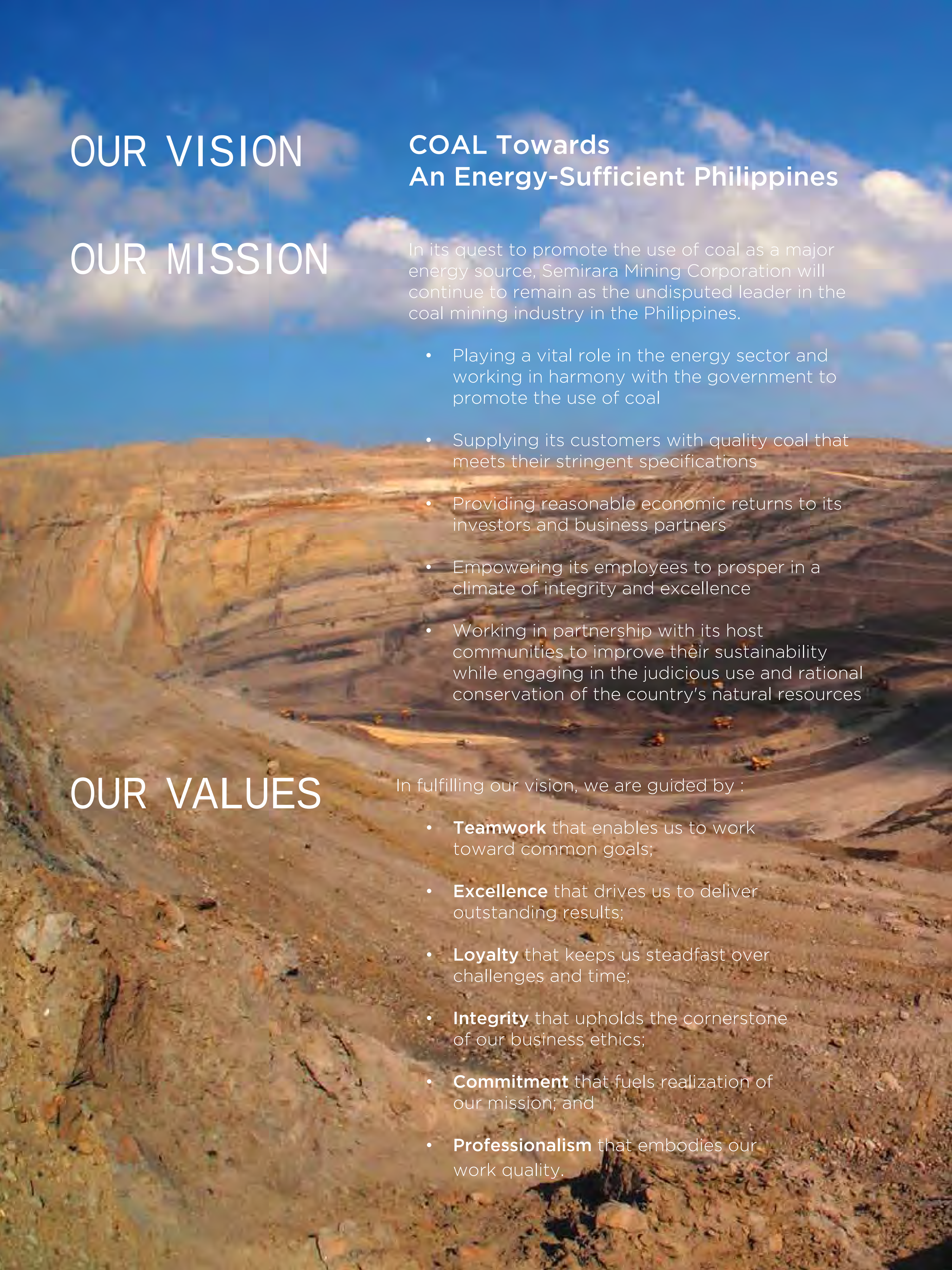
SEMIRARA MINING CORPORATION

# EMPOWERING GROWTH

2013 Integrated Annual Report



# OUR VISION

**COAL Towards An Energy-Sufficient Philippines**

# OUR MISSION

In its quest to promote the use of coal as a major energy source, Semirara Mining Corporation will continue to remain as the undisputed leader in the coal mining industry in the Philippines.

- Playing a vital role in the energy sector and working in harmony with the government to promote the use of coal
- Supplying its customers with quality coal that meets their stringent specifications
- Providing reasonable economic returns to its investors and business partners
- Empowering its employees to prosper in a climate of integrity and excellence
- Working in partnership with its host communities to improve their sustainability while engaging in the judicious use and rational conservation of the country's natural resources

# OUR VALUES

In fulfilling our vision, we are guided by :

- **Teamwork** that enables us to work toward common goals;
- **Excellence** that drives us to deliver outstanding results;
- **Loyalty** that keeps us steadfast over challenges and time;
- **Integrity** that upholds the cornerstone of our business ethics;
- **Commitment** that fuels realization of our mission; and
- **Professionalism** that embodies our work quality.

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EMPOWERING GROWTH

By focusing on power generation, Semirara remains true to its vision to be a transformational force in Philippine development. Beyond the host communities we serve and government agencies we collaborate with, we are committed to supplying and sustaining the energy needs of the households, businesses and institutions that depend on us. Through our synergies with the other members of the DMCI group, we firmly believe that Semirara is contributing to a better future by empowering a nation and energizing the dreams of Filipinos everywhere.

# SCOPE OF OPERATIONS

SEMIRARA MINING CORPORATION

- 100% SEM-CALACA POWER CORPORATION
  - 100% SEM-CALACA RES CORPORATION
- 100% SOUTHWEST LUZON POWER GENERATION CORPORATION
- 100% ST RAPHAEL POWER GENERATION CORPORATION
- 100% SEM-BALAYAN POWER GENERATION CORPORATION
- 100% SEM-CAL INDUSTRIAL PARK DEVELOPERS, INC.
- 100% SEMIRARA ENERGY UTILITIES INC.
- 100% SEMIRARA CLAYSTONE, INC.

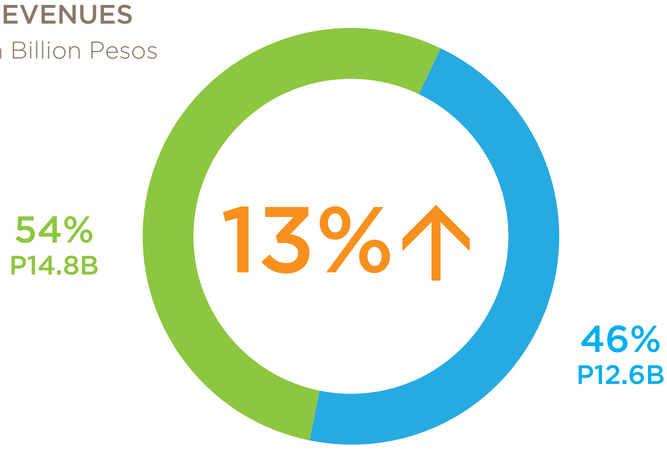
# AT A GLANCE



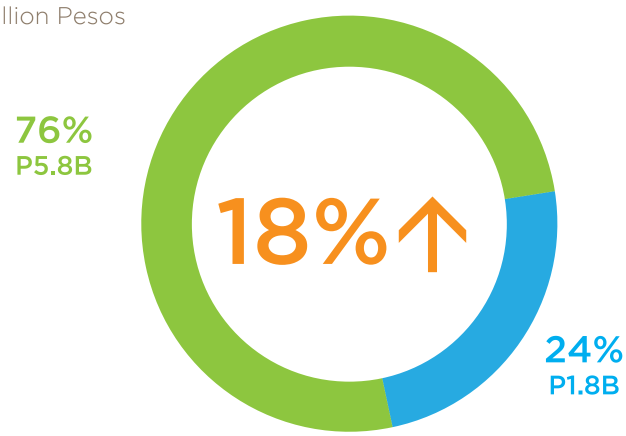
- Total volume sold increased 6% to 7.63 million MTs
- Sale to Calaca power plants rose 43% to 2.13 million MTs after rehabilitation of both units
- Export sales went up 7% to 3.40 million MTs

- Highest energy generated in the history of the Calaca Coal-Fired Thermal Power Plants at 3,638 GWh
- Total operating hours increased 39% to 14,538 hours
- Sales volume up 46% to 3,460 GWh

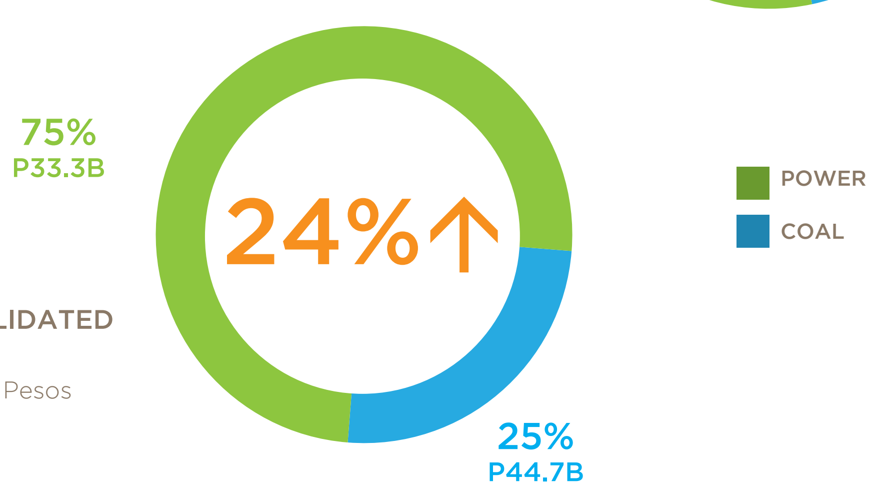
**CONSOLIDATED REVENUES**
In Billion Pesos




