | 5,111,266,434 |
| 2017 | **2,313,518,937** | 1,608,187,960 |
| 2018 | **6,976,302,583** | 3,793,311,411 |
| | **₱18,202,609,785** | ₱15,808,646,351 |

14. **Trade and Other Payables**

This account consists of:

| | 2014 | 2013 |
|---|---|---|
| Trade: | | |
| Payable to suppliers and contractors | **₱4,579,969,287** | ₱3,256,554,439 |
| Related parties (Note 18) | **1,792,921,285** | 878,822,345 |
| Payable to DOE and local government units (Note 27) | **1,134,628,349** | 877,947,530 |
| Output VAT Payable | **561,565,226** | 738,950,745 |
| Accrued expenses and other payables | **736,478,694** | 432,381,485 |
| | **₱8,805,562,841** | ₱6,184,656,544 |

*Trade payable to suppliers and contractors*
Trade payable to contractors arises from progress billings of completed work. Trade payables to suppliers and contractors include liabilities amounting to ₱907.44 million (US$20.29 million) and ₱968.56 million (US$7.75 million and ¥44.26 million) as of December 31, 2014 and 2013, respectively, to various foreign suppliers for open account purchases of equipment and equipment parts and supplies.

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

*Payable to DOE and LGU*
Payable to DOE and LGU represent the share of DOE and LGU in the gross revenue of the Parent Company's coal production computed in accordance with the Coal Operating Contract (COC) between the Parent Company, DOE and LGU dated July 11, 1977 and as amended on January 16, 1981 (see Note 27).

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

*Accrued expenses and other payables*
Details of the accrued expenses and other payables account follow:

| | **2014** | 2013 |
|---|---:|---:|
| Rental (Note 18) | **₱266,511,787** | ₱27,933,675 |
| Dredging services | **68,773,000** | – |
| Taxes, permits and licenses | **66,584,849** | 93,592,713 |
| Interest | **61,382,584** | 63,514,926 |
| Salaries and wages | **54,155,556** | 31,682,830 |
| Spot purchase | **37,153,333** | – |
| Financial benefit payable | **17,715,823** | 43,588,841 |
| Shipping cost | **7,386,515** | 89,536,340 |
| Professional fees | **3,444,936** | 3,279,972 |
| Others | **153,370,311** | 79,252,188 |
| | **₱736,478,694** | ₱432,381,485 |

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

*Financial benefit payable*
As mandated by the R.A. 9136 or the Electric Power Industry Reform Act (EPIRA) of 2001 and the Energy Regulations No. 1-94, issued by Department of Energy (DOE), the BOD authorized the Group on June 10, 2010 to enter and execute a Memorandum of Agreement with the DOE relative to or in connection with the establishment of Trust Accounts for the financial benefits to the host communities equal to ₱0.01 per kilowatt hour generated.

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

## 15. Provision for Decommissioning and Site Rehabilitation

| | **2014** | 2013 |
|---|---:|---:|
| At January 1 | **₱196,504,051** | ₱62,448,101 |
| Additions (Note 8) | **–** | 133,188,944 |
| Effect of change in estimates (Notes 8 and 31) | **(18,509,876)** | – |
| Actual usage | **(10,388,161)** | – |
| Accretion of interest (Notes 22 and 31) | **7,689,928** | 867,006 |
| At December 31 | **₱175,295,942** | ₱196,504,051 |

Discount rates used by the Group to compute for the present value of liability for decommissioning and site rehabilitation cost range from 3.86% to 4.63% and 3.63% to 4.63% in 2014 and 2013, respectively.

Additions and deductions pertain to the effects of changes in estimates as to the extent and costs of rehabilitation activities, cost increases and changes in discount rates based on relative prevailing market rates.

## 16. **Capital Stock**

The details of the Parent Company's capital stock as of December 31, 2014 and 2013 are as follows:

| | **2014** | |
|---|---|---|
| | **Shares** | **Amount** |
| Capital stock - ₱1 par value | | |
| Authorized | **3,000,000,000** | **₱3,000,000,000** |
| Issued and outstanding | | |
| Balance at beginning of year | **356,250,000** | **356,250,000** |
| Stock dividend declared (Note 17) | **712,500,000** | **712,500,000** |
| Balance at end of year | **1,068,750,000** | **1,068,750,000** |

| | 2013 | |
|---|---|---|
| | Shares | Amount |
| Capital stock - ₱1 par value | | |
| Authorized | 1,000,000,000 | ₱1,000,000,000 |
| Issued and outstanding | | |
| Balance at beginning and end of year | 356,250,000 | 356,250,000 |

On November 28, 1983, the SEC approved the issuance and public offering of 55.00 billion common shares of the Parent Company at an offer price of ₱0.01 per share. Additional public offering was also approved by SEC on February 4, 2005 for 46.87 million common shares at an offer price of ₱36.00 per share.

On August 18, 2014, SEC approved the increase in authorized capital stock of the Parent Company from ₱1.00 billion to ₱3.00 billion divided into 3.00 billion common shares with a par value of ₱1 per share.

As of December 31, 2014, the Parent Company has 1,068.75 million common shares issued and outstanding which are owned by 668 shareholders.

*Capital Stock*
The Parent Company's track record of capital stock is as follows:

| | Number of shares registered | Issue/offer price | Date of approval | Number of holders as of yearend |
|---|---|---|---|---|
| At January 1, 2001 | 1,630,970,000 | ₱1/share | | |
| Add (deduct): | | | | |
| Additional issuance | 19,657,388 | ₱1/share | July 2, 2004 | |
| Conversion of preferred shares to common shares | 225,532 | ₱1/share | July 2, 2004 | |
| Decrease in issued and outstanding common share from capital restructuring | (1,625,852,920) | | | |
| Share dividends | 225,000,000 | ₱1/share | July 2, 2004 | |
| Public offering additional issuance | 46,875,000 | ₱36/share | February 4, 2005 | |
| December 31, 2010 | 296,875,000 | | | 632 |
| Add: Share rights offering | 59,375,000 | ₱74/share | June 10, 2010 | 7 |
| December 31, 2011 | 356,250,000 | | | 639 |
| Add: Movement | – | | | 24 |
| December 31, 2012 | 356,250,000 | | | 663 |
| Add: Movement | – | | | – |
| December 31, 2013 | 356,250,000 | | | 663 |
| Add: Stock dividends | 712,500,000 | | August 22, 2014 | 5 |
| December 31, 2014 | 1,068,750,000 | | | 668 |

## 17. Retained Earnings

Retained earnings amounting to ₱14.98 billion and ₱13.10 billion as of December 31, 2014 and 2013, respectively. The amounts include the accumulated equity in undistributed net earnings of subsidiaries which are not available for dividends until declared by the subsidiaries.

In accordance with SEC Memorandum Circular No. 11 issued in December 2008, the Parent Company's retained earnings available for dividend declaration as of December 31, 2014 amounted to ₱8.22 billion.

Cash Dividends
On April 29, 2014, the BOD authorized the Parent Company to declare and distribute cash dividends of ₱12.00 per share or ₱4.28 billion to stockholders of record as of May 15, 2014. The said cash dividends were paid on May 28, 2014.

On April 30, 2013, the BOD authorized the Parent Company to declare and distribute cash dividends of ₱12.00 per share or ₱4.28 billion to stockholders of record as of May 17, 2013. The said cash dividends were paid on May 29, 2013.

On April 30, 2012, the BOD authorized the Parent Company to declare and distribute cash dividends of ₱12.00 per share or ₱4.28 billion to stockholders of record as of May 29, 2012. The said cash dividends were paid on June 25, 2012.

Stock Dividends
On May 5, 2014, the stockholders of the Parent Company approved the 200% stock dividends amounting to ₱712,500,000, divided into 712,500,000 shares at the par value of ₱1.00 per share,

or two (2) common shares for every one common share held, from the unrestricted retained earnings of the Parent Company as of December 31, 2013, and to be issued from the increase in the authorized capital stock of the Parent Company. On August 22, 2014, Securities and Exchange Commission approved and fixed the record date on September 8, 2014.

Appropriations
On August 8, 2013, the BOD of the Parent Company approved the appropriation of ₱1.60 billion from the unappropriated retained earnings as of December 31, 2012, as additional capital expenditure and investment in power expansion projects of the Parent Company. This appropriation is intended for the ongoing construction of 2 X 150 MW coal-fired power plant in Calaca, Batangas owned by SLPGC (a wholly subsidiary of the Parent Company).

The project is expected to be completed on the third quarter of 2015. On March 12, 2013, the BOD of the Parent Company ratified the remaining ₱700.00 million appropriation to partially cover new capital expenditures for the Group's mine operation for the years 2013 to 2015.

## 18. Related Party Transactions

The Group in its regular conduct of business has entered into transactions with related parties. Parties are considered to be related if, among others, one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making the financial and operating decisions, the parties are subject to common control or the party is an associate or a joint venture. The Group has affiliates under common control of DMCI-HI.

Except as indicated otherwise, the outstanding accounts with related parties shall be settled in cash. The transactions are made at terms and prices agreed upon by the parties.
The significant transactions with related parties follow:

| | 2014 | | | |
|---|---|---|---|---|
| | Amount/ Volume | Receivable (Payable) | Terms | Conditions |
| Trade receivables (see Note 5) | | | | |
| *Entities under common control* | | | | |
| a.) Transfer of materials and reimbursement of shared expenses | **₱53,194,734** | **₱56,138,357** | **non-interest bearing, due and demandable** | **Unsecured, no impairment** |
| b.) Reimbursements of shared expenses | **9,153,202** | **9,153,202** | **non-interest bearing, due and demandable** | **Unsecured, no impairment** |
| c.) Reimbursements of expenses | **1,527,501** | **1,542,501** | **non-interest bearing, due and demandable** | **Unsecured, no impairment** |
| d.) Coal handling services | **2,315,635** | **287,806** | **non-interest bearing, due and demandable** | **Unsecured, no impairment** |
| | **₱66,191,072** | **₱67,121,866** | | |
| Advances to contractors - noncurrent (see Note 11) | | | | |
| *Entities under common control* | | | | |
| e.) Construction and outside services | **₱–** | **₱190,726,903** | **non-interest bearing, recoupment** | **Unsecured, no impairment** |
| Trade payables (see Note 14) | | | | |
| *Entities under common control* | | | | |
| a.) Operation and maintenance fees | **₱324,000,000** | **(₱39,264,558)** | **30 days, non-interest bearing** | **Unsecured** |
| d.) Coal handling services | **71,474,732** | **(10,262,460)** | **30 days, non-interest bearing** | **Unsecured** |

(Forward)

| | 2014 | | | |
|---|---|---|---|---|
| | **Amount/ Volume** | **Receivable (Payable)** | **Terms** | **Conditions** |
| d. ) Mine exploration and hauling services | **₱157,477,279** | **(₱154,705,292)** | **30 days, non-interest bearing** | **Unsecured** |
| e.) Construction and other outside services | **602,033,230** | **(1,572,951,441)** | **30 days, non-interest bearing** | **Unsecured** |
| f.) Purchases of office supplies and refreshments | **3,492,708** | **(1,022,930)** | **30 days, non-interest bearing** | **Unsecured** |
| g.) Office, parking and warehouse rental expenses | **5,484,428** | **(1,992,807)** | **30 days, non-interest bearing** | **Unsecured** |
| h.) Aviation services | **7,037,467** | **(12,721,797)** | **30 days, non-interest bearing** | **Unsecured** |
| | **₱1,170,999,844** | **(₱1,792,921,285)** | | |
| Accrued expenses and other payables (see Note 14) | | | | |
| *Entities under common control* | | | | |
| i.) Rental of equipment | **₱266,511,787** | **₱266,511,787** | **non-interest bearing** | **Unsecured** |
| Other noncurrent liabilities (see Note 11) | | | | |
| *Entities under common control* | | | | |
| d.) Retention payable | **₱117,113,822** | **(₱330,345,677)** | **non-interest bearing** | **Unsecured** |

| | 2013 | | | |
|---|---|---|---|---|
| | Amount/ Volume | Receivable (Payable) | Terms | Conditions |
| Trade receivables (see Note 5) | | | | |
| *Entities under common control* | | | | |
| a.) Transfer of materials and reimbursement of shared expenses | ₱2,218,766 | ₱66,138,357 | non-interest bearing, due and demandable | Unsecured, no impairment |
| b.) Reimbursements of shared expenses | 30,000 | 8,717,043 | non-interest bearing, due and demandable | Unsecured, no impairment |
| c.) Reimbursements of expenses | 698,212 | 698,212 | non-interest bearing, due and demandable | Unsecured, no impairment |
| | ₱2,946,978 | ₱75,553,612 | | |
| Advances to contractors - noncurrent (see Note 11) | | | | |
| *Entities under common control* | | | | |
| e.) Construction and outside services | ₱485,323,247 | ₱354,321,064 | non-interest bearing, recoupment | Unsecured, no impairment |
| Trade payables (see Note 14) | | | | |
| *Entities under common control* | | | | |
| d.) Mine exploration and hauling services | ₱554,092,099 | (₱20,138,858) | 30 days, non-interest bearing | Unsecured |
| e.) Construction and other outside services | 4,081,677,695 | (852,473,055) | 30 days, non-interest bearing | Unsecured |
| f.) Purchases of office supplies and refreshments | 5,659,359 | (2,726,026) | 30 days, non-interest bearing | Unsecured |
| g.) Office, parking and warehouse rental expenses | 7,380,000 | (1,944,397) | 30 days, non-interest bearing | Unsecured |
| h.) Aviation services | 6,890,000 | (1,540,009) | 30 days, non-interest bearing | Unsecured |
| | ₱4,655,699,153 | (₱878,822,345) | | |
| Other noncurrent liabilities (see Note 11) | | | | |
| *Entities under common control* | | | | |
| d.) Retention payable | ₱2,979,130,602 | (₱487,676,475) | non-interest bearing | Unsecured |

a. Due from DMCI Power Corporation (DMCI-PC) pertains to materials issuances, contracted services and various services provided by the Parent Company. All outstanding balances from DMCI-PC are included in receivables under “Trade receivable - related parties” in the consolidated statements of financial position.

SCPC engaged DMCI-PC for the management, operation and maintenance of the power plant. The agreement was entered into in 2011 and is effective for a period of 10 years from January 1, 2011 and maybe renewed for another 10 years.

b. Due from DMCI Mining Corporation (DMCI-MC) pertains to the contracted services incurred by DMCI-MC during the year, which are initially paid by the Parent Company. All outstanding balance from DMCI-MC is included in receivables under “Trade receivable - related parties” in the consolidated statements of financial position.

c. Due from DMCI Masbate Power Corporation (DMCI-MPC) pertains to the security contracted services incurred during the year, which are initially paid by the Parent Company. The outstanding balance from DMCI-MPC is included in receivables under “Trade receivable - related parties” in the consolidated statements of financial position.

d. DMC-Construction Equipment Resources, Inc. (DMC-CERI) had transactions with the Parent Company for services rendered relating to the Parent Company’s coal operations. These include services for the confirmatory drilling for coal reserve and evaluation of identified potential areas, exploratory drilling of other minerals within Semirara Island, dewatering well drilling along cut-off wall of Panian mine and fresh water well drilling for industrial and domestic supply under an agreement. Expenses incurred for said services are included in cost of sales under “Outside services” in the consolidated statements of comprehensive income (see Note 20).

   DMC-CERI also provides the Parent Company marine vessels for use in the delivery of coal to its various customers. The coal freight billing is on a per metric ton basis plus demurrage charges for delays in loading and unloading of coal cargoes. Expenses incurred for these services are included in cost of sales under “Hauling and shiploading costs” in the consolidated statements of comprehensive income (see Note 20).

   Furthermore, DMC-CERI provides the Parent Company labor services relating to coal operations including those services rendered by consultants. Expenses incurred for said services are included in cost of sales under “Direct labor” in the consolidated statements of comprehensive income (see Note 20).

   Labor costs related to manpower services rendered by DMC-CERI represent actual salaries and wages covered by the period when the services were rendered to Parent Company in its coal operations. Under existing arrangements, payments of said salaries and wages are given directly to personnel concerned.

   All outstanding balances to DMC-CERI are included in trade and other payables under “Trade payable - related parties” in the consolidated statements of financial position.

e. Dacon Corporation, a shareholder of DMCI-HI, provided maintenance of the Parent Company’s accounting system, Navision, to which related expenses are included in operating expenses under “Office expenses” in the consolidated statements of comprehensive income (see Note 21).

   All outstanding balances to Dacon Corporation are included in trade and other payables under “Trade payable - related parties” in the consolidated statements of financial position.

   D.M. Consunji, Inc. (DMCI) had transactions with the Parent Company representing rentals of office, building and equipments and other transactions such as transfer of equipment, hauling and retrofitting services. The related expenses are included in cost of sales under "Outside services" in the consolidated statements of comprehensive income (see Note 20).

The Parent Company engaged the services of DMCI for the construction of its 1 x 15 MW Power Plant located at Semirara Island, to which the related cost are capitalized as part of property, plant and equipment in the consolidated statements of financial position. The Parent Company also engaged the service of DMCI for the construction of various projects in compliance with its Corporate Social Responsibility (CSR) such as the mine rehabilitation, construction of covered tennis courts, track and field, perimeter fence and others to which related expenses are included in cost of sales "Outside services" in the consolidated statements of comprehensive income (see Note 20). All outstanding balances to DMCI are lodged in trade and other payables under "Trade payable - related parties" in the consolidated statements of financial position.

SCPC engaged DMCI in the ongoing rehabilitation of the power plant. Cost of construction services provided by DMCI is capitalized as part of property, plant and equipment "Equipment in transit and construction in progress" account and outstanding balance are included in the "Trade payable - related parties" account.

SCPC also engaged DMCI for transfer of equipment and hauling services. The said rentals are included in the operating expenses of the consolidated statements of comprehensive income.

SLPGC engaged DMCI in the construction of the 2 x 150 MW coal-fired power plant.

Advance payments for construction and retention payable are recorded under "Advances to contractors" and "Other noncurrent liabilities", respectively. Outstanding balances to DMCI are included under "Trade payable - related parties" account.

f. Prominent Fruits, Inc. supplies various office supplies and refreshments to the Parent Company. The outstanding balance to Prominent Fruits, Inc. is lodged in trade and other payables under "Trade payable - related parties" in the consolidated statements of financial position.

   M&S Company, Inc. (M&S) supplies various office supplies and materials to the Parent Company. Outstanding balance is included in trade and other payables under "Trade payable - related parties" in the consolidated statements of financial position.

g. Asia Industries Inc. had transactions with the Parent Company for the rental of parking space to which related expenses are included in operating expenses under "Office expenses" in the consolidated statements of comprehensive income (see Note 21). The outstanding balance to Asia Industries, Inc. is lodged in trade and other payables under "Trade payable - related parties" in the consolidated statements of financial position.

   DMC Urban Property Developers, Inc. (DMC-UPDI) had transactions with the Parent Company representing long-term lease on office space and other transactions rendered to the Parent Company necessary for the coal operations. Office rental expenses are included in cost of sales under "Outside services" in the consolidated statements of comprehensive income (see Note 20). The outstanding balance to DMC-UPDI is lodged in trade and other payables under "Trade payable - related parties" in the consolidated statements of financial position.

h. Royal Star Aviation Inc. transports the Parent Company's visitors and employees from Manila to Semirara Island and vice versa and bills the related party for the utilization costs of the aircrafts. The related expenses are included in cost of sales under "Production overhead" in the consolidated statements of comprehensive income (see Note 20).

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

i. In 2014, the Parent Company has leased land, certain equipment and office space from DMCI and DMCI-CERI. The Company accrued the related charges from rental of said properties.

*Terms and conditions of transactions with related parties*
There have been no guarantees and collaterals provided or received for any related party receivables or payables. These accounts are noninterest-bearing and are generally unsecured. Impairment assessment is undertaken each financial year through a review of the financial position of the related party and the market in which the related party operates. As of December 31, 2014 and 2013, there were no impairment losses recognized on related party balances.

Compensation of key management personnel of the Group by benefit type follows:

| | **2014** | 2013 |
|---|---|---|
| Short-term employee benefits | **₱129,866,061** | ₱127,093,393 |
| Post-employment benefits | **4,016,476** | 4,018,829 |
| | **₱133,882,537** | ₱131,112,222 |

There are no other agreements between the Group and any of its directors and key officers providing for benefits upon termination of employment, except for such benefits to which they may be entitled under the Group's pension plan.

## 19. Pension Plan

The Group has a funded, noncontributory defined benefit plan covering substantially all of its regular employees. The date of the latest actuarial valuation is December 31, 2014.

The Group accrues retirement costs (included in "Pension Liabilities" in the Group's consolidated statements of financial position) based on an actuarially determined amount using the projected unit credit method.

The funds are administered by a trustee bank under the supervision of the Board of Directors of the plan. The Board of Directors is responsible for the investment of the assets. It defines the investment strategy as often as necessary, at least annually, especially in the case of the significant market developments or changes to the structure of the plan participants. When defining the investment strategy, it takes account of the plan's objectives, benefit obligation and risk capacity. The investment strategy is defined in the form of a long-term target structure (investment policy). The Board of Directors delegates the implementation of the investment policy in accordance with the investment strategy as well as various principles and objectives to an Investment Committee, which also consists of members of the Board of Directors, Vice-President for Treasury and Chief Finance Officer. The Vice-President for Treasury and Chief Finance Officer oversee the entire investment process.

Under the existing regulatory framework, Republic Act 7641 requires a provision for retirement pay to qualified private sector employees in the absence of any retirement plan in the entity, provided however that the employee's retirement benefits under any collective bargaining and other agreements shall not be less than those provided under the law. The law does not require minimum funding of the plan.

Provisions for pension liabilities are established for benefits payable in the form of retirement pensions. Benefits are dependent on years of service and the respective employee's final compensation. The Group updates the actuarial valuation every year by hiring the services of a third party professionally qualified actuary.

There are no plan amendments, curtailments or settlements.

The cost of defined benefit pension plans and the present value of the pension liabilities are determined using actuarial valuations. The actuarial valuation involves making various assumptions. The principal assumptions used in determining pension liabilities for the defined benefit plan are shown below:

| | **2014** | 2013 | 2012 |
|---|---|---|---|
| Discount rate | **4.82% - 5.67%** | 4.26% - 5.07% | 4.69% |
| Salary increase rate | **3.00%** | 3.00% | 3.00% |

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

| | **2014** | 2013 | 2012 |
|---|---|---|---|
| Current service cost | **₱15,635,036** | ₱18,225,767 | ₱7,778,179 |
| Interest expense related to the defined benefit liability | **5,197,340** | 4,722,795 | 4,371,758 |
| Interest income related to plan assets | **(3,547,507)** | (3,008,719) | (3,863,820) |
| | **₱17,284,869** | ₱19,939,843 | ₱8,286,117 |

The above pension expense is included in operating expenses under "Personnel costs" in the consolidated statements of comprehensive income (see Note 21).

The following tables provide analyses of the movement in the net asset (liability) recognized on consolidated statements of financial position:

| | **2014** | 2013 |
|---|---|---|
| Defined benefit liability at beginning of year | **₱104,036,133** | ₱100,699,245 |
| Current service cost | **15,635,036** | 18,225,767 |
| Interest expense | **5,197,340** | 4,722,795 |
| Remeasurement of defined benefit liability: | | |
| Arising from changes in financial assumptions | **(3,231,394)** | (1,300,506) |
| Experience gains (losses) | **11,967,619** | (11,453,532) |
| Benefits directly paid by the Group | **(10,749,863)** | (6,857,636) |
| Benefits paid from plan asset | **(4,840,440)** | |
| Defined benefit liability at end of year | **₱118,014,431** | ₱104,036,133 |

| | 2014 | 2013 |
|---|---|---|
| Fair value of plan assets at beginning of year | **₱72,390,771** | ₱64,151,770 |
| Return on plan assets (excluding amounts included in interest income) | **(2,113,300)** | 5,230,282 |
| Interest income | **3,547,507** | 3,008,719 |
| Benefits paid – paid directly by the Group | **(4,840,440)** | – |
| Fair value of plan assets at end of year | **₱68,984,538** | ₱72,390,771 |

| | 2014 | 2013 |
|---|---|---|
| Net pension liability at beginning of year | **₱31,645,362** | ₱36,547,475 |
| Net periodic pension cost | **17,284,869** | 19,939,843 |
| Amounts recognized in other comprehensive income | **10,849,525** | (17,984,320) |
| Benefit payments | **(10,749,863)** | (6,857,636) |
| Net pension liability at end of year | **₱49,029,893** | ₱31,645,362 |

The Group does not expect any contribution into the pension fund in 2015.

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

| | 2014 | 2013 |
|---|---|---|
| Cash and cash equivalents | **₱779,525** | ₱8,067,400 |
| Equity instruments | | |
| Financial institutions | **5,042,770** | – |
| Debt instruments | | |
| Government securities | **44,860,645** | 56,597,922 |
| Not rated debt securities | **11,899,833** | 6,664,858 |
| Interest receivable | **6,401,765** | 1,060,591 |
| Fair value of plan assets | **₱68,984,538** | ₱72,390,771 |

Trust fee in 2014 and 2013 amounted to ₱34,806 and ₱35,878, respectively.

The composition of the fair value of the Fund includes:

*Cash and cash equivalents* - include savings and time deposit with affiliated bank and special deposit account with Bangko Sentral ng Pilipinas

*Investment in equity securities* - includes investment in common and preferred shares traded in the Philippine Stock Exchange

*Investment in debt securities - government securities* - include investment in Philippine Retail Treasury Bonds and Fixed Rate Treasury Notes

*Investments in debt securities - not rated* - include investment in long-term debt notes and retail bonds

*Interest receivables* - pertain to interest and dividends receivable on the investments in the fund
The management performs a study of how to match its existing assets versus the pension liabilities to be settled. The overall investment policy and strategy of the Group's defined benefit plan is guided by the objective of achieving an investment return which, together with contributions, ensures that there will be sufficient assets to pay pension benefits as they fall due while also

mitigating the various risk of the plan. The Group's current strategic investment strategy consists of 82% of debt instruments, 7% of equity instruments and 11% others.

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

| | **2014** | | 2013 | |
|---|---|---|---|---|
| | **Increase (Decrease)** | **Effect on Defined Benefit Liability** | Increase (Decrease) | Effect on Defined Benefit Liability |
| Discount rates | **+0.5% to 1%** | **(₱3,293,497)** | +0.5% to 1% | (₱2,711,720) |
| | **-0.5% to 1%** | **3,628,306** | -0.5% to 1% | 3,182,044 |
| Future salary increases | **+1%** | **4,859,667** | +1% | 3,890,344 |
| | **-1%** | **(4,448,436)** | -1% | (3,566,847) |

Shown below is the maturity analysis of the undiscounted benefit payments:

| | **2014** | 2013 |
|---|---|---|
| Less than 1 year | **₱32,146,458** | ₱26,914,286 |
| More than 1 year to 5 years | **18,774,851** | 19,898,958 |
| More than 5 years to 10 years | **48,207,917** | 62,951,470 |
| | **₱99,129,226** | ₱109,764,714 |

The Group has no other transactions with the fund.

## 20. **Cost of Sales**

Cost of coal sales consists of:

| | **2014** | 2013 | 2012 |
|---|---|---|---|
| Materials and supplies (Note 18) | **₱3,897,257,081** | ₱3,025,232,354 | ₱3,120,735,226 |
| Fuel and lubricants | **2,991,475,911** | 2,453,660,298 | 3,043,331,610 |
| Outside services (Note 18) | **1,075,701,964** | 739,853,180 | 966,478,901 |
| Depreciation and amortization (Notes 8 and 11) | **822,278,521** | 1,114,654,804 | 1,322,458,941 |
| Direct labor (Note 18) | **577,879,037** | 502,288,609 | 450,134,214 |
| Hauling and shiploading costs (Note 18) | **439,609,474** | 456,329,361 | 547,620,380 |
| Production overhead (Note 18) | **423,809,451** | 372,852,892 | 374,395,481 |
| | **₱10,228,011,439** | ₱8,664,871,498 | ₱9,825,154,753 |

Cost of power sales consists of:

| | **2014** | 2013 | 2012 |
|---|---|---|---|
| Spot purchases | **₱4,446,000,444** | ₱229,196,883 | ₱130,367,456 |
| Coal | **2,931,385,593** | 3,761,855,398 | 3,304,807,016 |
| Depreciation (Note 8) | **861,787,310** | 1,015,838,969 | 928,981,130 |
| Bunker | **237,267,737** | 230,027,758 | 238,254,696 |
| Diesel | **90,512,855** | 79,255,223 | 115,632,253 |
| Coal handling expense | **68,582,129** | 3,868,304 | 864,921 |
| Market fees | **36,734,148** | 54,891,500 | 24,796,252 |
| Lube | **25,813,990** | 42,361,584 | 25,721,138 |
| Imported coal | **–** | 22,785,241 | 44,523,109 |
| Others | **1,390,896** | 5,543,770 | 4,838,132 |
| | **₱8,699,475,102** | ₱5,445,624,630 | ₱4,818,786,103 |

The cost of coal on power sales consists of:

| | **2014** | 2013 | 2012 |
|---|---|---|---|
| Materials and supplies (Note 18) | **₱1,116,968,174** | ₱1,240,351,874 | ₱1,089,654,743 |
| Fuel and lubricants | **857,367,968** | 1,151,390,027 | 1,011,501,357 |
| Outside services (Note 18) | **308,300,128** | 350,983,612 | 308,340,694 |
| Depreciation and amortization (Notes 8 and 11) | **235,668,040** | 470,558,388 | 413,387,676 |
| Direct labor (Note 18) | **165,622,252** | 165,560,645 | 145,445,777 |
| Hauling and shiploading costs | **125,993,688** | 244,635,094 | 214,913,039 |
| Production overhead (Note 18) | **121,465,343** | 138,375,758 | 121,563,730 |
| | **₱2,931,385,593** | ₱3,761,855,398 | ₱3,304,807,016 |

## 21. Operating Expenses

| | **2014** | 2013 | 2012 |
|---|---|---|---|
| Government share (Note 27) | **₱1,858,189,613** | ₱1,304,961,185 | ₱1,557,950,322 |
| Operation and maintenance (Note 18) | **328,296,434** | 379,359,691 | 437,180,259 |
| Personnel costs (Notes 18 and 19) | **275,249,168** | 204,402,527 | 133,222,394 |
| Taxes and licenses | **198,611,913** | 230,472,304 | 237,515,006 |
| Office expenses (Note 18) | **126,335,538** | 104,302,257 | 75,703,636 |
| Repairs and maintenance | **104,316,433** | 648,067,215 | 148,671,287 |
| Insurance and bonds | **71,826,559** | 59,270,251 | 56,282,680 |
| Depreciation (Note 8) | **51,655,398** | 1,162,179,465 | 44,910,889 |
| Professional fees | **50,152,727** | 42,424,740 | 46,893,228 |
| Entertainment, amusement and recreation | **43,298,078** | 23,676,815 | 35,484,183 |
| Transportation and travel | **28,687,926** | 21,248,174 | 15,885,235 |
| Marketing | **13,918,905** | 40,214,509 | 81,102,894 |
| Loss on disposal and write-down of property, plant and equipment (Note 8) | **110,976** | 449,910,879 | 341,146,346 |
| Provision for doubtful accounts (Note 5) | **–** | 443,650,080 | 59,360,961 |
| Provision for impairment losses (Note 11) | **–** | – | 47,150,717 |
| Others | **70,349,709** | 150,377,541 | 79,915,264 |
| | **₱3,220,999,377** | ₱5,264,517,633 | ₱3,398,375,301 |

Others pertain to various expenses such as advertising and utilities.