**NET INCOME AFTER TAX**
In Billion Pesos




**CONSOLIDATED ASSETS**
In Billion Pesos



# AWARDS and RECOGNITION

**2013 PSE Bell Award**, Finalist

**2013 ASEAN Energy Award**
Corporate Social Responsibility (CSR) Category
2nd Runner-Up

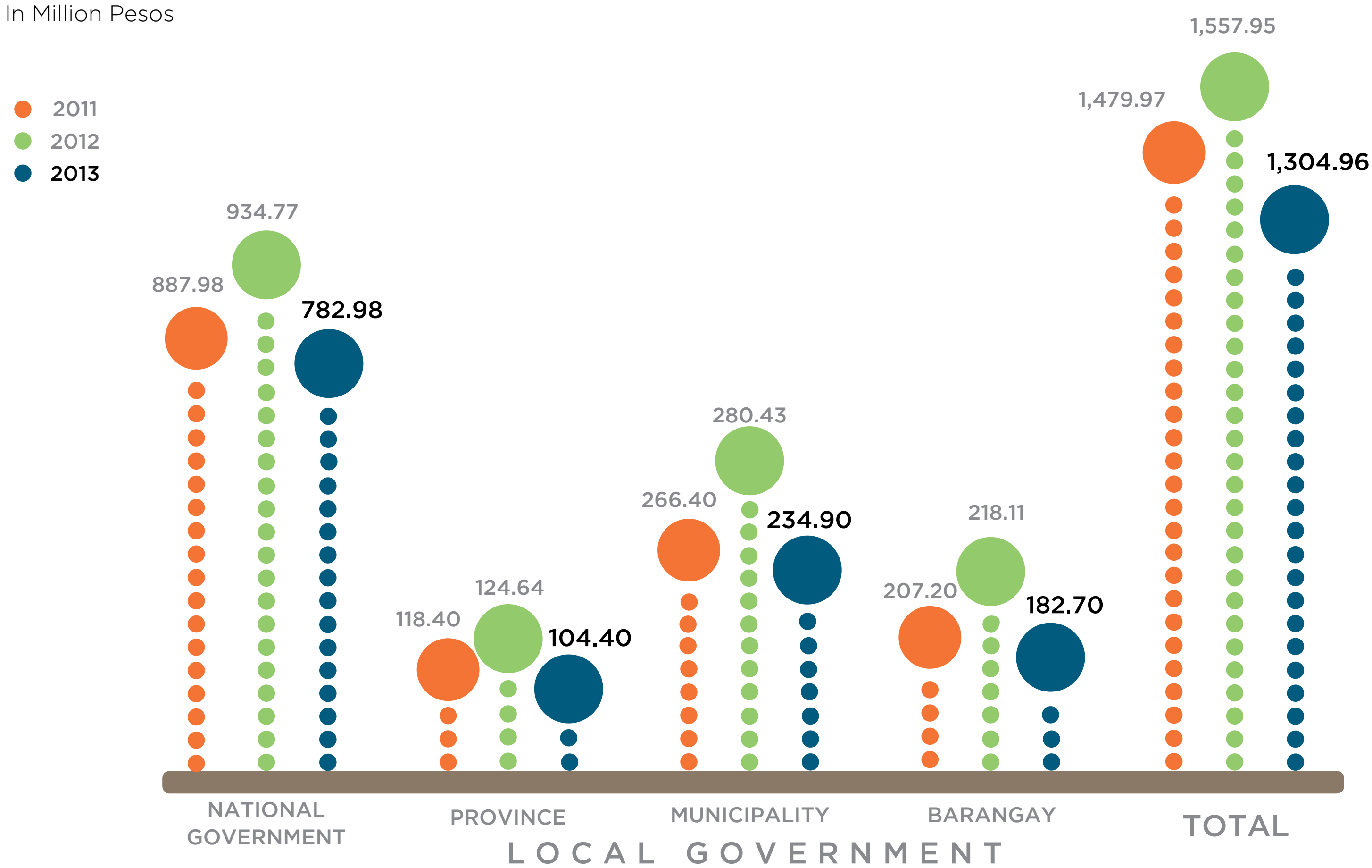
**FinanceAsia's Best Philippine Companies**
2013 Most Committed to a Strong Dividend Policy

**INTERNATIONAL ORGANIZATION FOR STANDARDIZATION (ISO) CERTIFICATIONS**

Since December 2008 :

| | |
|---|---|
| **ISO 9001:2008** | Quality Control Management |
| **ISO 14001:2004** | Environmental Management System |
| **OHSAS 18001:2007** | Occupational Health and Safety Management System |

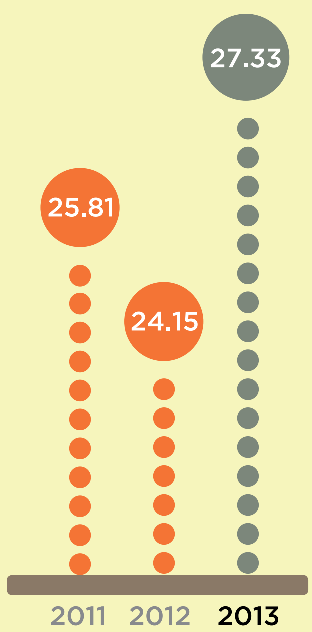
**GOVERNMENT ROYALTIES PAID**
(last 3 years, with breakdown per government unit)
In Million Pesos



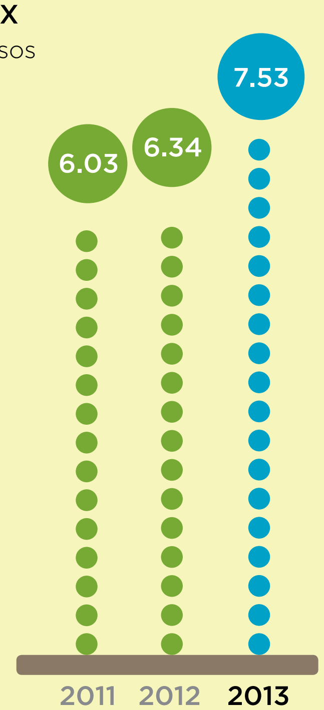
# FINANCIAL HIGHLIGHTS



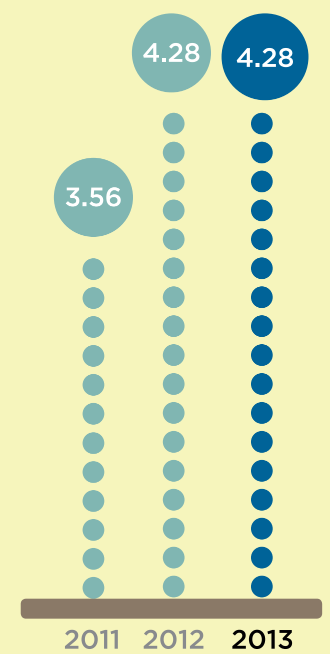
## CONSOLIDATED REVENUE
In Billion Pesos