## 22. Finance Costs

| | 2014 | 2013 | 2012 |
|---|---|---|---|
| Interest on: | | | |
| Long-term debt (Note 13) | **₱196,770,666** | ₱256,780,451 | ₱399,586,604 |
| Amortization of debt issuance cost (Note 13) | **16,360,856** | 21,751,583 | 27,123,187 |
| Short-term loans (Note 12) | **63,337,130** | 58,036,103 | 34,538,035 |
| Accretion of cost of decommissioning and site rehabilitation (Note 15) | **7,689,928** | 867,006 | 9,599,950 |
| Bank charges | **39,069,744** | 43,794,200 | 30,432,257 |
| | **₱323,228,324** | ₱381,229,343 | ₱501,280,033 |

## 23. Finance Income

| | 2014 | 2013 | 2012 |
|---|---|---|---|
| Interest on: | | | |
| Cash in banks (Note 4) | **₱5,178,605** | ₱7,103,842 | ₱14,611,540 |
| Cash equivalents and temporary investments (Note 4) | **29,146,795** | 6,667,777 | 49,090,080 |
| Investment in sinking fund (Note 9) | **6,671,014** | 12,173,043 | 17,214,589 |
| Others | **456,354** | 859,904 | 1,228,108 |
| | **₱41,452,768** | ₱26,804,566 | ₱82,144,317 |

## 24. Other Income

| | 2014 | 2013 | 2012 |
|---|---|---|---|
| Recoveries from insurance claims | **₱82,552,158** | ₱10,632,170 | 41,545,855 |
| Gain on sale of equipment (Note 8) | **336,750** | 135,073 | 127,491,090 |
| Reversal of allowance for impairment losses (Note 11) | **–** | 61,549,364 | – |
| Reversal of allowance for doubtful accounts | **–** | – | 9,552,129 |
| Miscellaneous | **122,599,825** | 208,892,151 | 139,859,194 |
| | **₱205,488,733** | ₱281,208,758 | ₱318,448,268 |

*Recoveries from insurance claims*
Recoveries from insurance claims pertain to the amount reimbursable from insurer on insured equipment.

*Miscellaneous*
Miscellaneous income includes revenue derived from sale of fly ashes, by-product of coal combustion, and from selling excess electricity produced by the Group to the neighboring communities.

## 25. **Income Tax**

The provision for (benefit from) income tax consists of:

| | **2014** | 2013 |
|---|---|---|
| Current | **₱–** | ₱11,708,917 |
| Final | **8,116,083** | 5,074,275 |
| Deferred | **(560,983,213)** | (134,621,496) |
| | **(₱552,867,130)** | (₱117,838,304) |

The reconciliation of the provision for income tax computed at the statutory income tax rate to the provision for income tax shown in the consolidated statements of comprehensive income follows:

| | **2014** | 2013 |
|---|---|---|
| Statutory income tax rate | **30.00%** | 30.00% |
| Adjustments for: | | |
| Nondeductible expense | **–** | 0.07 |
| Nondeductible interest expense | **0.03** | 0.03 |
| Movement in unrecognized deferred tax assets | **15.02** | 0.90 |
| Interest income already subjected to final tax at a lower rate - net of nondeductible interest expense | **(0.04)** | (0.03) |
| Tax-exempt income | **(53.77)** | (33.81) |
| Movement in unrecognized deferred tax liabilities | **–** | 1.25 |
| Effective income tax rate | **(8.76%)** | (1.59%) |

The components of net deferred tax assets as of December 31, 2014 and 2013 follow:

| | **2014** | 2013 |
|---|---|---|
| NOLCO | **₱637,765,958** | ₱32,525 |
| Unrealized foreign exchange loss | **16,330,527** | 91,779,812 |
| Accrual of pension obligation | **15,797,851** | 10,582,492 |
| Allowance for inventory obsolescence | **13,575,917** | 17,222,136 |
| Allowance for doubtful accounts | **10,667,588** | 10,667,588 |
| Allowance for impairment losses | **7,792,467** | 7,792,467 |
| Provision for decommissioning and site rehabilitation | **2,265,116** | 1,880,332 |
| | **₱704,195,424** | ₱139,957,352 |

The Parent Company and SLPGC have not recognized deferred tax assets on NOLCO from the following periods:

*Parent Company*

| Year Incurred | Amount | Expiry Year |
|---|---|---|
| 2014 | ₱4,878,525,474 | 2017 |
| 2013 | 3,440,456,777 | 2016 |
| 2012 | 3,143,525,120 | 2015 |
| | ₱11,462,507,371 | |

*SLPGC*

| Year Incurred | Amount | Expiry Year |
|---|---|---|
| 2014 | ₱20,737,602 | 2017 |
| 2013 | 48,523,473 | 2016 |
| 2012 | 23,890,970 | 2015 |
| | ₱93,152,045 | |

The following entities within the Group recognized deferred tax assets on NOLCO from the following periods:

*SCPC*

| Year Incurred | Amount | Expiry Year |
|---|---|---|
| 2014 | ₱2,125,445,185 | 2017 |

*SEUI*

| Year Incurred | Amount | Expiry Year |
|---|---|---|
| 2014 | ₱131,010 | 2017 |
| 2013 | 100,500 | 2016 |
| | ₱231,510 | |

*SCI*

| Year Incurred | Amount | Expiry Year |
|---|---|---|
| 2014 | ₱201,915 | 2017 |
| 2012 | 7,918 | 2015 |
| | ₱209,833 | |

<u>Board of Investments (BOI) Incentives</u>

*Parent Company*

On September 26, 2008, BOI issued in favor of the Parent Company a Certificate of Registration as an Expanding Producer of Coal in accordance with the provisions of the Omnibus Investments Code of 1987. Pursuant thereto, the Parent Company shall be entitled to the following incentives, among others:

a. ITH for six (6) years from September 2008 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration. For purposes of availment of ITH, a base figure of 2,710,091 metric tons (MT) representing the Parent Company's average sales volume for the past three (3) years prior to the expansion shall be used.

   The Parent Company shall initially be granted a four (4) year - ITH. The additional two (2) year ITH shall be granted upon submission of completed or on-going projects in compliance with its Corporate Social Responsibility (CSR), which shall be submitted before the lapse of its initial four (4) year - ITH.

On May 1, 2014, BOI approved the Parent Company's additional year of ITH entitlement from September 2014 to September 2015.

On August 12, 2014, BOI approved the Parent Company's additional year of ITH entitlement from September 2015 to September 2016.

b. Employment of foreign nationals. This may be allowed in supervisory, technical or advisory positions for five (5) years from the date of registration. The president, general manager and treasurer of foreign-owned registered companies or their equivalent shall not be subject to the foregoing limitations.

   Date of filing: Application shall be filed with the BOI Incentives Department before assumption to duty of newly hired foreign nationals and at least one (1) month before expiration of existing employment for renewal of visa.

c. Simplification of Customs procedures for the importation of equipment, spare parts, raw materials and supplies.

   On August 19, 2009, BOI granted the Parent Company's request for a reduced base figure from 2,710,091 MT to 1,900,000 MT representing the average sales volume for the past eight (8) years (2000 to 2007) prior to registration with BOI.

   The Parent Company availed of tax incentive in the form of ITH on its income under registered activities amounting to ₱2.69 billion, ₱1.48 billion and ₱1.47 billion in 2014, 2013 and 2012, respectively.

*SCPC*
On April 19, 2010, SCPC was registered with the BOI as New Operator of the 600-MW Calaca Coal-Fired Power Plant on a Non-Pioneer Status in accordance with the provisions of the Omnibus Investments Code of 1987. Pursuant thereto, SCPC shall be entitled to the following incentives, among others:

a. SCPC shall enjoy income tax holiday for four (4) years from April 2011 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration. Other incentives with no specific number of years of entitlement maybe enjoyed for a maximum period of ten (10) years from the start of commercial operation and/or date of registration. The ITH incentives shall be limited to the revenue generated from the sales of electricity of the 600 MW Batangas Coal-Fired Power Plant.

b. For the first five (5) years from the date of registration, SCPC shall be allowed an additional deduction from taxable income of 50% of the wages corresponding to the increment in the number of direct labor for skilled and unskilled workers in the year of availment as against the previous year if the project meets the prescribed ratio of capital equipment to the number of workers set by the BOI of $10,000 to one worker and provided that this incentive shall not be availed of simultaneously with the ITH.

c. Employment of foreign nationals. This may be allowed in supervisory, technical or advisory positions for five (5) years from the date of registration. The president, general manager and treasurer of foreign-owned registered companies or their equivalent shall not be subject to the foregoing limitations.

d. Importation of consigned equipment for a period of ten (10) years from the date of registration, subject to the posting of re-export bond.

On January 7, 2011, BOI approved SCPC's request for an earlier application of the ITH to be effective January 1, 2010.

On December 17, 2013, BOI approved SCPC's request for the extension for one (1) year of the ITH for the period January 1 to December 31, 2014.

SCPC availed of tax incentive in the form of ITH on its income under registered activities amounting to ₱1.22 billion, ₱1.53 billion and ₱0.77 billion in 2014, 2013 and 2012, respectively.

*SLPGC*
On June 21, 2012, the application for registration of SLPGC as new operator of 300 MW (Phase 1) Batangas Coal Fired Power Plant on a Non-Pioneer Status under the Omnibus Investments Code of 1987 (Executive Order No. 226) was approved. Pursuant thereto, SLPGC shall be entitled to the following incentives, among others:

a. ITH for four (4) years from January 2015 or actual start of commercial operations, whichever is earlier but in no case earlier than the date of registration;

b. For the first five (5) years from date of registration, the enterprise shall be allowed an additional deduction from taxable income of fifty percent (50%) of the wages corresponding to the increment in number of direct labor for skilled and unskilled workers in the year of availments as against the previous year if the project meets the prescribed ratio of capital equipment to the number of workers set by the Board and provided that this incentive shall not be availed of simultaneously with the ITH;

c. Importation of consigned equipment for a period of ten (10) years from date of registration, subject to posting of re-export bond;

d. Employment of foreign nationals. This may be allowed in supervisory, technical or advisory positions for five (5) years from date of registration; and

e. Simplification of customs procedures for the importation of equipment, spare parts, raw materials and supplies.

## 26. Basic/Diluted Earnings Per Share

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

| | **2014** | 2013 (As restated) | 2012 (As restated) |
|---|---|---|---|
| Net income | **₱6,861,294,479** | ₱7,519,591,282 | ₱6,358,640,007 |
| Divided by the weighted average number of common shares outstanding* | **1,068,750,000** | 1,068,750,000 | 1,068,750,000 |
| Basic/diluted earnings per share** | **₱6.42** | ₱7.04 | ₱5.95 |

** Retrospectively adjusted for the issuance of stock dividend in 2014.*
*** The effect on earnings per share related to the restatement in 2013 and 2012 was ₱14.07 and ₱11.90, respectively.*

There have been no other transactions involving common shares or potential common shares between the reporting date and the date of authorization of these financial statements.

## 27. **Coal Operating Contract with DOE**

On July 11, 1977, the Government, through its former Energy Development Board, awarded a 35-year COC to a consortium led by Vulcan Industrial & Mineral Exploration Corporation and Sulu Sea Oil Development Corporation that subsequently assigned said COC to the Parent Company on April 7, 1980. On July 27, 1977, Presidential Decree (PD) 972 was amended by PD 1174: (a) increasing coal operators' maximum cost recovery from an amount not exceeding 70% to 90% of the gross proceeds from production, and (b) increasing the amount of a special allowance for Philippine corporations from an amount not exceeding 20% to 30% of the balance of the gross income, after deducting all operating expenses. As a result, the Parent Company's COC was subsequently amended on January 16, 1981 reflecting said changes.

On June 8, 1983, the Ministry of Energy (now DOE), issued a new COC to the Parent Company, incorporating the foregoing assignment and amendments. The COC gives the Parent Company the exclusive right to conduct exploration, development and coal mining operations on Semirara Island until July 13, 2012. On May 13, 2008, the DOE granted the Parent Company's request for an extension of its COC for another 15-year or until July 14, 2027.

On November 12, 2009, the COC was amended further, expanding its contract area to include portions of Caluya and Sibay islands, Antique, covering an additional area of 5,500 hectares and 300 hectares, respectively.

On April 29, 2013, the DOE issued a new COC to the Parent Company, which grants the Parent Company the exclusive right to conduct exploration, development and coal mining operations in the municipality of Bulalacao, province of Oriental Mindoro, up to a maximum of 36 years from its effective date. The COC covers two coal-bearing parcels of land covering areas of 2,000 and 5,000 hectares, respectively.

On June 7, 2013, the DOE issued a new COC to the Parent Company, which grants the Parent Company the exclusive right to conduct exploration, development and coal mining operations in the municipalities of Maitum and Kiamba, province of Sarangani, up to a maximum of 36 years from its effective date. The COC covers a coal-bearing parcel of land covering area of 5,000 hectares.

In return for the mining rights granted to the Parent Company, the Government is entitled to receive annual royalty payments consisting of the balance of the gross income after deducting operating expenses, operator's fee and special allowance. The Parent Company's provision for DOE's share under this contract and to the different LGU in the province of Antique, under the provisions of the Local Government Code of 1991, amounted to ₱1.86 billion, ₱1.30 billion and ₱1.56 billion in 2014, 2013 and 2012, respectively, included under "Operating expenses" in the consolidated statements of comprehensive income (see Note 21). The liabilities, amounting to ₱1.13 billion and ₱0.88 billion as of December 31, 2014 and 2013 are included under the "Trade and other payables" account in the consolidated statements of financial position (see Note 14).

The DOE, through the Energy Resources Development Bureau, approved the exclusion of coal produced and used solely by the Parent Company to feed its power plant in determining the amount due to DOE.