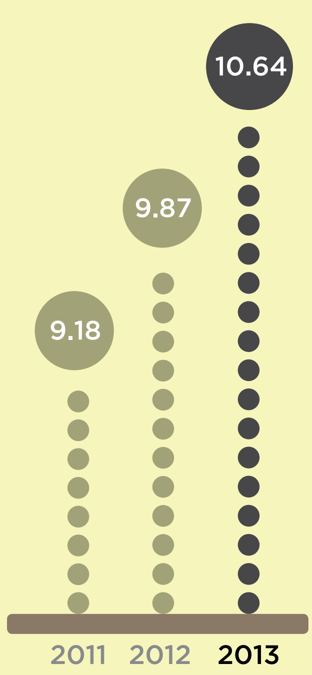

## NET INCOME AFTER TAX
In Billion Pesos



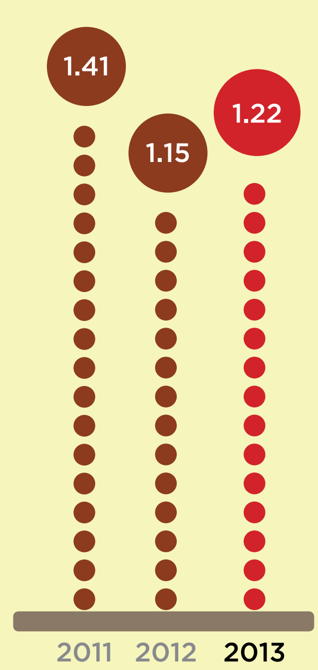

## DIVIDENDS
In In Billion Pesos



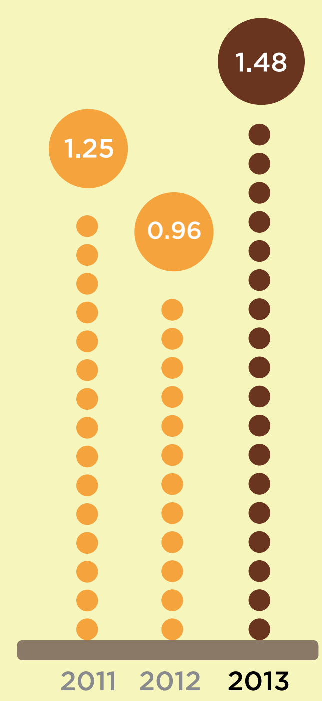

## EBITDA
In Billion Pesos




## DEBT-TO-EQUITY RATIO




## CURRENT RATIO





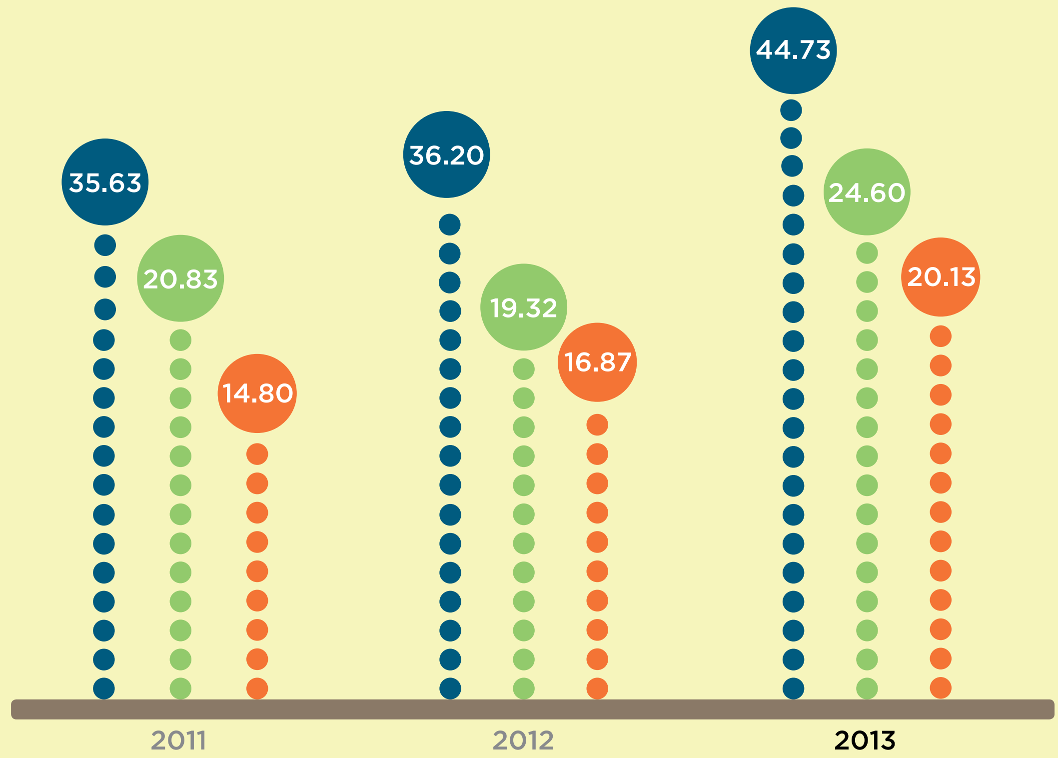
## CONSOLIDATED BALANCE SHEET

In Million Pesos

ASSETS

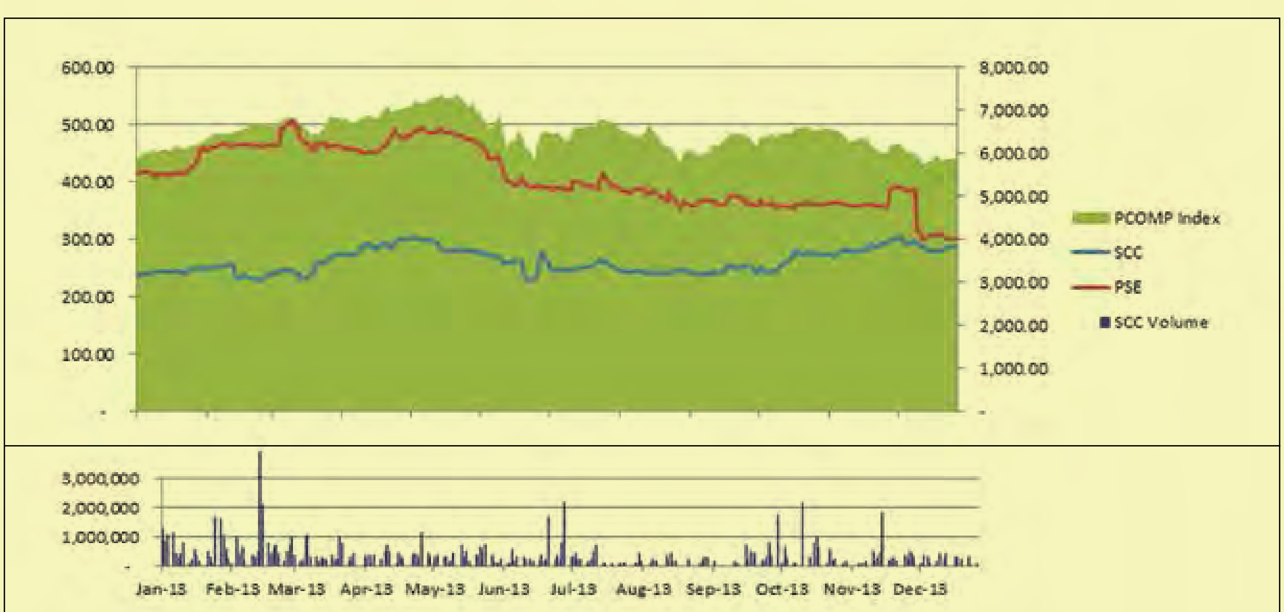
LIABILITIES

EQUITY



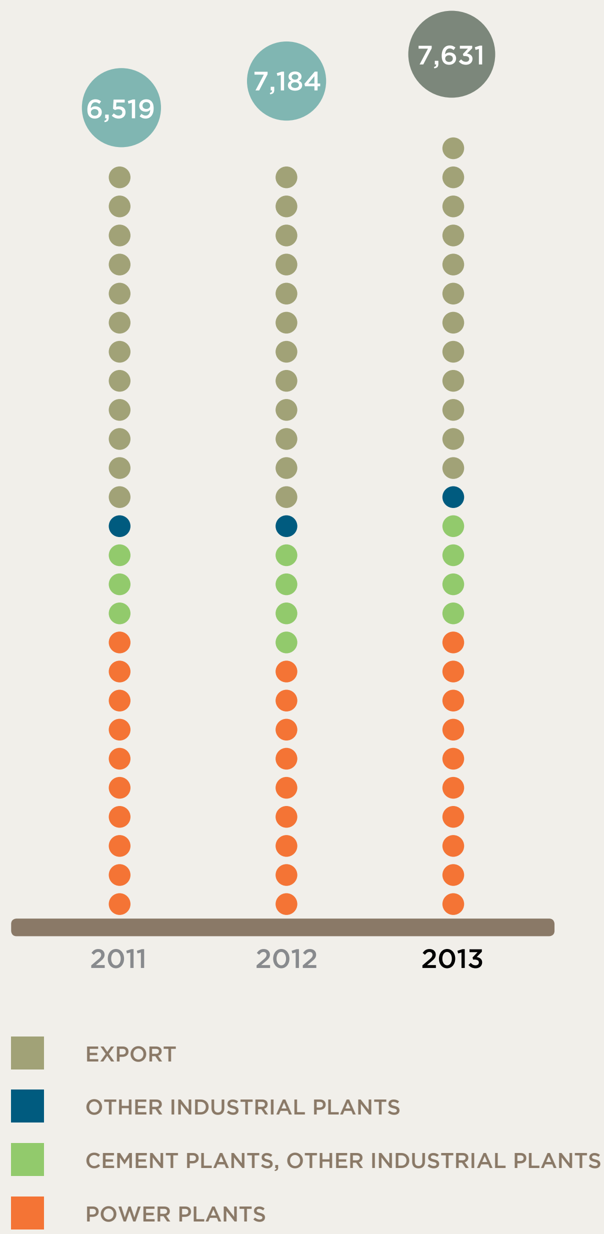

## SEMIRARA STOCK PERFORMANCE

Semirara has outperformed the index and most mining and power peers in the last 8 months

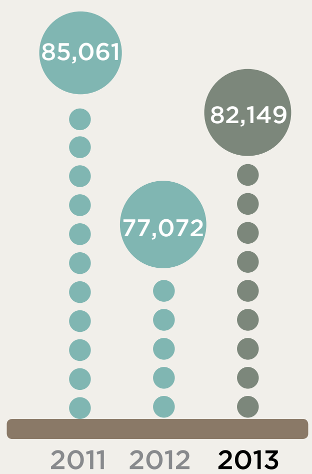


# OPERATING HIGHLIGHTS

**COAL SALES VOLUME**
In thousand MTs



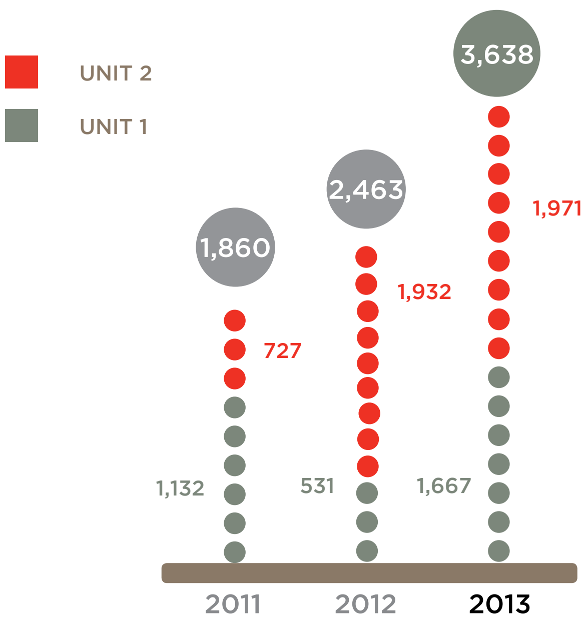

**TOTAL MATERIALS**
In thousand BCM



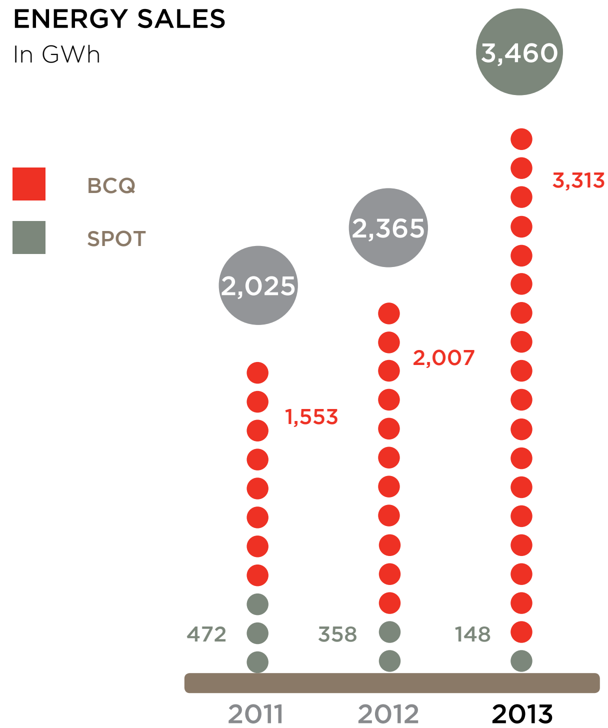

**TOTAL PRODUCT COAL**
In thousand MTs



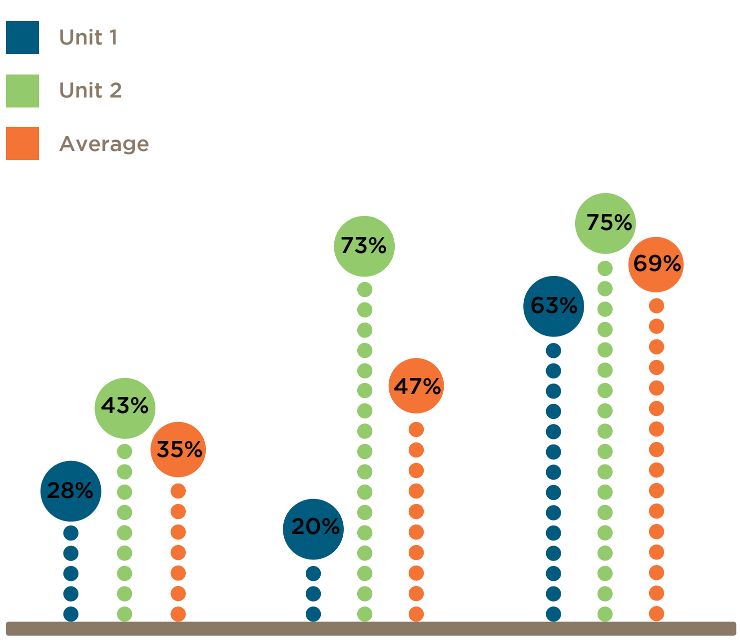
## ENERGY GENERATION
In GWh



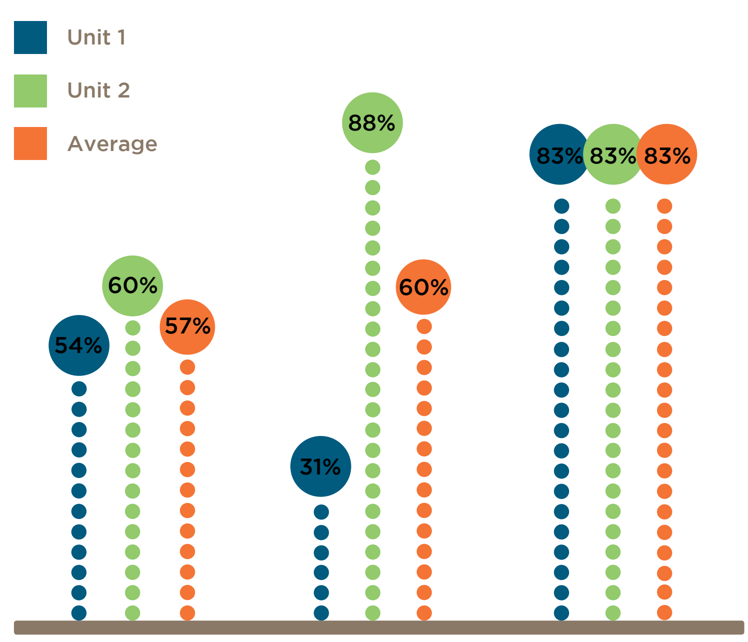

## ENERGY SALES
In GWh




## CAPACITY FACTOR

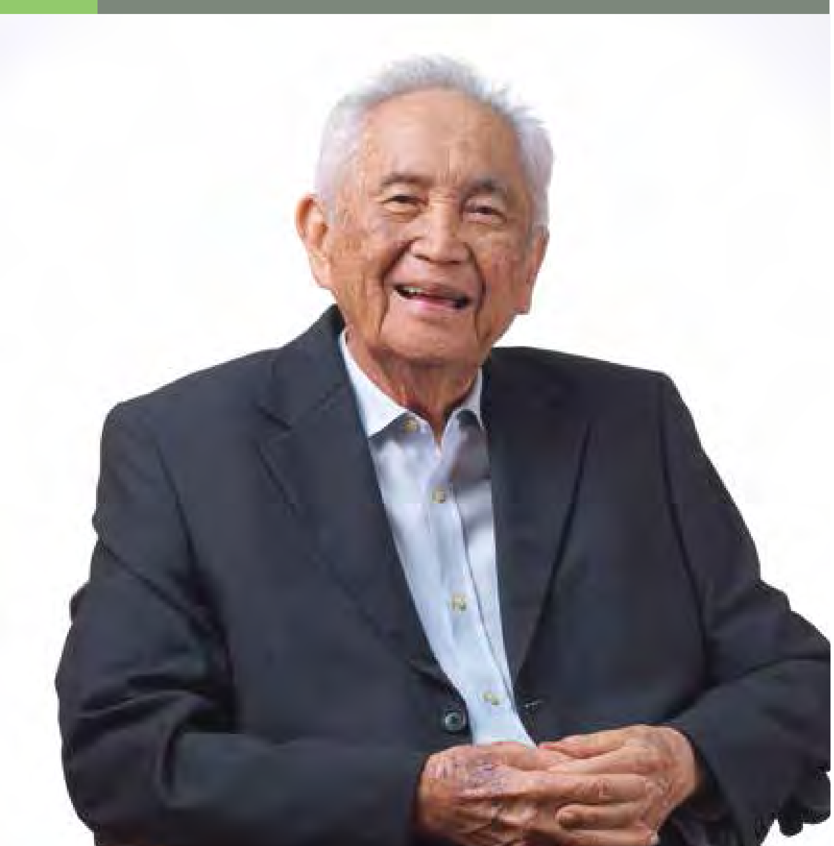



## AVAILABILITY



# MESSAGE FROM THE CHAIRMAN





Dear Shareholders,

Your Company's operations in the year 2013 show that we are now reaping the fruits of the hard work that we have been doing for the past years.

Semirara's power business is emerging as the main growth driver of the Company, contributing more to profits. Indeed we have shifted from being a coal mining company to an integrated energy company, becoming one of the more reliable and sustainable partners in propelling our country's economic growth.

In the past year, Semirara's two power units registered record-high total energy generation of 3,638 GWh, representing a 46% increase from 2012's 2,463 GWh. These numbers are set to go higher. Phase 1 expansion of the power plant is proceeding according to plan; we expect this to be finished in 2015. The 2 x 150-MW power plants will boost production in the coming years.

Planning for the Phase 2 expansion is likewise under way. The resulting increase in generation capacity will be between 300 MW and 400 MW.

These will address the remaining demand-supply gap in the Luzon grid, given the forecast robust growth in the national economy.

Then again, the coal business remains the core of your Company's operations. In 2013 alone, two new concessions were awarded to Semirara—in Bulalacao, Oriental Mindoro and in Maitum and Kaimba, Province of Sarangani, bringing to five the concession areas where your Company has coal operating contracts.

## "Semirara has created a synergistic operation, allowing your Company to transform from being a coal mining company to a professional, world-class energy corporation."

We are currently evaluating the viability of underground mining in Panian pit to maximize the recoverability of coal resources.

Your Company's forward strategies provide for the continuous improvement in its operations, including investment in new safety technology and institution of additional safety measures, reiterating our commitment toward workplace safety, not only for our workforce, but to our other stakeholders.

Semirara has created a synergistic operation, allowing your Company to transform from being a coal mining company to a professional, world-class energy corporation. Today, Semirara is run and operated by a team that adheres to global ethical and professional standards and recognizes its responsibility, not just to its shareholders but also to the larger group of stakeholders.

Semirara's numerous awards attest to our constant pursuit of excellence. In 2013, it became one of the ten finalists for the Bell Award of the Philippine Stock Exchange.