## 28. **Contingencies and Commitments**

a. Provision for Billing Disputes
On October 20, 2010, SCPC filed a Petition for dispute resolution ("Petition") before the Energy Regulatory Commission (ERC) against NPC and PSALM involving over-nominations made by NPC during the billing periods January to June 2010 beyond the 169,000 kW Manila Electric Company (MERALCO) allocation of SCPC as provided under the Schedule W of the APA.

In its Petition, SCPC sought to recover the cost of energy (a) sourced by SCPC from WESM in order to meet NPC's nominations beyond the 169,000 kW MERALCO contracted demand, or (b) procured by NPC from the WESM representing energy nominated by NPC in excess of the 169,000 kW limit set in Schedule W, cost of which was charged by PSALM against SCPC. In relation to this, NPC withheld the payments of MERALCO and remitted only to SCPC the collections, net of the cost of the outsourced energy.

SCPC has likewise sought to recover interest on the withheld MERALCO payments collected by PSALM that is unpaid to SCPC as of due date, to be charged at the rate of 6% computed from the date of the SCPC's extrajudicial demand until full payment by PSALM.

During the preliminary conference scheduled on November 25, 2010, the ERC directed the parties to explore the possibility of settling the dispute amicably. As the parties failed to arrive at a compromise during the prescribed period, hearings resumed with the conduct of preliminary conference on February 23, 2011, without prejudice to the result of any further discussions between the parties for amicable settlement. The ERC set the next hearing for the presentation of witnesses on March 22 and 23, 2011.

In 2010, SCPC made a provision for the total amount withheld by NPC, which amounted to ₱383.29 million. Though a provision has already been made, SCPC has not waived its right to collect the said amount in case the outcome of the dispute resolution would be a favorable. The provision will be reversed and an income would be recognized in the "Other income" account upon collection of the said receivable.

On July 6, 2011, the ERC rendered its Decision in favor of SCPC and directed the parties, among others to submit the reconciled computation of the over-nominations and other MERALCO payments withheld by PSALM during the periods January 2010 to June 2010, and for PSALM to return to SCPC the amount computed and reconciled, including the interests thereon a rate of 6% per annum. PSALM filed a Motion for Reconsideration on the Decision which was denied by ERC in an order dated February 13, 2012 for lack of merit.

On April 24, 2012, SCPC and PSALM each filed their Compliance submitting the reconciled computation of the over-nominations and other MERALCO payments withheld by PSALM, as agreed upon by the parties, in the principal amount of ₱476 million.

On December 4, 2013, SCPC filed a Motion for Issuance of Writ of Execution praying to direct PSALM to remit the Principal Amount, including interest of 6% per annum computed from August 4, 2010 until the date of actual payment, as well as the value added tax collected by PSALM from MERALCO, pursuant to the ERC's Decision dated July 6, 2011 and Order dated February 13, 2012.

On December 18, 2013, PSALM field its Comment to SCPC's Motion for Issuance of Writ of Execution essentially arguing that the Commission on Audit must first verify and confirm, through the proper proceeding, the claim against PSALM before PSALM can remit the Principal Amount pursuant to the ERC's judgment.

*PSALM's Petition for Review before the Court of Appeals and Supreme Court of the Philippines*
Meanwhile, PSALM filed a Petition for Review with Prayer for Temporary Restraining Order and/or Preliminary Injunction with the Court of Appeals on March 30, 2012, questioning the ERC's decision and order dated July 6, 2011 and February 13, 2012, respectively. On September 4, 2012, the Court of Appeals rendered a Decision, denying PSALM's petition and affirming the related Decision and Order previously issued.

PSALM subsequently filed a Motion for Reconsideration dated September 26, 2012 and seeking the reconsideration of the Decision dated September 4, 2012. SCPC filed its Opposition to PSALM's Motion for Reconsideration on November 5, 2012. Subsequently, the Court of Appeals issued a Resolution denying the Motion for Reconsideration filed by PSALM on November 27, 2012.

On December 27, 2012, PSALM filed a Petition for Review on Certiorari with Prayer for Issuance of Temporary Restraining Order and/or Preliminary Injunction with the Supreme Court.

Subsequently the Supreme Court issued a Resolution dated January 21, 2013 requiring SCPC to file a Comment to PSALM's Petition. Thus, on March 25, 2013, SCPC filed its Comment.

PSALM filed a Motion for Extension to file reply on July 25, 2013. PSALM subsequently filed its Reply on August 2, 2013.

In a Resolution dated September 30, 2013, the Supreme Court granted PSALMs Motion for Extension to File Reply and noted the filing of PSALM's Reply.

PSALM's Petition has not yet been resolved as of December 31, 2014.

b. Operating Lease Commitment - as a Lessee

As discussed in Notes 7 and 10, SCPC entered into a LLA with PSALM for the lease of land where the Power Plant is situated for the period of 25 years, renewable for another 25 years upon mutual agreement.

In 2009, SCPC paid US$3.19 million or its peso equivalent ₱150.57 million as advance rental for the 25-year land lease.

Provisions of the LLA include that SCPC has the option to buy the Option Assets upon issuance of an Option Existence Notice (OEN) by the lessor. Option assets are parcels of land that form part of the leased premises which the lessor offers for sale to the lessee.

SCPC was also required to deliver and submit to the lessor a performance security amounting to ₱34.83 million in the form of Stand-by Letter of Credits. The Performance Security shall be maintained by SCPC in full force and effect continuously without any interruption until the Performance Security expiration date. The Performance Security initially must be effective for the period of one year from the date of issue, to be replaced prior to expiration every year thereafter and shall at all times remain valid.

In the event that the lessor issues an OEN and SCPC buy the option assets, the land purchase price should be equivalent to the highest of the following and/or amounts: (i) assessment of the Provincial Assessors of Batangas Province; (ii) the assessment of the Municipal or City Assessor having jurisdiction over the particular portion of the leased premises; (iii) the zonal valuation of Bureau of Internal Revenue or, (iv) 21.00 per square meter (dollar). Valuation basis for (i) to (iii) shall be based on the receipt of PSALM of the option to exercise notice.

The exchange rate to be used should be the Philippine Dealing Exchange rate at the date of receipt of PSALM of the option to exercise notice.

On July 12, 2010, PSALM issued an OEN and granted SCPC the "Option" to purchase parcels of land (Optioned Assets) that form part of the leased premises. SCPC availed of the "Option" and paid the Option Price amounting to US$0.32 million (₱14.72 million) exercisable within one year from the issuance of the Option Existence Notice (see Note 7).

On April 28, 2011, SCPC sent a letter to PSALM requesting for the assignment of the option to purchase a lot with an area of 82,740 square in favor of its Parent Company. Said 8.2 hectare lot was later assigned to SLPGC, a subsidiary of the Parent Company.

On May 5, 2011, PSALM approved the assignment. On June 1, 2011, SCPC exercised the land lease option at a purchase price of ₱292.62 million and is included as part of "Property, plant and equipment" (see Note 8).

On October 12, 2011, SCPC reiterated its proposal to purchase the remainder of the Leased Premises not identified as Optioned Assets. One of the salient features of the proposal included the execution of Contract to Sell (CTS) between SCPC and PSALM.

On February 13, 2012, PSALM held off the approval of the proposal to purchase the portion of Calaca Leased Premises not identified as Optioned Assets, subject to further studies.

On the same date, PSALM Board has approved SCPC's request to sub-lease a portion of the Calaca Leased Premises to SLPGC for the purpose of constructing and operating a power plant.

On February 24, 2012, SCPC sent a letter to PSALM for its proposal to handle the titling of Calaca Land.

As of December 31, 2014, PSALM is pending for any response in connection therewith.

On February 5, 2014, DENR has ordered the transfer of Leasehold Rights of the National Power Corporation in favor of SCPC over the subsisting Lease Contract dated July 13, 2011.

*Commitments*
The Parent Company leases land at the minesite and building as office space. The lease term is for seven (7) years with option to extend. Future minimum rental payables under these operating leases follow:

| | 2014 | 2013 |
|---|---|---|
| Within one year | **₱27,428,345** | ₱25,592,039 |
| After one year but not more than five years | **65,727,740** | 88,144,709 |
| After five years | **5,011,376** | 5,011,376 |
| | **₱98,167,461** | ₱118,748,124 |

*Provision for probable legal claims*
The Group is contingently liable with respect to certain other lawsuits and other claims which are being contested by management, the outcome of which are not presently determinable. Management believes that the final resolution of these claims will not have a material effect on the consolidated financial statements.

The information usually required by PAS 37, *Provision, Contingent Liabilities and Contingent Assets* is not disclosed as it will prejudice the outcome of the lawsuits and claims.

## 29. Financial Risk Management Objectives and Policies

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

The Group's financial liabilities comprise trade and other payables, short-term loans and long-term debt. The main purpose of these financial liabilities is to raise finance for the Group's operations.

The main risks arising from the Group's financial instruments are price risk, interest rate risk, liquidity risk, foreign currency risk and credit risk. The BOD reviews and approves policies for managing each of these risks which are summarized below.

The sensitivity analyses have been prepared on the following basis:
- Price risk - movement in one-year historical coal prices
- Interest rate risk - market interest rate on loans
- Foreign currency risk - yearly movement in the foreign exchange rates

The assumption used in calculating the sensitivity analyses of the relevant income statement item is the effect of the assumed changes in respective market risks. This is based on the financial assets and financial liabilities held at December 31, 2014 and 2013.

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

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

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

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

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

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

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

| | **2014** | 2013 |
|---|---|---|
| Domestic market | **30.26%** | 42.05% |
| Export market | **69.74** | 57.95 |

The following table shows the effect on income before income tax should the change in the prices of coal occur based on the inventory of the Group as of December 31, 2014 and 2013 with all other variables held constant. The change in coal prices used in the simulation assumes fluctuation from the lowest and highest price based on 1-year historical price movements in 2014 and 2013.

| Change in coal price | Effect on income before income tax | |
|---|---|---|
| | **2014** | 2013 |
| *Based on ending coal inventory* | | |
| Increase by 22% in 2014 and 42% in 2013 | **₱316,564,503** | ₱1,022,494,329 |
| Decrease by 22% in 2014 and 42% in 2013 | **(316,564,503)** | (1,022,494,329) |
| *Based on coal sales volume* | | |
| Increase by 22% in 2014 and 42% in 2013 | **8,008,029,855** | 5,643,685,176 |
| Decrease by 22% in 2014 and 42% in 2013 | **(8,008,029,855)** | (5,643,685,176) |

*Interest rate risk*

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debts with floating interest rates. The Group's policy is to manage its interest cost using a mix of fixed and variable rate debts. The Group's policy is to maintain a balance of Peso-denominated and United States Dollar (US$)-denominated debts.

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

| | 2014 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Interest | Within 1 year | 1-2 years | 2-3 years | 3-4 years | More than 4 years | Carrying Value |
| **Cash in banks and cash equivalents** | **1.38% to 2.75%** | **₱3,677,533,204** | **₱–** | **₱–** | **₱–** | **₱–** | **₱3,677,533,204** |
| **Foreign short-term debt at floating rate** | | | | | | | |
| **$31.95 million loans (USD)** | **Floating rate** | **₱1,218,753,398** | **₱–** | **₱–** | **₱–** | **₱–** | **₱1,218,753,398** |
| **Foreign long-term debt at floating rate** | | | | | | | |
| **$32.7 million loan (USD)** | **Floating rate payable quarterly and in arrears, to be repriced every 90 days** | **210,184,000** | **1,252,160,000** | **–** | **–** | **–** | **1,462,344,000** |
| **$33.73 million loan (USD)** | **Floating rate to be repriced every 90 days** | **–** | **1,508,529,161** | **–** | **–** | **–** | **1,508,529,161** |
| **$10.61 million loan (USD)** | **Floating rate, aggregate of the margin (1.20%) and LIBOR, to be repriced every 90 to 180 days** | **–** | **474,345,624** | **–** | **–** | **–** | **474,345,624** |
| **$9.31 million loan (USD)** | **Floating rate to be repriced every 90 days** | **–** | **416,331,618** | **–** | **–** | **–** | **416,331,618** |
| **$1.6 million loan (USD)** | **Floating rate** | **–** | **72,181,972** | **–** | **–** | **–** | **72,181,972** |
| **Mortgage payable at floating rate** | **PDST-F benchmark yield for three-month treasury securities + 1.00%** | **378,652,287** | **1,544,876,300** | **1,546,237,838** | **6,976,302,583** | **–** | **10,446,069,008** |
| | **PDST-F benchmark yield for 3-month treasury securities +1.75%** | **1,525,049,063** | **1,530,478,240** | **767,281,099** | **–** | **–** | **3,822,808,402** |
| | | **₱3,332,638,748** | **₱6,798,902,915** | **₱2,313,518,937** | **₱6,976,302,583** | **₱–** | **₱19,421,363,183** |

| | Interest | Within 1 year | 1-2 years | 2-3 years | 3-4 years | More than 4 years | Carrying Value |
|---|---|---|---|---|---|---|---|
| | 2013 | | | | | | |
| **Cash in banks and cash equivalents** | 1.00% to 4.63% | ₱4,812,937,790 | ₱– | ₱– | ₱– | ₱– | ₱4,812,937,790 |
| **Foreign short-term debt at floating rate** | | | | | | | |
| $37.28 million loans (USD) | Floating rate | ₱1,655,079,934 | ₱– | ₱– | ₱– | ₱– | ₱1,655,079,934 |
| **Foreign long-term debt at floating rate** | | | | | | | |
| $7.70 million loan (USD) | Floating rate payable quarterly and in arrears, to be repriced every 90 days | – | 341,682,734 | – | – | – | 341,682,734 |
| $61.79 million loan (USD) | Floating rate to be repriced every 90 days | 529,409,895 | 716,335,443 | 1,497,565,889 | – | – | 2,743,311,227 |
| $35.00 million loan (USD) | Floating rate, aggregate of the margin (1.20%) and LIBOR, to be repriced every 90 to 180 days | 102,108,980 | 208,656,837 | 1,243,059,908 | – | – | 1,553,825,725 |
| $3.42 million loan (USD) | Floating rate | – | 151,877,882 | – | – | – | 151,877,882 |
| **Mortgage payable at floating rate** | PDST-F benchmark yield for three-month treasury securities + 1.00% | (5,029,056) | 206,149,624 | 840,162,397 | 840,906,861 | 3,793,311,411 | 5,675,501,237 |
| | PDST-F benchmark yield for 3-month treasury securities +1.75% | 1,519,639,144 | 1,525,049,063 | 1,530,478,240 | 767,281,099 | – | 5,342,447,546 |
| | | ₱3,801,208,897 | ₱3,149,751,583 | ₱5,111,266,434 | ₱1,608,187,960 | ₱3,793,311,411 | ₱17,463,726,285 |

The following table demonstrates the sensitivity of the Group's income before tax to a reasonably possible change in interest rates on December 31, 2014 and 2013, with all variables held constant, through the impact on floating rate borrowings.

| | Effect on Income Before Tax | |
|---|---|---|
| Basis points (in thousands) | **2014** | 2013 |
| +100 | **(₱194,214)** | (₱158,086) |
| -100 | **194,214** | 158,086 |

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

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

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

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

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

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

The tables below summarize the maturity profile of the Group's financial assets and liabilities as of December 31, 2014 and 2013 based on undiscounted contractual payments:

| | 2014 | | | | | |
|---|---|---|---|---|---|---|
| | Less than 6 months | 6-12months | 1-2 years | 2-3 years | More than 3 years | Total |
| **Assets** | | | | | | |
| **Cash in banks and cash equivalents** | **₱3,677,533,204** | **₱–** | **₱–** | **₱–** | **₱–** | **₱3,677,533,204** |
| **Receivables:** | | | | | | |
| Trade : | | | | | | |
| Outside parties | **2,567,692,896** | **1,208,069,234** | – | – | – | **3,775,762,130** |
| Related parties | **67,121,866** | – | – | – | – | **67,121,866** |
| Others* | **271,508,490** | – | – | – | – | **271,508,490** |
| **Environmental guarantee fund** | – | – | – | – | **1,500,000** | **1,500,000** |
| **Investment in sinking fund** | – | – | – | **521,780,873** | – | **521,780,873** |
| | **6,583,856,456** | **1,208,069,234** | – | **521,780,873** | **1,500,000** | **8,315,206,563** |
| **Liabilities** | | | | | | |
| **Trade and other payables:** | | | | | | |
| Trade: | | | | | | |
| Payable to suppliers and contractors | **4,579,969,287** | – | – | – | – | **4,579,969,287** |
| Related parties | **1,792,921,285** | – | – | – | – | **1,792,921,285** |
| Accrued expenses and other payables** | **707,618,017** | – | – | – | – | **707,618,017** |
| **Short-term loans** | **1,050,916,914** | **167,836,484** | – | – | – | **1,218,753,398** |
| **Long-term debt at floating rate** | | | | | | |
| $32.7 million loan (USD) with interest payable in arrears | **105,845,956** | **105,845,956** | **1,288,093,236** | – | – | **1,499,785,148** |
| $33.73 million loan (USD) with interest payable in arrears | – | – | **1,558,760,165** | – | – | **1,558,760,165** |
| $10.61 million loan (USD) with interest payable in arrears | – | – | **488,919,419** | – | – | **488,919,419** |
| $9.31 million loan (USD) with interest payable in arrears | – | – | **429,187,938** | – | – | **429,187,938** |
| $1.6 million loan (USD) with interest payable in arrears | – | – | **74,398,103** | – | – | **74,398,103** |
| PDST-F benchmark yield for 3-month treasury securities + 1.00% | – | **378,652,287** | **1,544,876,300** | **1,631,463,248** | **7,046,066,216** | **10,601,058,051** |
| PDST-F benchmark yield for 3-month treasury securities + 1.75% | **762,524,532** | **762,524,532** | **1,530,478,240** | **780,708,518** | – | **3,836,235,822** |
| | **8,999,795,991** | **1,414,859,259** | **6,914,713,401** | **2,412,171,766** | **7,046,066,216** | **26,787,606,633** |
| | **(₱2,415,939,535)** | **(₱206,790,025)** | **(₱6,914,713,401)** | **(₱1,890,390,893)** | **(₱7,044,566,216)** | **(₱18,472,400,070)** |

**excludes advances for liquidation*
***excludes statutory liabilities*

| | 2013 | | | | | |
|---|---|---|---|---|---|---|
| | Less than 6 months | 6-12months | 1-2 years | 2-3 years | More than 3 years | Total |
| **Assets** | | | | | | |
| **Cash in banks and cash equivalents** | ₱4,812,937,791 | ₱– | ₱– | ₱– | ₱– | ₱4,812,937,791 |
| **Receivables:** | | | | | | |
| Trade receivables - outside parties | 3,788,916,339 | 107,625,976 | – | – | – | 3,896,542,315 |
| Trade receivables - related parties | 75,553,612 | – | – | – | – | 75,553,612 |
| Others* | 43,132,924 | – | – | – | – | 43,132,924 |
| **Environmental guarantee fund** | – | – | – | – | 1,500,000 | 1,500,000 |
| **Investment in sinking fund** | – | – | – | – | 517,603,224 | 517,603,224 |
| | 8,720,540,666 | 107,625,976 | – | – | 519,103,224 | 9,347,269,866 |
| **Liabilities** | | | | | | |
| **Trade and other payables:** | | | | | | |
| Trade: | | | | | | |
| Payable to suppliers and contractors | 3,256,554,439 | – | – | – | – | 3,256,554,439 |
| Related parties | 878,822,345 | – | – | – | – | 878,822,345 |
| Accrued expenses and other payables** | 338,788,772 | – | – | – | – | 338,788,772 |
| **Short-term loans** | 1,655,079,934 | – | – | – | – | 1,655,079,934 |
| **Long-term debt at floating rate** | | | | | | |
| $23.08 million loan (USD) with interest payable in arrears | 1,756,419 | 1,756,419 | 345,195,455 | – | – | 348,708,293 |
| $5.62 million loan (USD) with interest payable in arrears | 17,139,530 | 546,549,905 | 743,999,781 | 1,516,278,852 | – | 2,823,968,068 |
| $62.29 million loan (USD) with interest payable in arrears | 9,322,950 | 111,431,450 | 226,077,098 | 1,257,976,720 | – | 1,604,808,218 |
| $25.34 million loan (USD) with interest payable in arrears | 1,260,873 | 1,260,873 | 154,399,338 | – | – | 156,921,084 |
| PDST-F benchmark yield for 3-month treasury securities + 1.00% | 104,473,270 | 104,473,270 | 208,946,540 | 875,004,071 | 4,851,931,386 | 6,144,828,537 |
| PDST-F benchmark yield for 3-month treasury securities + 1.75% | 779,957,166 | 780,372,235 | 1,594,101,156 | 1,605,963,747 | 809,335,971 | 5,569,730,275 |
| | 7,043,155,698 | 1,545,844,152 | 3,272,719,368 | 5,255,223,390 | 5,661,267,357 | 22,778,209,965 |
| | ₱1,677,384,968 | (₱1,438,218,176) | (₱3,272,719,368) | (₱5,255,223,390) | (₱5,142,164,133) | (₱13,430,940,099) |

**excludes advances for liquidation*
***excludes statutory liabilities*

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

The Group manages this risk by matching receipts and payments in the same currency and monitoring. Approximately, 60.04% and 26.66% of the Group's sales in 2014 and 2013, respectively, were denominated in US$ whereas approximately 32.03% and 25.55% of debts as of December 31, 2014 and 2013, respectively, were denominated in US$.

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

| | **December 31, 2014** | | December 31, 2013 | |
|---|---|---|---|---|
| | **U.S. Dollar** | **Peso Equivalent** | U.S. Dollar | Peso Equivalent |
| **Assets** | | | | |
| Cash and cash equivalents | **$24,582,205** | **₱1,099,316,208** | $18,318,751 | ₱813,260,942 |
| Trade receivables | **15,024,717** | **671,905,344** | 10,654,649 | 473,013,142 |
| **Liabilities** | | | | |
| Trade payables | **(20,291,547)** | **(907,437,999)** | (21,816,839) | (968,558,569) |
| Short-term loans | **(27,252,983)** | **(1,218,753,400)** | (32,367,091) | (1,436,937,001) |
| Long-term debt (including current portion) | **(87,963,604)** | **(3,933,732,371)** | (107,910,746) | (4,790,697,569) |
| Net exposure | **($95,901,212)** | **(₱4,288,702,218)** | ($133,121,276) | (₱5,909,919,055) |

*The exchange rates used were ₱44.72 to $1 and ₱44.40 to $1 in 2014 and 2013, respectively.*

The following table demonstrates the sensitivity to a reasonably possible change in foreign exchange rates, with all variables held constant, of the Group's income before tax (due to changes in the fair value of monetary assets and liabilities) on December 31, 2014 and 2013.

| Reasonably possible change in the Philippine peso-US dollar exchange rate | Increase (decrease) in income before tax | |
|---|---|---|
| | **2014** | 2013 |
| ₱2 | **(₱191,802,424)** | (₱266,387,702) |
| (₱2) | **191,802,424** | 266,387,702 |

There is no impact on the Group's equity other than those already affecting profit or loss. The movement in sensitivity analysis is derived from current observations on movement in dollar average exchange rates.

The Group recognized net foreign exchange losses amounting to ₱52.14 million and ₱481.18 million in 2014 and 2013, respectively, and net foreign exchange gains amounting to ₱391.00 million in 2012, arising from the translation of the Group's cash and cash equivalents, trade receivables, trade payables, short-term loans and long-term debt.

*Credit risk*
Credit risk is the risk that counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss.

The Group manages and controls credit risk by doing business with recognized, creditworthy third parties, thus, there is no requirement for collateral. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. The Group evaluates the financial condition of the local customers before deliveries are made to them.

On the other hand, export sales are covered by sight letters of credit issued by foreign banks subject for the Group's approval, hence, mitigating the risk on collection. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to doubtful accounts is not significant. The Group generally bills 80% of coal delivered payable within 30 days upon receipt of billing and the remaining 20% payable within 15 days after receipt of final billing based on final analysis of coal delivered. The Group's exposure to credit risk from trade receivables arise from the default of the counterparty with a maximum exposure equal to their carrying amounts.

With respect to the credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents, other receivables, environmental guarantee fund and investment in sinking fund, the exposure to credit risk arises from default of the counterparty with a maximum exposure to credit risk equal to the carrying amount of the financial assets as of reporting date. The Group does not hold any collateral or other credit enhancement that will mitigate credit risk exposure. The Group transacts only with institutions or banks and third parties that have proven track record in financial soundness. The management does not expect any of these institutions to fail in meeting their obligations.

The credit risk is concentrated to the following markets:

| | **2014** | 2013 |
|---|---|---|
| Trade receivables - outside parties | **91.47%** | 96.65% |
| Trade receivables - related parties | **1.63** | 1.87 |
| Others | **6.90** | 1.48 |
| | **100.00%** | 100.00% |

As of December 31, 2014 and 2013, the credit quality per class of financial assets is as follows:

| | **2014** | | | | |
|---|---|---|---|---|---|
| | **Neither Past Due nor Impaired** | | **Substandard** | **Past due and/or Individually** | |
| | **Grade A** | **Grade B** | **Grade** | **Impaired** | **Total** |
| Cash in banks and cash equivalents | **₱3,677,533,204** | **₱–** | **₱–** | **₱–** | **₱3,677,533,204** |
| Receivables: | | | | | |
| Trade receivables - outside parties | **714,026,450** | **–** | **–** | **3,558,909,562** | **4,272,936,012** |
| Trade receivables - related parties | **67,121,866** | **–** | **–** | **–** | **67,121,866** |
| Others | **271,508,490** | **–** | **–** | **5,815,359** | **277,323,849** |
| Environmental guarantee fund | **1,500,000** | **–** | **–** | **–** | **1,500,000** |
| Investment in sinking fund | **521,780,873** | | | | **521,780,873** |
| Total | **₱5,253,470,883** | **₱–** | **₱–** | **₱3,564,724,921** | **₱8,818,195,804** |

| | 2013 | | | | |
|---|---|---|---|---|---|
| | Neither Past Due nor Impaired | | Substandard | Past due and/or Individually | |
| | Grade A | Grade B | Grade | Impaired | Total |
| Cash in banks and cash equivalents | ₱4,812,937,791 | ₱– | ₱– | ₱– | ₱4,812,937,791 |
| Receivables: | | | | | |
| Trade receivables - outside parties | 2,149,725,650 | 1,481,867,441 | – | 762,123,106 | 4,393,716,197 |
| Trade receivables - related parties | 75,553,612 | – | – | – | 75,553,612 |
| Others | 43,132,924 | – | – | 5,815,359 | 48,948,283 |
| Environmental guarantee fund | 1,500,000 | – | – | – | 1,500,000 |
| Investment in sinking fund | 517,603,224 | – | – | – | 517,603,224 |
| Total | ₱7,600,453,201 | ₱1,481,867,441 | ₱– | ₱767,938,465 | ₱9,850,259,107 |

Cash in banks and cash equivalents are short-term placements and working cash fund placed, invested or deposited in foreign and local banks belonging to top ten (10) banks in the Philippines in terms of resources and profitability. These financial assets are classified as Grade A due to the counterparties' low probability of insolvency. Trade receivable - related parties are considered Grade A due to the Group's positive collection experience. Environmental guarantee fund is assessed as Grade A since this is deposited in a reputable bank, which has a low probability of insolvency.

Grade A are accounts considered to be of high credit rating and are covered with coal supply and power supply contracts. The counterparties have a very remote likelihood of default and have consistently exhibited good paying habits.

Grade B accounts are active accounts with minimal instances of payment default, due to collection issues. These accounts are typically not impaired as the counterparties generally respond to credit actions and update their payments accordingly. The Group determines financial assets as impaired when probability of recoverability is remote evidenced by the counterparty's financial difficulty.

Substandard grade accounts are accounts which have probability of impairment based on historical trend. Accounts under this group show possible future loss to the Group as a result of default in payment of the counterparty despite of the regular follow-up actions and extended payment terms.

In the Group's assessment, there are no financial assets that will fall under the category substandard grade due to the following reasons:

- Receivables from electricity and local coal sales - transactions are entered into with reputable and creditworthy companies.

- Receivables from export coal sales - covered by irrevocable letter of credit at sight from a reputable bank acceptable to the Group.

As of December 31, 2014 and 2013, the aging analyses of the Group's past due and/or impaired receivables presented per class are as follows:

| | **2014** | | | |
|---|---|---|---|---|
| | **Past Due but not Impaired** | | **Impaired Financial** | |
| | **<45 days** | **45-135 days** | **Assets** | **Total** |
| *Receivables* | | | | |
| Trade receivables - outside parties | **₱1,979,168,913** | **₱1,082,566,767** | **₱497,173,882** | **₱3,558,909,562** |
| Others | **–** | **–** | **5,815,359** | **5,815,359** |
| Total | **₱1,979,168,913** | **₱1,082,566,767** | **₱502,989,241** | **₱3,564,724,921** |

| | 2013 | | | |
|---|---|---|---|---|
| | Past Due but not Impaired | | Impaired Financial | |
| | <45 days | 45-135 days | Assets | Total |
| *Receivables* | | | | |
| Trade receivables - outside parties | ₱205,773,956 | ₱59,175,268 | ₱497,173,882 | ₱762,123,106 |
| Others | – | – | 5,815,359 | 5,815,359 |
| Total | ₱205,773,956 | ₱59,175,268 | ₱502,989,241 | ₱767,938,465 |

*Capital management*
The primary objective of the Group's capital management strategy is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value. The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders or issue new shares.

No changes were made in the objectives, policies and processes from the previous years.

The Group manages its capital using Debt-to-Equity ratio, which is interest-bearing loans divided by equity, and EPS. The following table shows the Group's capital ratios as of December 31, 2014 and 2013.

| | **2014** | 2013 |
|---|---|---|
| Interest-bearing loans | **₱19,421,363,183** | ₱17,463,726,285 |
| Total equity | **22,706,211,516** | 20,127,511,704 |
| Debt-to-Equity ratio | **85.53%** | 86.77% |
| EPS (Note 26) | **₱6.42** | ₱7.04 |

The aggressive expansion and investment strategies of the Group resulted to higher Debt-to-Equity ratios in 2014 and 2013. The Debt-to-Equity ratio is carefully matched with the strength of the Group's financial position, such that when a good opportunity presents itself, the Group can afford further leverage.