It was also named among FinanceAsia's Best Philippine Companies. It was recognized as 6th Most Committed to a Strong Dividend Policy in 2013.

As a corporate citizen, your Company has always anchored itself on the principles of its 5E's program —Education, Environmental Protection, Economic Empowerment, Employment and Livelihood, and Electrification. In 2013, we built more schools, helped increase the capacity of the residents to protect themselves from disasters such as typhoon Yolanda, and assisted them to make for themselves a decent, prosperous life in the community.

This is in recognition of their invaluable support as Semirara's partners. Your Company believes that nothing could be more important than the economic and environmental sustainability of its host communities. This commitment is recognized when your Company was named second runner-up in the Corporate Social Responsibility category of the 2013 Asean Energy Award.

On behalf of the Board of Directors, the Management and Staff of your Company, I thank you, dear Shareholders, for your continued confidence in our capability to steer Semirara into our shared vision.

I also reiterate our commitment to the people of Semirara Island and of Calaca, Batangas, communities surrounding the Company's coal mine and power plants, respectively, the business community, the local and national government, and the general public that Semirara will be a reliant and responsible partner towards economic and environmental sustainability, with emphasis on the empowerment of people.

**DAVID M. CONSUNJI**
Chairman of the Board

# MESSAGE FROM THE CHIEF EXECUTIVE OFFICER AND THE CHIEF OPERATING OFFICER

"The historical high energy generation drove the achievement of this year's remarkable financial performance"

**To our valued Stakeholders:**

The rehabilitation of the power plants contributed greatly to the shift in the financial structure of your Company in 2013.

Consolidated revenue from both coal and power businesses increased 13% in 2013 to P27.33 billion from P24.15 billion of the previous year. This became possible despite the 5% decrease in revenue from the coal business, before elimination, because of lower coal prices. The power segment more than compensated the drop in coal revenues, registering a 52% increase in revenue, brought about by the 46% rise in energy sales volume and the 4% increase in the average price per kWh of electricity.

Cost of sales decreased by 4% to P14.11 billion from P14.64 billion in 2012, as the company implemented cost-saving measures to counter the drop in coal prices and improve operational efficiency.

The resulting consolidated gross profit then saw a 39% increase to P13.22 billion from P9.51 billiion in 2012. It is noteworthy that the shift in profits contribution is more evident in 2013, with power and coal accounting for 70% and 30% of the profits, respectively.

Remarkably, gross profit margin increased from 39% in 2012 to 48% in 2013.

Despite the 55% increase in operating expenses, mostly due to the 155% rise in the power sector as a result of the acceleration of the depreciation of the replaced parts and machinery of the power equipment and some account provisions, income from operations soared by 30% to P7.96 billion. Out of this, P2.19 billion or 27% came from coal while P5.80 billion or 72% came from power. Other pre-operating companies registered minimal losses in 2013.

Thus, despite the challenges that tested your Company in 2013, net income after tax increased 19% to P7.53 billion. The mix has shifted to 24% - 76% coal income of P1.80 billion and power income of P5.78 billion. Other subsidiaries recorded pre-operating losses.

The increase in income correspondingly increased earnings per share to P21.11, from 2012's P17.85.

Consolidated cash generated from operations during the period, amounting to P12.65 billion, gave your Company the flexibility to undertake capital expenditures that would further strengthen its prospects in the long term. The strong cash position also enabled your Company to declare cash dividends amounting to P4.28 billion.

Semirara's stock, as traded in the Philippine Stock Exchange, closed at P288/share in 2013, bringing your Company's market capitalization to P102.6 billion. The stock price also indicated strong public confidence in the stock, with a price earnings ratio of 13.64x.

All these results show the group's engineering and management competence, which has proven key to providing solutions to challenges, enabling your Company to grow the business.

The historical high achieved in power generation is a testament to the success of the rehabilitation of the power plants. More highs are expected in the coming years especially since the 2 x 150 MW Phase 1 expansion project is proceeding as planned.

Your Company is aware, however, that these remarkable financial achievements are not the sole measure of success and impact.

More than ever before, your Company is cognizant of its responsibility, not just to its shareholders and employees, but to the environment and to its host communities, to the government, to its business partners and other stakeholders.

We take great care to ensure that our professional and ethical practices are up to par with global standards and reflective of the basic concern for the empowerment of the individual and the community.

Good things are in store in 2014 and onward. We thank you for your unfaltering support and we renew our commitment to make you proud of Semirara.

**P102.6 B**
MARKET CAPITALIZATION

**P12.65 B**
CONSOLIDATED CASH GENERATED FROM OPERATIONS

**P4.28 B**
CASH DIVIDENDS



**ISIDRO A. CONSUNJI**
Chief Executive Officer

**VICTOR A. CONSUNJI**
President And
Chief Operating Officer

# REPORT OF THE CHIEF FINANCE OFFICER

## A BANNER YEAR

It was a challenging 2013 in terms of financial and operational aspects for Semirara Mining Corporation.

The incident at the Panian mine in February, which temporarily halted operations for almost two months, made the job of achieving our financial targets—specifically generating higher cash levels—especially overwhelming.

The continued expansion of your Company into power generation was another challenge. There was greater demand for funds. This forward integration strategy, which originally aimed to secure the market of Semirara Coal, started in 2009 or at the time your Company acquired the Calaca Power Plants from the government.

Your Company, however, proved resilient and went on to register a sterling record for the year.

In pursuit of our five-year strategic objective of "Continuing Growth," your Company implemented measures to make both coal mining and power generation more cost-efficient. The demand-supply imbalance has greatly affected coal and energy prices. It is important to maintain our competitive edge amid moderate-to-low demand for coal in the region.

The coal segment, with the help of a mine software, was able to implement a cost-efficient mine plan, resulting in savings in fuel and in the maintenance cost of mine equipment. Your Company also made a conscious effort to reduce expenses, limiting them to direct mining costs as much as practicable, and staying within budget.

Company resources were directed to improve the average load capacities of the existing power units and expand power capacity. These activities will ultimately secure a significant portion of the coal market locally and will lead to the dropping of exports from the market distribution channel. After all, exports bring only lower margin to the coal segment.

From December 2009 to close of the year 2013, total equity infused into the power project amounted to P13.2 billion using internal cash generation.

As a result of these conscious efforts, 2013 saw a record-high performance for your Company despite the challenges. Net income after tax grew 19% year on year to P7.53 billion—7% above target, resulting in earnings per share of P21.11 from P17.85 in 2012.

Your Company closed the year with consolidated cash balance of P4.82 billion, a ninefold growth from its 2012 level of P534 million. Coal and power contributed P1.71 billion and P3.09 billion, respectively, of which P1.34 billion came from the balance of the power project loan drawdown.

Profitability was supported by a robust financial condition. Leverage ratios show that Your Company is sound and stable. Consolidated current ratio is at 1.48% while Debt-to–Equity ratio is at 1.22%.

On the other hand, Return on Investment (ROI) is high at 16.8%, while interest cost for borrowed funds only ranges from 1.5% - 3.5% for both short-term and long-term borrowings.

The exposure to foreign exchange risk was mitigated by natural hedge against US dollar inflows from coal export. To further cushion your Company from foreign exchange volatility, significant portion of its importations and foreign supply contracts were denominated in US dollars.

Debt facilities of the power projects were all denominated in PHP and funded by local banks.

This capitalized on the high liquidity in the local market, matching future PHP cash flows and minimizing the impact of foreign exchange volatility.

Liquidity, interest rate and foreign exchange risks were managed by using a combination of short-term and long-term borrowings, denominated in USD and PHP denominations, and floater and fixed-rate terms. The ongoing power expansion is funded at a 60/40 project debt financing scheme.

Your Company is continuously upgrading its IT infrastructure to strengthen its financial information backbone. It is integrating all sources of vital business information for faster and easier access. It recognizes that timely and reliable financial and operational information aids in making strategic and critical business decisions. Your Company is upgrading its ERP solution to role tailored client and has implemented plant and mobile maintenance system (B2B technology) to improve business process for both the coal and power segments.

As the Philippines moves towards ASEAN economic integration in 2015, the demand for sustainable growth becomes even more pronounced. Your Company continues to strengthen its Enterprise Risk Management (ERM) system, such as putting in place a Business Continuity Management System (BCMS). This was initially done for the coal segment, being the core business of your Company. A similar system will soon be established for the power segment.

The risk profile of both coal and power segments are continuously reviewed by senior management and the board. The risk management processes, embedded in the Company procedures and processes, including adequacy and completeness of insurance coverage for floater and industrial all risk, are regularly reviewed by Internal Audit for assurance reporting to the Board.

Your Company has managed to fulfill its commitment to its shareholders by maintaining a cash dividend yield beyond the minimum 20% of prior year's net income . The payout ratio in 2013 is at 81%. This, despite the high pressure on cash resources for your Company's new investment for its power expansion and rehabilitation of Calaca Power plants. For 2014, Semirara has been ranked 4th, from 6th the previous year, in FinanceAsia's Best Companies in Asia poll for the "Most Committed to a Strong Dividend Policy" among the publicly listed companies in the Philippines.

We are grateful to all the investors for the trust and confidence in your Company. Our investor relations program is committed to giving information for investors' understanding of the business. Transparency is the key word in disclosing business, operating and financial condition to the investing public.

We engage in open communication with our investors because we understand that investment decisions are not only dependent on numbers but also based on non-financial metrics and practice of corporate governance standards.

**JUNALINA S. TABOR**
Chief Finance Officer

# Business Review

# COAL

## PRODUCTION

Coal operations was interrupted by an incident that occurred at 11:55 P.M. on February 13, 2013, where a section of the west wall of the Panian pit gave way.