The following table shows the component of the Group's capital as of December 31, 2014 and 2013:

| | **2014** | 2013 |
|---|---|---|
| Total paid-up capital | **₱7,744,277,411** | ₱7,031,777,411 |
| Remeasurement losses on pension plan | **(13,471,337)** | (5,876,670) |
| Retained earnings - unappropriated | **12,675,405,442** | 10,801,610,963 |
| Retained earnings - appropriated | **2,300,000,000** | 2,300,000,000 |
| | **₱22,706,211,516** | ₱20,127,511,704 |

## 30. **Fair Values**

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

*Long-term debt*
The carrying values approximated the fair value because of recent and regular repricing of interest rates (e.g. monthly, quarterly, semi-annual or annual basis) based on current market conditions. As of December 31, 2014 and 2013, interest rate ranges from 1.44% to 1.66% and 1.00% to 3.00%, respectively.

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

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

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

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

As of December 31, 2014 and 2013, the Group does not have financial instruments measured at fair value.

## 31. Notes to Consolidated Statements of Cash Flow

Supplemental disclosure of noncash investing and financing activities follows:

| | **2014** | 2013 | 2012 |
|---|---|---|---|
| Depreciation capitalized as exploration and evaluation asset (Note 8) | **₱248,799,589** | ₱49,421,284 | ₱– |
| Adjustments to provision for decommissioning and site rehabilitation (Note 15) | **10,819,948** | – | 5,265,923 |
| Depreciation capitalized as coal inventory (Note 8) | **4,034,790** | 121,831,125 | 188,777,615 |
| Increase in property, plant and equipment and liabilities arising from adjustments relating to decommissioning (Note 8) | **–** | 133,188,944 | 275,903,977 |
| Application of creditable withholding tax to income tax payable | **–** | 11,691,929 | – |
| Transfers from inventory to property, plant and equipment (Note 8) | **–** | – | 223,519,372 |

## 32. Operating Segments

Segment Information
For management purposes, the Group is organized into business units based on their products and activities. Segment revenues, cost and operating expenses, profit or loss, segment assets and segment liabilities assume measurement under PFRS. Reportable operating segments are as follows:

- Mining - engaged in surface open cut mining of thermal coal;
- Power - involved in generation of energy available for sale thru bilateral contracts, electricity markets and trading; and
- Others - other investing activities.

No operating segments have been aggregated to form the above reportable operating segments.

The chief operating decision maker (CODM) monitors the operating results of the Group for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on revenue, operating profit and pretax income which are measured similarly in the consolidated financial statements. Transactions between operating segments are made at terms and prices agreed upon by the parties.

| | 2014 (In thousands) | | | | |
|---|---|---|---|---|---|
| | Mining | Power | Others | Adjustments and Eliminations | Consolidated |
| **Revenue** | | | | | |
| Sales to external customers | **₱16,276,930** | **₱12,308,411** | **₱–** | **₱–** | **₱28,585,341** |
| Inter-segment sales | **2,629,502** | **–** | **–** | **(2,629,502)** | **–** |
| | **18,906,432** | **12,308,411** | **–** | **(2,629,502)** | **28,585,341** |
| **Cost of sales** | **(11,248,064)** | **(8,424,654)** | **–** | **2,429,297** | **(17,243,421)** |
| Depreciation and amortization | **(983,340)** | **(926,330)** | **–** | **225,605** | **(1,684,065)** |
| **Gross profit** | **6,675,028** | **2,957,427** | **–** | **25,400** | **9,657,855** |
| Operating expenses | **(2,228,618)** | **(940,403)** | **(211)** | **–** | **(3,169,232)** |
| Loss on property, plant and equipment writedown | **–** | **(111)** | **–** | **–** | **(111)** |
| Depreciation | **(24,363)** | **(27,293)** | **–** | **–** | **(51,656)** |
| Operating profit | **4,422,047** | **1,989,620** | **(211)** | **25,400** | **6,436,856** |
| Other income | **3,592,010** | **113,478** | **–** | **(3,500,000)** | **205,488** |
| Finance income | **15,458** | **25,946** | **48** | **–** | **41,452** |
| Foreign exchange loss | **(61,847)** | **9,706** | **–** | **–** | **(52,141)** |
| Finance costs | **(119,938)** | **(203,290)** | **–** | **–** | **(323,228)** |
| Provision for (benefit from) income tax | **81,511** | **(634,326)** | **(52)** | **–** | **(552,867)** |
| **Net income** | **₱7,766,219** | **₱2,569,786** | **(₱111)** | **(₱3,474,600)** | **₱6,861,294** |
| Segment assets | **₱29,956,474** | **₱39,771,050** | **₱103,946** | **(₱18,634,289)** | **₱51,197,181** |
| Deferred tax assets | **61,327** | **642,805** | **63** | **–** | **704,195** |
| | **₱30,017,801** | **₱40,413,855** | **₱104,009** | **(₱18,634,289)** | **₱51,901,376** |
| Segment liabilities | **7,840,237** | **6,352,534** | **99,121** | **(3,299,337)** | **10,992,555** |
| Long-term debt | **3,933,732** | **14,268,877** | **–** | **–** | **18,202,609** |
| | **11,773,969** | **20,621,411** | **99,121** | **(3,299,337)** | **29,195,164** |
| **Cash flows arising from:** | | | | | |
| Operating activities | **₱10,641,091** | **₱4,723,833** | **₱60,719** | **(₱3,500,000)** | **₱11,925,643** |
| Investing activities | **(4,836,221)** | **(7,846,199)** | **(60,524)** | **2,071,680** | **(10,671,264)** |
| Financing activities | **(5,622,727)** | **1,806,248** | **–** | **1,428,320** | **(2,388,159)** |
| **Other disclosures** | | | | | |
| Capital expenditures | **₱1,462,340** | **₱7,956,352** | **₱–** | **₱–** | **₱9,418,692** |
| Reversal of inventory obsolescence | **(12,154)** | **–** | **–** | | **(12,154)** |

| | 2013 (In thousands) | | | | |
|---|---|---|---|---|---|
| | Mining | Power | Others | Adjustments and Eliminations | Consolidated |
| **Revenue** | | | | | |
| Sales to external customers | ₱12,573,569 | ₱14,757,590 | ₱– | ₱– | ₱27,331,159 |
| Inter-segment sales | 4,103,853 | – | – | (4,103,853) | – |
| | 16,677,422 | 14,757,590 | – | (4,103,853) | 27,331,159 |
| **Cost of sales** | (10,067,559) | (4,999,756) | – | 3,412,666 | (11,654,649) |
| Depreciation and amortization | (1,665,007) | (1,509,951) | – | 719,111 | (2,455,847) |
| **Gross profit** | 4,944,856 | 8,247,883 | – | 27,924 | 13,220,663 |
| Operating expenses | (1,686,861) | (1,967,466) | (200) | – | (3,654,527) |
| Loss on property, plant and equipment writedown | – | (1,559,385) | – | – | (1,559,385) |
| Depreciation | (28,020) | (22,584) | – | – | (50,604) |
| Operating profit | 3,229,975 | 4,698,448 | (200) | 27,924 | 7,956,147 |
| Other income | 2,577,903 | 203,180 | 126 | (2,500,000) | 281,209 |
| Finance income | 1,889 | 24,839 | 77 | – | 26,805 |
| Foreign exchange gain | (463,938) | (17,239) | – | – | (481,177) |
| Finance costs | (152,628) | (228,601) | – | – | (381,229) |
| Provision for income tax | (131,452) | 13,613 | 1 | – | (117,838) |
| **Net income** | ₱5,324,653 | ₱4,667,014 | ₱2 | (₱2,472,076) | ₱7,519,593 |
| Segment assets | ₱12,363,065 | ₱33,386,629 | ₱46,356 | (₱1,208,617) | ₱44,587,433 |
| Deferred tax assets | 135,182 | 4,743 | 33 | – | 139,958 |
| | ₱12,498,247 | ₱33,391,372 | ₱46,389 | (₱1,208,617) | ₱44,727,391 |
| Segment liabilities | ₱6,186,795 | ₱3,736,745 | ₱38,330 | (₱1,170,637) | ₱8,791,233 |
| Long-term debt | 4,790,698 | 11,017,949 | – | – | 15,808,647 |
| | ₱10,977,493 | ₱14,754,694 | ₱38,330 | (₱1,170,637) | ₱24,599,880 |
| **Cash flows arising from:** | | | | | |
| Operating activities | ₱6,061,170 | ₱6,593,511 | (₱18) | – | 12,654,663 |
| Investing activities | (2,183,859) | (6,656,038) | (37,963) | – | (8,877,860) |
| Financing activities | (3,056,366) | 3,554,835 | – | – | 498,469 |
| **Other disclosures** | | | | | |
| Capital expenditures | ₱1,747,122 | ₱7,150,621 | ₱– | ₱– | ₱8,897,743 |
| Reversal of allowance for doubtful accounts | 29,743 | 413,907 | – | – | 443,650 |
| Provision for impairment losses | 4,120 | – | – | – | 4,120 |
| Reversal of impairment losses | (61,549) | – | – | – | (61,549) |

| | 2012 (In thousands) | | | | |
|---|---|---|---|---|---|
| | Mining | Power | Others | Adjustments and Eliminations | Consolidated |
| **Revenue** | | | | | |
| Sales to external customers | ₱14,450,155 | ₱9,700,092 | ₱– | ₱– | ₱24,150,247 |
| Inter-segment sales | 3,176,475 | – | – | (3,176,475) | – |
| | 17,626,630 | 9,700,092 | – | (3,176,475) | 24,150,247 |
| **Cost of sales** | (10,333,544) | (4,133,245) | – | 2,825,804 | (11,640,985) |
| Depreciation and amortization | (1,995,919) | (1,420,440) | – | 413,403 | (3,002,956) |
| **Gross profit** | 5,297,167 | 4,146,407 | – | 62,732 | 9,506,306 |
| Operating expenses | (1,977,308) | (1,036,854) | (102) | 1,961 | (3,012,303) |
| Depreciation | – | (341,162) | – | – | (341,162) |
| Operating profit | (23,097) | (21,814) | – | – | (44,911) |
| Other income | 1,687,185 | 131,264 | – | (1,500,000) | 318,449 |
| Finance income | 13,115 | 68,948 | 82 | – | 82,145 |
| Foreign exchange gain | 387,832 | 3,168 | – | – | 391,000 |
| Finance costs | (122,607) | (378,673) | – | – | (501,280) |
| Provision for income tax | (11,451) | (28,156) | 3 | – | (39,604) |
| **Net income** | ₱5,250,836 | ₱2,543,281 | (₱17) | (₱1,435,307) | ₱6,358,640 |

(Forward)

| | 2012 (In thousands) | | | | |
|---|---|---|---|---|---|
| | Mining | Power | Others | Adjustments and Eliminations | Consolidated |
| Segment assets | ₱12,196,116 | ₱24,856,536 | ₱5,065 | (₱873,134) | ₱36,184,583 |
| Deferred tax assets | – | 10,729 | 19 | – | 10,748 |
| | ₱12,196,116 | ₱24,867,265 | ₱5,084 | (₱873,134) | ₱36,195,331 |
| Segment liabilities | ₱5,043,169 | ₱2,909,635 | ₱152 | (₱807,230) | ₱7,145,726 |
| Long-term debt | 4,775,084 | 7,404,190 | – | – | 12,179,274 |
| Deferred tax liability | – | – | – | – | – |
| | ₱9,818,253 | ₱10,313,825 | ₱152 | (₱807,230) | ₱19,325,000 |
| **Cash flows arising from:** | | | | | |
| Operating activities | ₱3,422,328 | ₱3,731,637 | ₱65 | (₱219,828) | ₱6,934,202 |
| Investing activities | (2,836,329) | (4,567,013) | – | 1,167,665 | (6,235,677) |
| Financing activities | (3,913,919) | (2,151,516) | 2,500 | 956,635 | (5,106,300) |
| **Other disclosures** | | | | | |
| Capital expenditures | ₱2,060,066 | ₱3,309,580 | ₱– | ₱– | ₱5,369,646 |
| Reversal of allowance for doubtful accounts | (9,552) | – | – | – | (9,552) |
| Provision for impairment losses | 47,151 | – | – | – | 47,151 |

1. Intersegment revenues, other income, cost and expenses are eliminated in the consolidation.
2. Segment assets exclude deferred tax assets amounting to ₱704.20 million, ₱139.96 million and ₱10.75 million in 2014, 2013 and 2012, respectively.
3. Significant noncash items charged to comprehensive income include loss on property, plant and equipment writedown and depreciation and amortization.
4. Capital expenditures consist of additions of property, plant and equipment.
5. All noncurrent assets other than financial instruments are located in the Philippines.

Geographic Information

*Revenues from external customers*

The financial information about the operation of the Group as of December 31, 2014, 2013 and 2012 reviewed by the management follows:

| | **2014** | 2013 | 2012 |
|---|---|---|---|
| **Revenue:** | | | |
| Local coal sales | **₱4,925,268,912** | ₱5,287,388,411 | ₱7,440,134,295 |
| Export coal sales | **11,351,660,886** | 7,286,180,834 | 7,010,021,039 |
| | **₱16,276,929,798** | ₱12,573,569,245 | ₱14,450,155,334 |

Substantially all revenues from external customer are from open cut mining and sales of thermal coal. Local and export classification above is based on the geographic location of the customer.

Customers on the export sales are significantly to China.

All revenues from power are derived from the Philippine market.

## 33. Other Matters

a. Electric Power Industry Reform Act (EPIRA)

In June 2001, the Congress of the Philippines approved and passed into law R.A. No. 9136, otherwise known as the EPIRA, providing the mandate and the framework to introduce competition in the electricity market. EPIRA also provides for the privatization of the assets of NPC, including its generation and transmission assets, as well as its contract with Independent Power Producers (IPPs). EPIRA provides that competition in the retail supply of electricity and open access to the transmission and distribution systems would occur within three years from EPIRA's effective date. Prior to June 2002, concerned government agencies were to establish WESM, ensure the unbundling of transmission and distribution wheeling rates and remove existing cross subsidies provided by industrial and commercial users to residential customers. The WESM was officially launched on June 23, 2006 and began commercial operations for Luzon. The ERC has already implemented a cross subsidy removal scheme. The inter-regional grid cross subsidy was fully phased-out in June 2002. ERC has already approved unbundled rates for Transmission Company (TRANSCO) and majority of the distribution utilities.

Under EPIRA, NPC's generation assets are to be sold through transparent, competitive public bidding, while all transmission assets are to be transferred to TRANSCO, initially a government-owned entity that was eventually being privatized. The privatization of these NPC assets has been delayed and is considerably behind the schedule set by the DOE. EPIRA also created PSALM, which is to accept transfers of all assets and assume all outstanding obligations of NPC, including its obligations to IPPs. One of PSALM's responsibilities is to manage these contracts with IPPs after NPC's privatization. PSALM is also responsible for privatizing at least 70% of the transferred generating assets and IPP contracts within three years from the effective date of EPIRA.