Thirteen persons were affected: five were confirmed dead, five are still missing, and three have been rescued.

Immediately, all mining activities in the site were halted by the management even before your Company received a notice from the Department of Energy to stop operations.

Less than a month later, on March 5, your Company obtained clearance from the DOE to do preparatory activities (excluding coal extraction) in a new area, North Panian.

On April 19, the DOE issued clearance for your Company to proceed with its coal production activity. All mining operations have returned to normal since then.

Your Company instituted higher safety standards for the Panian mine as a result of this accident. Slope monitoring was made more comprehensive by the employment of an array of devices, including robotic instruments, to be able to detect early on the existence of conditions that may cause another failure.


The two months of halted operations had but a temporary effect. Mining activities caught up, such that for the full year 2013, total materials moved still increased 7% year-on-year to 82.15 million bank cubic meters (bcm) from 77.07 million bcm in 2012. Strip ratio increased by 20% year-on-year at 9.73:1 from 8.66:1 last year. Run-of-mine coal dropped by 5% year-on-year at 7.86 million metric tons (MTs) from 8.24 million MTs in 2012, while net total product coal was almost the same at 7.62 million MTs and 7.63 million MTs in 2013 and 2012, respectively. Coal ending inventory dropped by 8% year-on-year, closing at 1.28 million MTs from 1.38 million MTs last year as a result of higher sales volume.

## MARKET

In 2013, total sales volume for coal increased 6% to 7.63 million MTs from 7.18 million MTs the previous year. This was made possible by higher sales to power plants and higher exports, which offset drop in sales to cement plants and other industries.

Sales to the Calaca power plants increased by 43% to 2.13 million MTs; both power units of SCPC had increased capacity and availability after their rehabilitation. Export sales increased also by 7% to 3.40 million MTs, representing 45% of the total pie this year. Since mining operations are concentrated in the area where coal quality is better, exported coal commands higher prices.

On the other hand, sales to other power plants and cement plants dropped 24% to 790 thousand MTs and 7% to 980 thousand MTs, respectively. Sales to other industries also dropped by 24% to 328 thousand MTs.

Average composite FOB price per ton dropped 10% year-on-year at P2,185 from P2,454 in 2012, reflective of the drop in global coal prices.

Business Review

# POWER

Construction of the 2x150 MW CFB power plant in progress. Target commissioning of both units is H1 2015.

## PRODUCTION

Total energy generation of 3,638 GWh in 2013 marked the highest in the history of the Calaca Coal-Fired Thermal Power Plants. It represents a 48% increase from the 2,463 GWh generated in 2012.

Total operating hours amounted to 14,538 hours, a 39% increase from only 10,457 hours in 2012. Lower maintenance outage offset higher forced outage of Unit 1. The higher capacity of Unit 1 also offset the lower dependable capacity of Unit 2. Thus, average capacity also increased to 501 MW from 446 MW last year.

### Unit One

Unit One's performance in 2013 was better than that of the previous year. The average load of 229 MW is 16% higher than 2012's 197 MW. This is primarily due to an increase in capacity, ranging between 230 and 245, as a result of the use of Nalco Soot Remove 9F.

Total generation jumped 214% to 1,667 GWh from 2012's 531 GWh, given the higher operating hours of 7,292 hours.

Capacity factor of 63% represented a 215% increase from 2012's 20%. Preventive maintenance of the plant in 2012 drove availability down to 31%, or operating hours of 2,697.

Clogging in some of the tubes which caused a temperature rise caused a leak in the condenser in the second and fourth quarters; this was responsible for the high forced outage rate of 16%. The company made sure that sea water intake would be free from any debris which may cause further clogging by putting a preventive multi-layered net at sea. It also conducted an education campaign on waste management in the neighboring communities.

### Unit Two

Unit Two run at an average load of only 272 MW in 2013. While this was still higher by 9%`than the average capacity of 249 MW in 2012, the capacity is still de-rated pending last phase of rehabilitation works done starting the end of the year.

Despite this limitation, gross generation managed to inch up by 2% to 1,971 GWh from 1,932 in 2012. Availability, however, was lower at 83% from 2012's 88%.

## MARKET

Higher generation of the newly rehabilitated power plants drove sales volume up by 46% to 3,460 GWh from just 2,365 in 2012. Of the total energy sold, 96% were sold through bilateral contracts, which was up remarkably by 65%, to 3,313 GWh in 2013 from 2,007 GWh in 2012.

Only four percent was sold in the spot market.

The improvement in the sale though bilateral contracts was due to the increase in contract quantities to Meralco from the initial 210MW to 420 MW beginning January 31, 2013, and the additional 30 MW non-firm contract capacity for Trans-Asia. This latter arrangement, which took effect on February 16, 2013, enables your Company to sell its excess capacity at any given time.

Meralco is the single biggest customer of your Company with its 83% share in total energy sales. Trans-Asia and Batelec follow at 7% and 5%, respectively.

Compared to the 2012 level of 358 GWH, spot market sales was lower at 148 GWH. The value however was still higher by 33% because of the fourth-quarter increase in spot market prices.

Of the total energy sold, 99% was sourced from own generation, while 1% was purchased from the spot market during hour intervals where the power units were down or when they were running at a de-rated capacity.

The bilateral contracts yielded lower prices with an average of P3.79 per KWh in 2013 versus the average P3.97 per KWh in 2012. This was because of the lower prices of pass-thru coal fuel being indexed to the lower Newcastle prices in 2013.

On the other hand, average spot sales was up 215% to P14.98 per KWh from P4.75 per KWh in 2012. The higher spot prices in November and December 2013 pulled up the average prices.

# BOARD OF DIRECTORS



**David M. Consunji,** Filipino, 92
Chairman of the Board since May 2001

**Education:**
B.S. Civil Engineering, University of the Philippines

**Directorships in Listed Companies:**
Chairman, DMCI Holdings, Inc. (within Company Group)

**Other Directorships/Positions:**
Chairman of D.M. Consunji, Inc., Dacon Corporation, Semirara Cement Corp., 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; Director, Atlantic Gulf & Pacific Co., Inc.

**Prior Government Position:**
Secretary of the Department of Public Works, Transportation and Communications, August 23, 1971 to 1975.

**Directorships in Listed Companies:**
Chairman, DMCI Holdings, Inc. (within Company Group)

**Isidro A. Consunji,** Filipino, 65
Vice-Chairman since May 2001
Chief Executive Officer
2013 Nomination & Election Committee, Chairman

**Education:**
B.S. Civil Engineering, University of the Philippines; Master's Degree in Business Economics, Center for Research & Communication; Business Management, Asian Institute of Management; Advanced Management from IESE School, Barcelona, Spain.

**Directorships in Listed Companies:**
President, DMCI Holdings, Inc. (within Company Group); Non-Executive Director, Crown Equities, Inc.; Non-Executive Director, Atlas Consolidated Mining and Development Corp.

**Other Directorships/Positions:**
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; Chairman and CEO, DMCI Mining Corporation; Chairman, ENK Plc (U.K.delisted); Vice-Chairman, DMCI Masbate Power Corporation; Director of Dacon Corporation, M&S Company Inc., DMCI Projects Developers, Inc., Toledo Mining Corporation Plc (U.K.delisted), Semirara Cement Corporation, Maynilad Water Services, and SEM-Calaca Res Corporation.

**Victor A. Consunji,** Filipino, 63
Executive Director since May 2001
President and Chief Operating Officer
2013 Audit Committee, Member

**Education:**
A.B. Political Science, Ateneo de Davao University

**Directorships in Listed Companies:**
Non-Executive Director, DMCI Holdings, Inc. (within Company Group)

**Other Directorships/Positions:**
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 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; President of Sirawai Plywood & Lumber Corp.; and Vice-President of Dacon Corporation.

**Jorge A. Consunji,** Filipino, 62
Non-Executive Director since May 2001

**Education:**
B.S. Industrial Management Engineering, De La Salle University

**Directorships in Listed Companies:**
Non-Executive Director, DMCI Holdings, Inc. (within Company Group)

**Other Directorships/Positions:**
Chairman of DMCI Masbate Power Corporation; Director of 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, Divine Word School of Semirara Island, Inc.

**Cesar A. Buenaventura,** Filipino, 84,
Non-Executive Director since May 2001

**Education:**
Bachelor of Science in Civil Engineering, University of the Philippines; M.S. Civil Engineering as Fulbright Scholar, Lehigh University, Bethlehem, Pennsylvania.

**Directorships in Listed Companies:**
Vice Chairman, DMCI Holdings, Inc. (within Company Group); PetroEnergy Resources Corporation; iPeople, Inc.

**Special Recognition:**
Honorary Officer of the Order of the British Empire by Her Majesty Queen Elizabeth II, 1991

**Other Directorships/Positions:**
Chairman, Maibarara Geothermal, Inc.; Vice-Chairman of Atlantic Gulf & Pacific Company of Manila (AG&P), DMCI Holdings, Inc. (listed company), and Montecito Properties, Inc; Director of 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.

**Prior Government Position:**
Member, Monetary Board, Central Bank of the Philippines

# BOARD OF DIRECTORS

**Herbert M. Consunji,** Filipino, 61
Non-Executive Director since May 2001

**Education:**
Bachelor of Science in Commerce Major in Accounting, De La Salle University.

**Directorships in Listed Companies:**
Executive Director, Vice-President & CFO, DMCI Holdings, Inc. (within Company Group)

**Other Directorships/Positions:**
Chairman, Subic Water & Sewerage Corp.; Director 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.; Treasurer of SEM-Calaca Res Corporation; and Partner, H.F. Consunji & Associate.

**Ma. Cristina C. Gotianun,** Filipino, 59
Executive Director since May 2006
Executive Vice President
2013 Compensation & Remuneration Committee, Chairman

**Education:**
B.S. Business Economics, University of the Philippines Majored in Spanish, Instituto de Cultura Hispanica, Madrid, Spain

**Directorships in Listed Companies:**
Assistant Treasurer, DMCI Holdings, Inc. (within Company Group)

**Other Directorships/Positions:**
Director and Corporate Secretary, Dacon Corporation; Vice-President for Finance & Administration/CFO, 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.; and Trustee, CFO and Corporate Secretary, Divine Word School of Semirara Island, Inc.

**Affiliation:**
Fellow, The Institute of Corporate Directors Inc. (ICD)

**Ma. Edwina C. Laperal,** Filipino, 52
Non-Executive Director since May 2007

**Education:**
B.S. Architecture, University of the Philippines; Master's Degree in Business Administration, University of the Philippines; Executive Certificate for Strategic Business Economics Program, University of Asia & the Pacific

**Directorships in Listed Companies:**
Executive Director, Treasurer, DMCI Holdings, Inc. (within Company Group)

**Other Directorships/Positions:**
Director and Treasurer, DMCI Project Developers, Inc.; Non-Executive Director, SEM-Calaca Power Corporation; and Treasurer of Dacon Corporation, DMC Urban Property Developers, Inc., and D.M. Consunji, Inc.

**Affiliation:**
Fellow, The Institute of Corporate Directors Inc. (ICD)

**George G. San Pedro,** Filipino, 74
Executive Director since May 2001
Vice-President for Operations and Resident Manager
Member, Compliance Committee

**Education:**
B.S. Civil Engineering, University of the Philippines

**Other Directorships/Positions:**
President, Divine Word School of Semirara Island, Inc.; and Vice-President, Semirara Training Center, Inc.

**Victor C. Macalincag,** Filipino, 78
Independent Director since May 2005
2013 Nomination & Election Committee, Member
2013 Audit Committee, Chairman
2013 Compensation& Remuneration Committee, Member

**Education:**
Bachelor of Business Administration (BBA) degree, University of the East; Certified Public Accountant (CPA); Masteral Degree in Economics and Fellow, Economic Development Institute of the World Bank.

**Directorships in Listed Companies:**
Independent Director, Crown Equities, Inc.; Independent Director, Republic Glass Holdings Corp.; Independent Director, ISM Communications Corp.; Independent Director, Atok-Big Wedge Co., Inc.; Independent Director, Ceres Property Ventures, Inc.

**Other Directorships/Positions:**
Independent Director, SEM-Calaca Power Corporation; Chairman of the Board, One Wealthy Nation Fund, Inc.; and Regular Director, Asian Alliance Investment Corp.

**Prior Government Positions:**
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)

**Federico E. Puno,** Filipino, 67
Independent Director since May 2005
2013 Nomination & Election Committee, Member
2013 Audit Committee, Member
2013Compensation& Remuneration Committee, Member

**Education:**
B.S. Civil Engineering, University of the Philippines; M.S. Industrial Administration, Carnegie Mellon University, Pittsburgh, USA.

**Directorships in Listed Companies:**
Independent Director, Republic Glass Holdings Corp.; Independent Director, Forum Pacific, Inc.

**Other Directorships/Positions:**
President and CEO of TeaM Energy Corporation and San Roque Power Corporation; Director of Pampanga Sugar Development Corp. and Lima Utilities Corporation; Independent Director, SEM-Calaca Power Corporation; Consultant, San Fernando Electric.

**Prior Government Positions:**
President, National Power Corporation, Chief Financial and Management Services, Ministry of Energy; Assistant Treasurer, Ministry of Finance; and Ministry Energy Representative, National Electrification Administration.

Semirara Mining Corporation

# KEY OFFICERS

ISIDRO A. CONSUNJI

Chief Executive Officer

VICTOR A. CONSUNJI

President & Chief Operating Officer

MA. CRISTINA C. GOTIANUN

Executive Vice President

GEORGE G. SAN PEDRO

VP - Operations & Resident Manager

JUNALINA S. TABOR

VP - Chief Finance Officer

JAIME B. GARCIA

VP - Procurement & Logistics

ATTY. JOHN R. SADULLO

VP - Corporate Secretary & Head Legal Counsel

NENA D. ARENAS

VP - Chief Governance & Compliance Officer

ANTONIO R. DELOS SANTOS

VP - Treasury

JOSE ANTHONY T. VILLANUEVA

VP- Marketing

DENARDO M. CUAYO

VP - Business Development

SHARADE E. PADILLA

AVP - Investor & Banking Relations

## POWER

BRIAN VINCENT LAWRENCE

VP - Power Plant Management, SCPC

DENEL C. MATEO

AVP - Plant Manager, DMPC

ANDREO O. ESTRELLADO

AVP - Marketing, SCPC

EDGARDO S. LAGMAN

AVP - Facilities, SCPC

FREDDIE S. DELMENDO

AVP - Procurement & Logistics, SCPC

# KEY CONSULTANTS



BARRY CHARLES LEWIS

Consultant, Mine Management

PETER M. TINK

Consultant, Mining Operations

GEORGE B. BAQUIRAN

Consultant, Special Projects

RODOLFO C. SALAZAR

Consultant, Organizational Development

## OTHER OFFICERS

**ANGELA A. ALE**
Comptroller, SCPC

**TERESITA B. ALVAREZ**
ICT Consultant

**LEANDRO D. COSTALES**
Comptroller

**MARK V. EVANGELISTA**
Purchasing Manager

**ANTONIO C. JAYME**
Group Accounts Audit Manager

**CARLA CRISTINA T. LEVINA**
Internal Audit Manager

**ERNESTO P. PACULAN**
Logistics Manager

**MELINDA V. REYES**
Risk and Systems Control Officer

**KARMINE B. SAN JUAN**
Internal Audit Manager

**MARY ANNE L. TRIPON**
Administration Manager

# MINE SITE OFFICERS

TOP ROW, FROM LEFT TO RIGHT:

**Mario V. Sadural**, Head, Mine Planning and Engineering Department, **Vicente Cesar V. Malig**, Assistant Administration Division Manager, **Agustin D. Gonzales**, Shipping Manager, **Jerry O. Celo**, Head, Electrical Department, **Ruben P. Lozada**, Assistant Resident Manager, **Oscar F. Razon, Jr.**, Materials Management Manager, **Rene G. Gonzales**, Head, Mobile Department, **Peter M. Tink**, Consultant, Mining Operations, **Napoleon U. Trillanes, Jr.**, Organizational Development Manager, **Mark C. Munar**, OIC, Civil Works Department, **Abdon P. Patagoc, Jr.**, ISO Officer

BOTTOM ROW, FROM LEFT TO RIGHT:

**Edna A. Gayondato**, Head, Analytical Laboratory Department, **Dr. Annabelle A. Rebolido**, Head, Medical Department, **Jessica T. Saulong**, Accounting Manager, **Leto T. Mac-liing**, Mine Shift Manager, **Arnel P. Jadormio**, Head, Safety Department, **George G. San Pedro**, VP – Operations & Resident Manager, **Juniper A. Barroquillo**, Administration Division Manager, **Leandro D. Costales**, Comptroller, **Mark Louis A. Bentayo**, Head, Product Department, **Nestor V. Agapito**, Head, Materials Control Department, **Gerry M. Marcellana**, Head, Human Resource Department

Not in photo:
**Barry Charles Lewis**, Consultant, Mine Management, **Elson J. Crisologo**, Chief Geologist (CP, PMRC), **Magno B. Villaflores**, Minesite Operations Auditor, **Lerio H. Calinawagan**, OIC, Mechanical Services Department, **Jose Leo G. Valdemar**, Head, Power Plant Department, **Janesto S. Diaz**, Pollution Control Officer



# POWER PLANT SITE OFFICERS

FROM LEFT TO RIGHT:

**Procopio T. Panuncillon, Jr.**, Electrical Maintenance Superintendent, **Gil D. Enamno**, Mechanical Maintenance Superintendent, **Rogelio C. Sungahid**, DCS Project Manager, **Bernard I. Carpio**, Planning and Scheduling Superintendent, **Pedro R. De Padua, Jr.**, Environmental Principal Engineer A, **Sixto R. Lopez**, Head, Community Relations, **Oscar Q. Querubin**, Plant Engineering Head, **Adolfo M. Mendoza**, Performance Analysis and Standards Principal Engineer A, **Jovenal M. Lafuente**, Maintenance Manager, **Denel C. Mateo**, AVP and Plant Manager, **Edgardo S. Lagman**, AVP Facilities Calaca Complex, **Pedro A. Cabrera**, Technical Services Manager, **Valnario S. Leyba**, Operations Manager, **Roque M. Consunji**, Coal Handling Unit Head, **Fe B. Torrefranca**, Principal Engineer A, Chemical Operations, **Emmanuel G. Bajar**, Safety Department Head, **Melchor D. Borbon**, General Services Department Head, **Rodolfo B. Rabacca**, Main Plant Operations Group C Superintendent, **Wilfredo E. Consunji**, Technical Training Consultant, **Ramon T. Miranda**, Head, Materials Control Department, **Felix T. Occeña**, Jr., Coal Handling Manager, **Jesus G. Villavencencio, Jr.**, Trading Head, **Ronilo R. Bautista**, Main Plant Operations Group A Principal Engineer

Not in photo:
**Ismaelito V. Almazan**, Main Plant Operations Group B Superintendent, **Ronaldo A. Endaya**, Main Plant Operations Group D Superintendent, **Randy C. Torres**, Officer-In-Charge, Instrumentation and Control, **Nathaniel N. España**, Technical Documentation, Training and Engineering Laboratory Principal Engineer B, **Estela D. Balbago**, Plant HRAD Manager, **Marcela D. Ellao**, Plant Finance Manager, **Florante S. San Pedro**, Senior Security Officer A

# CORPORATE GOVERNANCE



Your Company's corporate governance framework aims to provide a culture of ethical conduct, higher standards of performance, transparency and accountability throughout the organization and its subsidiaries. It adopts the Organization for Economic Co-operation and Development (OECD) Principles of Corporate Governance globally accepted by policymakers, investors and other stakeholders as benchmark of good governance policies and practices. Your Company's corporate governance framework is discussed in a comprehensive SEC Annual Corporate Governance Report. This report as well as the Board Committee Charters, Code of Corporate Governance and good governance policies are disclosed in your Company's website: www.semiraramining.com.