In August 2005, the ERC issued a resolution reiterating the statutory mandate under the EPIRA law for the generation and distribution companies, which are not publicly listed, to make an initial public offering (IPO) of at least 15% of their common shares. Provided, however, that generation companies, distribution utilities or their respective holding companies that are already listed in the Philippine Stock Exchange (PSE) are deemed in compliance. SCPC was already compliant with this requirement given that the Parent Company is a publicly listed company.

*WESM*

With the objective of providing competitive price of electricity, the EPIRA authorized DOE to constitute an independent entity to be represented equitably by electric power industry participants and to administer and operate WESM. WESM will provide a mechanism for identifying and setting the price of actual variations from the quantities transacted under contracts between sellers and purchasers of electricity.

In addition, the DOE was tasked to formulate the detailed rules for WESM which include the determination of electricity price in the market. The price determination methodology will consider accepted economic principles and should provide a level playing field to all electric power industry participants. The price determination methodology was subject to the approval of the ERC.

In this regard, the DOE created Philippine Electricity Market Corporation (PEMC) to act as the market operator governing the operation of WESM. On June 26, 2006, WESM became operational in the Luzon grid and adopts the model of a "gross pool, net settlement" electricity market.

b. Power Supply Agreement with Manila Electric Company (MERALCO)

On December 20, 2011, SCPC entered into a new power supply agreement with MERALCO, a distributor of electric power, which took effect in December 26, 2011 and shall have a term of seven (7) years, which may be extended by the parties for another three (3) years.

SCPC will be providing MERALCO with an initial contracted capacity of 210 MW and will be increased to 420 MW upon the commercial operation of the plant's Unit 1.

On March 12, 2012, MERALCO filed an application for the *Approval of the Power Supply Agreement (PSA) between MERALCO and SCPC, with a Prayer for Provisional Authority,* docketed as ERC Case No. 2011-037 RC.

In the said application, MERALCO alleged and presented on the following: a.) the salient provisions of the PSA; b.) payment structure under the PSA; c.) the impact of the approval of the proposed generation rates on MERALCO's customers; and d.) the relevance and urgent need for the implementation of the PSA.

On December 17, 2012, the Commission (ERC) issued a Decision approving the application with modification.

c. Clean Air Act

On November 25, 2000, the Implementing Rules and Regulations (IRR) of the Philippine Clean Air Act (PCAA) took effect. The IRR contains provisions that have an impact on the industry as a whole and on SCPC in particular, that need to be complied within 44 months (or until July 2004) from the effectivity date, subject to the approval by DENR. The power plant of SCPC uses thermal coal and uses a facility to test and monitor gas emissions to conform with Ambient and Source Emissions Standards and other provisions of the Clean Air Act and its IRR. Based on SCPC's initial assessment of its power plant's existing facilities, SCPC believes that it is in full compliance with the applicable provisions of the IRR of the PCAA.

d. Contract for the Fly Ash of the Power Plant

On October 20, 1987, NPC and Pozzolanic Australia Pty, Ltd. ("Pozzolanic") executed the Contract for the Purchase of Fly Ash of the Power Plant (the "Pozzolanic Contract"). Under the Pozzolanic Contract, Pozzolanic was given the right to sell, store, process, remove or otherwise dispose of all fly ash produced at the first unit of the Power Plant. It was also granted the first option to purchase fly ash, under similar terms and conditions, from the second unit of the Power Plant that NPC may construct. It may also exercise the exclusive right of first refusal to purchase fly ash from any new coal-fired power plants which will be put up by NPC.

The Pozzolanic Contract is effective for a period of five consecutive five-year terms from its signing, or a period of 25 years from October 20, 1987 or until 2012, subject to cancellation by NPC upon default or any breach of contract by Pozzolanic. At the end of each five-year term, the parties will agree to assess and evaluate the Pozzolanic Contract, and if necessary, revise, alter, modify the same upon their mutual consent.

The Philippine Government has determined the provision of the Pozzolanic Contract which grants Pozzolanic the exclusive right of first refusal to purchase fly ash from the second unit of the Power Plant and from any coal-fired power plant put up by NPC after the execution of the Pozzolanic Contract as invalid. This is the subject of a case filed by Pozzolanic and pending before the regional trial court of Quezon City as of December 31, 2011.

On April 30, 2012, the Company as new owner of the Power Plant and Pozzolanic sealed a new contract valid and effective for a period of fifteen (15) years beginning February 1, 2012. Pozzolanic, as agreed, shall purchase One Hundred (100 %) percent of fly ashes produced or generated by the Power Plant.

e. Temporary Restraining Order on MERALCO

On December 23, 2013, the Supreme Court (SC) issued a temporary restraining order (TRO) to MERALCO enjoining it from increasing the generation rates it charges to its consumers arising from the increased generation costs from its suppliers for the supply month of November 2013. The said TRO also enjoined the Energy Regulatory Commission (ERC) from implementing its December 9, 2013 Order authorizing MERALCO to stagger the collection of its increased generation costs for the supply month of November 2013. The TRO was for a period of 60 days from December 23, 2013 to February 21, 2014.
On January 10, 2014, the SC impleaded MERALCO's suppliers of generation costs, including PEMC, the operator of the wholesale electricity supply market (WESM), as parties-respondents in the cases.

On February 18, 2014, the SC extended the TRO for another 60 days up to April 22, 2014.

On April 24, 2014, the SC issued a resolution and corresponding TRO, extending indefinitely the TRO issued on December 23, 2013 and February 18, 2014.

As a result of the TRO, MERALCO has not been able to fully bill its consumers for the generation costs for the supply month of November 2013; and in turn, it has not been able to fully pay its suppliers of generation costs, including PEMC.

On March 11, 2014, the ERC released its ERC Order (Case No 2014-021MC, dated March 3, 2014) voiding the Luzon WESM prices during the November and December 2013 supply months and declaring the imposition of regulated prices in lieu thereof. PEMC was hereby directed within 7 days from receipt of the Order to calculate these regulated prices and implement the same in the revised WESM bills of the concerned distribution utilities in Luzon for the November and December 2013 supply months for their immediate settlement, except for MERALCO whose November 2013 WESM bill shall be maintained in compliance with the TRO issued by the SC.

Pending PEMC's actions and/or recalculation of the WESM prices for the November and December 2013 supply months in accordance with the ERC Order, and its effect on each generation company that trade in the WESM, the Company estimated its exposure to the said ERC order. Please see judgments and estimates in Note 3.

## SEMIRARA MINING AND POWER CORPORATION AND SUBSIDIARIES

## SCHEDULE OF ALL EFFECTIVE STANDARDS AND INTERPRETATIONS UNDER PHILIPPINE FINANCIAL REPORTING STANDARDS

Philippine Securities and Exchange Commission (SEC) issued the amended Securities Regulation Code Rule SRC Rule 68 and 68.1 which consolidates the two separate rules and labeled in the amendment as “Part I” and “Part II”, respectively. It also prescribed the additional schedule requirements for large entities showing a list of all effective standards and interpretations under Philippine Financial Reporting Standards (PFRS).

Below is the list of all effective PFRS, Philippine Accounting Standards (PAS) and Philippine Interpretations of International Financial Reporting Interpretations Committee (IFRIC) as of December 31, 2014:

| **PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS**<br>**Effective as of December 31, 2014** | | **Adopted** | **Not Early Adopted** | **Not Applicable** |
|---|---|---|---|---|
| **Framework for the Preparation and Presentation of Financial Statements**<br>Conceptual Framework Phase A: Objectives and qualitative characteristics | | ✓ | | |
| **PFRSs Practice Statement Management Commentary** | | ✓ | | |
| **Philippine Financial Reporting Standards** | | | | |
| **PFRS 1 (Revised)** | 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 | | | ✓ |
| **PFRS 2** | Share-based Payment | | | ✓ |
| | Amendments to PFRS 2: Vesting Conditions and Cancellations | | | ✓ |
| | Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions | | | ✓ |
| **PFRS 3 (Revised)** | Business Combinations | ✓ | | |
| **PFRS 4** | Insurance Contracts | | | ✓ |
| | Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts | ✓ | | |
| **PFRS 5** | Non-current Assets Held for Sale and Discontinued Operations | ✓ | | |

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS<br>Effective as of December 31, 2014 | | Adopted | Not Early Adopted | Not Applicable |
|---|---|---|---|---|
| **PFRS 6** | Exploration for and Evaluation of Mineral Resources | ✓ | | |
| **PFRS 7** | Financial Instruments: Disclosures | ✓ | | |
| | 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 | | ✓ | |
| **PFRS 8** | Operating Segments | ✓ | | |
| **PFRS 9** | Financial Instruments | | ✓ | |
| | Amendments to PFRS 9: Mandatory Effective Date of PFRS 9 and Transition Disclosures | | ✓ | |
| **PFRS 10** | Consolidated Financial Statements | ✓ | | |
| **PFRS 11** | Joint Arrangements | | | ✓ |
| **PFRS 12** | Disclosure of Interests in Other Entities | ✓ | | |
| **PFRS 13** | Fair Value Measurement | ✓ | | |
| **Philippine Accounting Standards** | | | | |
| **PAS 1 (Revised)** | 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 | ✓ | | |
| **PAS 2** | Inventories | ✓ | | |
| **PAS 7** | Statement of Cash Flows | ✓ | | |
| **PAS 8** | Accounting Policies, Changes in Accounting Estimates and Errors | ✓ | | |
| **PAS 10** | Events after the Reporting Period | ✓ | | |
| **PAS 11** | Construction Contracts | | | ✓ |
| **PAS 12** | Income Taxes | ✓ | | |
| | Amendment to PAS 12 - Deferred Tax: Recovery of Underlying Assets | ✓ | | |

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS<br>Effective as of December 31, 2014 | | Adopted | Not Early Adopted | Not Applicable |
|---|---|---|---|---|
| **PAS 16** | Property, Plant and Equipment | ✓ | | |
| **PAS 17** | Leases | ✓ | | |
| **PAS 18** | Revenue | ✓ | | |
| **PAS 19** | Employee Benefits | ✓ | | |
| | Amendments to PAS 19: Actuarial Gains and Losses, Group Plans and Disclosures | ✓ | | |
| **PAS 19 (Amended)** | Employee Benefits | ✓ | | |
| **PAS 20** | Accounting for Government Grants and Disclosure of Government Assistance | | | ✓ |
| **PAS 21** | The Effects of Changes in Foreign Exchange Rates | ✓ | | |
| | Amendment: Net Investment in a Foreign Operation | | | ✓ |
| **PAS 23 (Revised)** | Borrowing Costs | ✓ | | |
| **PAS 24 (Revised)** | Related Party Disclosures | ✓ | | |
| **PAS 26** | Accounting and Reporting by Retirement Benefit Plans | ✓ | | |
| **PAS 27** | Consolidated and Separate Financial Statements | ✓ | | |
| **PAS 27 (Amended)** | Separate Financial Statements | ✓ | | |
| **PAS 28** | Investments in Associates | | | ✓ |
| **PAS 28 (Amended)** | Investments in Associates and Joint Ventures | | | ✓ |
| **PAS 29** | Financial Reporting in Hyperinflationary Economies | | | ✓ |
| **PAS 31** | Interests in Joint Ventures | | | ✓ |
| **PAS 32** | 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 | | ✓ | |
| **PAS 33** | Earnings per Share | ✓ | | |
| **PAS 34** | Interim Financial Reporting | ✓ | | |
| **PAS 36** | Impairment of Assets | ✓ | | |
| **PAS 37** | Provisions, Contingent Liabilities and Contingent Assets | ✓ | | |
| **PAS 38** | Intangible Assets | ✓ | | |

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS<br>Effective as of December 31, 2014 | | Adopted | Not Early Adopted | Not Applicable |
|---|---|---|---|---|
| **PAS 39** | 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 | | | ✓ |
| **PAS 40** | Investment Property | ✓ | | |
| **PAS 41** | Agriculture | | | ✓ |
| **Philippine Interpretations** | | | | |
| **IFRIC 1** | Changes in Existing Decommissioning, Restoration and Similar Liabilities | ✓ | | |
| **IFRIC 2** | Members' Share in Co-operative Entities and Similar Instruments | | | ✓ |
| **IFRIC 4** | Determining Whether an Arrangement Contains a Lease | ✓ | | |
| **IFRIC 5** | Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds | ✓ | | |
| **IFRIC 6** | Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment | | | ✓ |
| **IFRIC 7** | Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies | | | ✓ |
| **IFRIC 8** | Scope of PFRS 2 | | | ✓ |
| **IFRIC 9** | Reassessment of Embedded Derivatives | ✓ | | |
| | Amendments to Philippine Interpretation IFRIC–9 and PAS 39: Embedded Derivatives | ✓ | | |
| **IFRIC 10** | Interim Financial Reporting and Impairment | ✓ | | |
| **IFRIC 11** | PFRS 2- Group and Treasury Share Transactions | | | ✓ |
| **IFRIC 12** | Service Concession Arrangements | | | ✓ |
| **IFRIC 13** | Customer Loyalty Programmes | | | ✓ |

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS<br>Effective as of December 31, 2014 | | Adopted | Not Early Adopted | Not Applicable |
|---|---|---|---|---|
| **IFRIC 14** | 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 | | | ✓ |
| **IFRIC 16** | Hedges of a Net Investment in a Foreign Operation | | | ✓ |
| **IFRIC 17** | Distributions of Non-cash Assets to Owners | ✓ | | |
| **IFRIC 18** | Transfers of Assets from Customers | | | ✓ |
| **IFRIC 19** | Extinguishing Financial Liabilities with Equity Instruments | | | ✓ |
| **IFRIC 20** | Stripping Costs in the Production Phase of a Surface Mine | ✓ | | |
| **IFRIC 21** | Levies | ✓ | | |
| **SIC-7** | Introduction of the Euro | | | ✓ |
| **SIC-10** | Government Assistance - No Specific Relation to Operating Activities | | | ✓ |
| **SIC-12** | Consolidation - Special Purpose Entities | | | ✓ |
| | Amendment to SIC - 12: Scope of SIC 12 | | | ✓ |
| **SIC-13** | Jointly Controlled Entities - Non-Monetary Contributions by Venturers | | | ✓ |
| **SIC-15** | Operating Leases - Incentives | ✓ | | |
| **SIC-25** | Income Taxes - Changes in the Tax Status of an Entity or its Shareholders | | | ✓ |
| **SIC-27** | Evaluating the Substance of Transactions Involving the Legal Form of a Lease | ✓ | | |
| **SIC-29** | Service Concession Arrangements: Disclosures. | | | ✓ |
| **SIC-31** | Revenue - Barter Transactions Involving Advertising Services | | | ✓ |
| **SIC-32** | Intangible Assets - Web Site Costs | ✓ | | |

Standards tagged as “Not applicable” have been adopted by the Group but have no significant covered transactions for the year ended December 31, 2014.

Standards tagged as “Not adopted’ are standards issued but not yet effective as of December 31, 2014. The Group will adopt the Standards and Interpretations when these become effective.

## SEMIRARA MINING AND POWER CORPORATION AND SUBSIDIARIES

## SCHEDULE OF FINANCIAL SOUNDNESS INDICATORS
**FOR THE YEARS ENDED DECEMBER 31, 2014 and 2013**

*Financial Soundness Indicators*

Below are the financial ratios that are relevant to the Group for the years ended December 31, 2014 and 2013:

| **Financial ratios** | | **2014** | 2013 |
|---|---|---|---|
| Current ratio | Current assets / Current liabilities | **1.04:1** | 1.48:1 |
| Quick ratio | Current assets less inventories / Current liabilities | **0.81:1** | 1.02:1 |
| Solvency ratio | Net income plus depreciation / Total liabilities | **0.30:1** | 0.47:1 |
| Debt to equity ratio | Interest-bearing loans / Total equity | **0.86:1** | 0.87:1 |
| Asset-to-equity ratio | Total assets / Total equity | **2.29:1** | 2.22:1 |
| Inventory turnover | Cost of sales / Average inventory | **5.10:1** | 2.74:1 |
| Accounts receivable turnover ratio | Net credit sales / Average accounts receivable | **7.00:1** | 7.18:1 |
| Interest rate coverage | EBIT* / Interest expense** | **10.60:1** | 16.21:1 |
| Return on assets | Net income / Average total assets | **0.14:1** | 0.19:1 |
| Return on equity | Net income / Average total equity | **0.32:1** | 0.41:1 |
| Gross Margin ratio | Gross profit / Sales | **0.34:1** | 0.48:1 |
| Net profit margin ratio | Net income / Sales | **0.24:1** | 0.28:1 |

* *Earnings before interest and taxes (EBIT)*
** *Includes interest capitalized as part of asset*

## SEMIRARA MINING AND POWER CORPORATION

## SCHEDULE OF RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION

### FOR THE YEAR ENDED DECEMBER 31, 2014

| | | |
|---|---|---|
| Unappropriated Retained Earnings, beginning | | ₱5,436,730,682 |
| Adjustments (PAS 19R – transition adjustment) | | 3,024,550 |
| Unappropriated retained earnings, as adjusted to available for dividend distribution, as at December 31, 2012 | | 5,439,755,232 |
| Net income actually earned/realized during the period: | | |
| Net income during the period closed to retained earnings | ₱7,766,218,489 | |
| Less: Non actual/unrealized income net of tax | | |
| Equity in net income of associate/joint venture | – | |
| Unrealized actuarial gain | – | |
| Fair value adjustment (M2M gains) | – | |
| Fair value adjustment of Investment Property resulting to gain | – | |
| Adjustment due to deviation from PFRS/GAAP-gain | – | |
| Other unrealized gains or adjustments to the retained earnings as a result of certain transactions accounted for under the PFRS | – | |
| Deferred tax asset that reduced the amount of income tax expense | 61,327,012 | |
| Add: Non-actual losses | | |
| Depreciation on revaluation increment (after tax) | – | |
| Adjustment due to deviation from PFRS/GAAP-loss | – | |
| Loss on fair value adjustment of investment property (after tax) | | |
| Unrealized foreign exchange loss – net (except those attributable to cash and cash equivalents) | 59,239,881 | |
| Net income actually earned during the period | 7,764,131,358 | |
| Add (Less): | | |
| Dividend declarations during the period | (4,275,000,000) | |
| Appropriations of retained earnings during the period | (712,500,000) | |
| Reversals of appropriations | – | |
| Effects of prior period adjustments | – | |
| Treasury shares | – | 2,776,,631,358 |
| **TOTAL RETAINED EARNINGS, END AVAILABLE FOR DIVIDEND DECLARATION** | | **₱8,216,386,590** |

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## SEMIRARA MINING AND POWER CORPORATION AND SUBSIDIARIES

## SCHEDULE A: FINANCIAL ASSETS

**DECEMBER 31, 2014**

| Name of issuing entity and association of each issue | Number of shares or principal amount of bonds and notes | Amount shown in the balance sheet | Income received and accrued |
|---|---|---|---|

**NOT APPLICABLE**

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**SEMIRARA MINING AND POWER CORPORATION AND SUBSIDIARIES**

**SCHEDULE B: AMOUNTS RECEIVABLE FROM DIRECTORS, OFFICERS, EMPLOYEES, RELATED PARTIES AND PRINCIPAL STOCKHOLDER (OTHER THAN RELATED PARTIES)**

**DECEMBER 31, 2014**

| Name and Designation of debtor | Balance at beginning of period | Additions | Amounts collected | Amounts written off | Current | Not current | Balance at end of period |
|---|---|---|---|---|---|---|---|

*Not applicable. The Group's receivables from officers and employees pertain to ordinary purchases subject to usual terms, travel and expense advances and other transactions arising from the Group's ordinary course of business.*

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## SEMIRARA MINING AND POWER CORPORATION AND SUBSIDIARIES

## SCHEDULE C: AMOUNTS RECEIVABLES/PAYABLES FROM/TO RELATED PARTIES WHICH ARE ELIMINATED DURING THE CONSOLIDATION OF FINANCIAL STATEMENTS

**DECEMBER 31, 2014**

| Name of Subsidiaries | Balance at beginning of period | Additions | Amounts collected | Amounts written off | Current | Not current | Balance at end of period |
|---|---|---|---|---|---|---|---|
| | | | | | | | |
| Sem-Calaca Power Corporation | ₱1,067,924,037 | 2,630,433,578 | (569,626,787) | – | 3,128,730,828 | – | 3,128,730,828 |
| SEM - Cal Industrial Park Developers, Inc. | 53,220 | 36,960 | – | – | 90,180 | – | 90,180 |
| Southwest Luzon Power Generation Corporation | 1,319,018 | 5,531,485 | – | – | 6,850,503 | – | 6,850,503 |
| SEM-Balayan Power Generation Corporation | 167,124 | 34,713 | – | – | 201,837 | – | 201,837 |
| St. Raphael Power Generation Corporation | 87,391 | 1,941,928 | – | – | 2,029,319 | – | 2,029,319 |
| Semirara Energy Utilities, Inc. | 62,930 | 147,733 | – | – | 210,663 | – | 210,663 |
| Semirara Claystone, Inc. | 38,067,653 | 60,836,651 | – | – | 98,904,304 | – | 98,904,304 |
| | ₱1,107,681,373 | 2,698,963,048 | (569,626,787) | – | 3,237,017,634 | – | 3,237,017,634 |

## SEMIRARA MINING AND POWER CORPORATION AND SUBSIDIARIES

## SCHEDULE D: INTANGIBLE ASSETS

**DECEMBER 31, 2014**

| Description | Beginning balance | Additions at cost | Charged to costs and expenses | Charged to other accounts | Other changes | Ending balance |
|---|---|---|---|---|---|---|
| | | | | | | |
| Software cost | ₱3,680,929 | ₱3,318,632 | (₱2,773,680) | ₱– | ₱– | ₱4,225,881 |
| Capitalized development cost | 37,962,843 | 60,523,690 | – | – | – | 98,486,533 |
| | ₱41,643,772 | ₱63,842,322 | (₱2,773,680) | ₱– | ₱– | ₱102,712,414 |

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## SEMIRARA MINING AND POWER CORPORATION AND SUBSIDIARIES

## SCHEDULE E: LONG TERM DEBT

### DECEMBER 31, 2014

| Title of issue and type of obligation | Amount authorized by indenture | Interest rates | Maturity date | Number of periodic installments | Amount shown under caption "Current portion of long-term debt" in related balance sheet | Amount shown under caption "Long-term debt" in related balance sheet |
|---|---|---|---|---|---|---|
| Mortgage payable | ₱9.60 million | PDST-F benchmark yield for 3-month treasury securities + 1.75% | May 2017 | Payable in twenty-five (25) equal consecutive quarterly installments commencing on May 2011 | ₱1,525,049,063 | ₱2,297,759,339 |
| Mortgage payable | ₱5.70 million | PDST-F benchmark yield for 3-month treasury securities + 1.00% | May 2022 | Payable in twenty-five (27) equal consecutive quarterly installments commencing on November 24, 2015 | 378,652,287 | 10,067,417,321 |
| Bank loans | $32.7 million loan (USD) | Floating rate payable quarterly and in arrears,to be repriced every 90 days | 2016 | Interest payable in arrears for the relevant interest period and principal repayable in semi-annual installments commencing on the 12th month after the date of the Agreement until date of final maturity | 210,184,000 | 1,252,160,000 |
| Bank loans | $33.73 million loan (USD) | Floating rate to be repriced every 90 days | 2016 | Interest payable every 3months, principal to be paid on maturity date | – | 1,508,529,164 |
| Bank loans | $10.61 million loan (USD) | Floating rate, aggregate of the margin (1.20%) and LIBOR, to be repriced every 90 to 180 days | Various maturities in 2012, 2013 and 2015 | Interest payable quarterly and in arrears, subject to quarterly setting and principal repayable in bullet at the end of three (3) years from drawdo wn date | – | 474,345,624 |
| Bank loans | $9.31 million loan (USD) | Floating rate to be repriced every 90 days | 2016 | Interest payable every 3months, principal to be paid on maturity date | – | 416,331,636 |
| Bank loans | $1.6 million loan (USD) | Floating rate | December 23, 2016 | Interest and principal are payable on the date of maturity | – | 72,181,351 |
| | | | | | ₱2,113,885,350 | ₱16,088,724,435 |

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## SEMIRARA MINING AND POWER CORPORATION AND SUBSIDIARIES

## SCHEDULE F: INDEBTEDNESS TO RELATED PARTIES

**DECEMBER 31, 2014**

| Name of related party | Balance at beginning of period | Balance at end of period |
|---|---|---|

*Not applicable. There are no indebtedness to related parties that are noncurrent.*

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## SEMIRARA MINING AND POWER CORPORATION AND SUBSIDIARIES

## SCHEDULE G: GUARANTEES OF SECURITIES OF OTHER ISSUERS

**DECEMBER 31, 2014**

| Name of issuing entity of securities guaranteed by the company for which this statements is filed | Title of issue of each class of securities guaranteed | Total amount guaranteed and outstanding | Amount of owned by person for which statement is filed | Nature of guarantee |
|---|---|---|---|---|

**NOT APPLICABLE**

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## SEMIRARA MINING AND POWER CORPORATION AND SUBSIDIARIES

## SCHEDULE H: CAPITAL STOCK

**DECEMBER 31, 2014**

| Title of issue | Number of shares authorized | Number of shares issued and outstanding at shown under related balance sheet caption | Number of shares reserved for options, warrants, conversion and other rights | Number of shares held by | | |
|---|---|---|---|---|---|---|
| | | | | Related parties | Directors, officers and employees | Others |
| Common stock - ₱1 par value | 3,000,000,000 | 1,068,750,000 | – | 732,768,126 | 5,789,457 | 330,192,417 |

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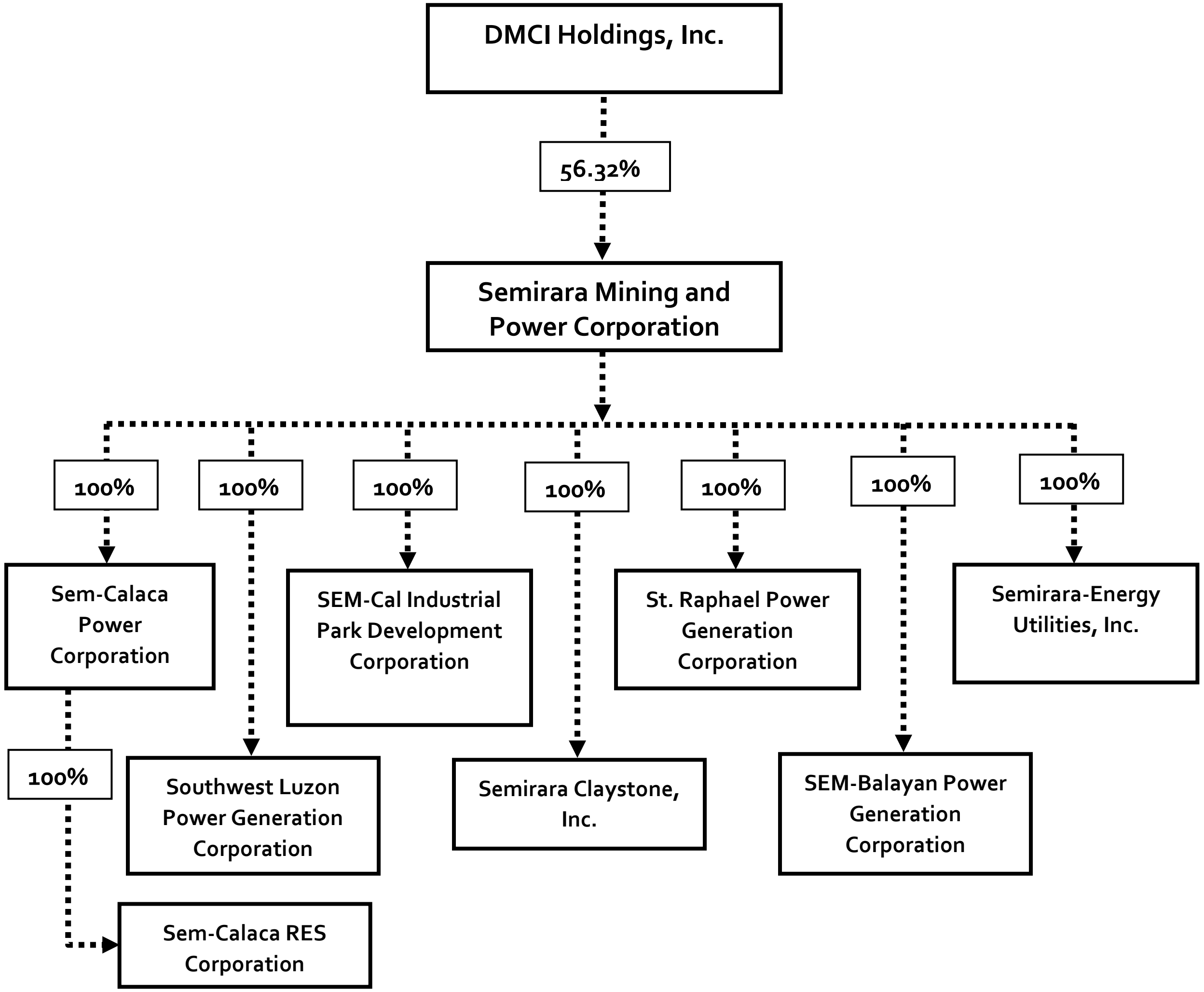
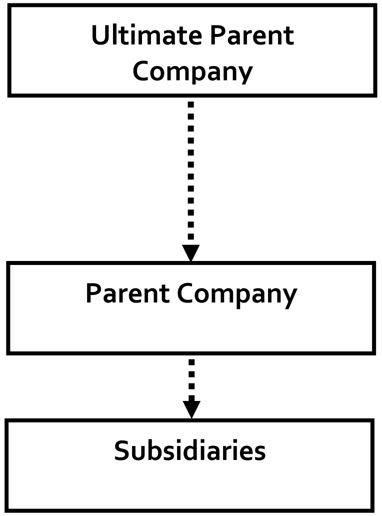
## SEMIRARA MINING AND POWER CORPORATION AND SUBSIDIARIES

## MAP OF THE RELATIONSHIPS OF THE COMPANIES WITHIN THE GROUP

**DECEMBER 31, 2014**

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