# COMPLIANCE



### SEC and PSE

Your Company subscribes to all the rules and regulations of the Securities and Exchange Commission (SEC) and the Philippine Stock Exchange (PSE). It annually reports its full compliance to the SEC's Revised Code of Corporate Governance (SEC Code). It also discloses its level of adoption of the PSE's Corporate Governance Guidelines for Listed Companies. Directors, Officers and employees have been advised of their respective duties as mandated by the SEC Code and that internal mechanisms are in place to ensure compliance thereto. Your Company fully complies with the disclosure and reportorial requirements of the SEC and PSE, such as certifications on compliance with its Revised Code of Corporate Governance and Board attendance, structured reports, as well as timely disclosure of significant and material information, events or developments and reporting of transactions involving trading of the Company's shares by its Directors within the prescribed reporting period.

Nena D. Arenas, Vice President and Chief Governance Officer, is appointed by the Board as Compliance Officer designated to ensure adherence to corporate governance principles and best practices, as well as compliance to the SEC Code and the Company's Revised Code of Corporate Governance. The Compliance Committee shares in the responsibility of assurance reporting on the Company's regulatory requirements. The Committee has three (3) other Members who are executive officers tasked with ensuring compliance covering SEC, PSE, legal, accounting and reporting standards, environmental, health and safety matters that are aligned to their functional scope of work responsibilities. The Compliance Committee regularly reports to the Audit Committee for continuous monitoring and updates of legal, regulatory developments and compliance matters, thus assuring the Board of their effective management and strategic sustainability.

### Environment, Health & Safety

Your Company is compliant with the conditionalities of its Environmental Compliance Certificate (ECC) issued by the Philippine g Department of Environment and Natural Resources (DENR relative to the development and opening of the Panian coal mine, and the closing and rehabilitation of its old mine. It is also compliant with the regulatory and reporting requirements of various Philippine government agencies tasked to oversee health and safety, among others.

A Multi-Partite Monitoring Team (MMT) comprised of representatives of the government and various stakeholder groups oversees and evaluates the Company's compliance with such ECC conditions, applicable laws, rules and regulations on a quarterly basis. The MMT conducted on-site monitoring activities which included validation of Air, Water, Operation and Administration reports and Environment Management Plan. The Company's Environmental Unit (EU) together with concerned groups regularly assess its environmental programs for effectiveness and improvement. Air and water quality, noise level and hazardous-regulated materials are regularly tested, measured and monitored against standards and baseline data. Regular and surveillance audits are conducted by internal auditors, external parties and local regulators to assess the Company's continuing compliance with corporate policies, government regulations, industry guidelines and internationally recognized standards.

In December 2013, the Company's coal mining operation and support activities have been recertified in its fifth consecutive year by the Governing Board of Certification International Philippines, Inc. as being in conformance to International Organization for Standardization ISO 14001:2004 on Environmental Management System. ISO 18001:2007 on Occupational Health and Safety Management System.

# RIGHTS OF SHAREHOLDERS
All shares, Equal voting rights

Your Company's corporate governance framework protects and facilitates the exercise of basic shareholder rights. It maintains a share structure that gives all shares equal voting rights.

**Dividend**
Your Company is committed to providing reasonable economic returns to the investors through the right to participate in its profits. It has been consistently paying out cash dividends more than its dividend policy of 20% of preceding year's Net Income After Tax (NIAT) since its domestic and international shares offering in 2005. On April 30, 2013, the Board approved and declared cash dividends of P 12.00 per share or P4.28 billion representing 81% of 2012's NIAT. All shareholders are treated equitably in the timing of receipt of dividends and are fully paid of the declared cash dividends within thirty (30) days from declaration date, i.e. on May 29, 2013.

**Voting Rights**
Your Company respects the right of a shareholder to participate, be informed and vote in key decisions in our Annual Shareholders' Meeting (ASM). Shareholders are furnished with sufficient and timely information concerning the ASM date, location, agenda including the rules and voting procedures that govern such meetings in the Notice of ASM and accompanying SEC Form 20-IS Information Statement. Fundamental corporate changes and governance matters requiring approval during shareholder meetings include, among others :

- Amendments to the Company's constitution and similar governing documents
  Your Company is seeking shareholder approval in its Notice of 2014 ASM for amendment to its Articles of Incorporation regarding change in corporate name and complete principal address, and amendment of its By-Laws increasing the Board attendance quorum requirement from majority to two-thirds (2/3).

- Authorization of additional shares
  Your Company is seeking shareholder approval in its Notice of 2014 ASM for amendments to its Articles of Incorporation regarding an increase in authorized capital stock

- Extraordinary transactions, including transfer or sale of all or substantially all of the Company's assets, sale of a business unit or subsidiary that accounts for a majority portion of the Company's assets

  In case of such matter, your Company shall observe fair treatment of all shareholders and undertake due diligence process in matters concerning mergers and acquisitions, including having an independent valuation report on fair value and equitable terms and conditions for all shareholders.

- Remuneration (per diem, fees) of non-executive Directors
  Your Company sought shareholder approval for the amount of fixed annual retainer fee for Directors during the 2009 ASM. There has been no change in the director fees to date.

- Nomination by non-controlling shareholders of candidates for Board Directors
  Your Company accords non-controlling shareholders the right to nominate candidates for board directorships as part of the nomination process and procedures. In 2013, such nomination for Independent Directors by a minority shareholder has been appropriately disclosed in your Company's SEC 20-IS.

- Election of Directors individually
  Your Company includes election of members of the Board for shareholder participation as a regular agenda item in the ASM.

- Appointment, re-appointment of external auditor
  The appointment or re-appointment of the independent external auditor is voted on by the shareholders regularly in the ASM.

**Institutional Investors**
Your Company recognizes its contributory role as a listed company in the development of the Philippine capital market. It espouses an openness to outside investors with institutional investors holding more than 5% of Company shares as per PSE Disclosure 17-12 Top 100 Stockholders List. It encourages shareholders, including institutional investors, to attend and participate at the ASM, and ensures such meeting is held at an easily accessible venue.

**Other Shareholder Rights**
Your Company respects other shareholder rights as provided for in the Corporation Code, specifically, to inspect corporate books and records, to information, to dividends and appraisal right.

# EQUITABLE TREATMENT OF SHAREHOLDERS
One common share, One vote



Your Company's corporate governance framework ensures equitable treatment of all shareholders and provides them the opportunity to obtain redress for violation of their rights. It has a share structure of one class of common shares with one vote for each share.

**Notice of Annual Shareholders' Meeting (ASM)**
Your Company disclosed its Notice of 2013 ASM and accompanying SEC 20-IS Information Statement with detailed agenda and relevant information for shareholder consideration on March 12, 2013 and April 2, 2013, respectively, with both dates more than twenty-one (21) days before regular ASM date on May 6, 2013. The following key items which required shareholder disposition in the Notice of 2013 ASM included, among others:

- Election of Board Directors, with information on individual profile of nominees for election to the Board with details on age, education, experience, position, type of directorship, other directorships, Board Committee memberships, beneficial share ownership and Board meetings attended;

- Re-appointment of independent external auditor, with details of name and qualification;

- Voting procedures and methods;

- Proxy Form easily available with detailed instructions on proxy appointment and procedures to facilitate voting by shareholders who are unable to attend and vote in said meeting.

While your Company's By-Laws provide Board authority to declare cash dividends, dividend policy information was disclosed in Part V, Corporate Governance section of the Management Report accompanying the Notice of 2013 ASM. In your Company's Notice of 2014 ASM, declaration of stock dividends for shareholder approval, together with information on dividend policy, amount of cash dividends declared and paid in the previous year, are included as key agenda item in said Notice.

**ASM**
Your Company holds the ASM every first Monday of May each year to report to its shareholders as well as give them the opportunity to ask the Board updates or issues for clarification. The Chairman of the Board, Chairman of the Audit Committee, Chairman of the Compensation and Remuneration Committee and Chairman of the Nomination and Election Committee, other Board Directors, CEO, Chief Operating Officer, Chief Finance Officer, Corporate Secretary, other key officers and SGV & Co as external auditor attended the meeting to answer potential questions from shareholders. Your Company adopted best practices in the conduct of its 2013 ASM such as, but not limited to the following:

- Venue
  On May 6, 2013, your Company held its ASM at the Manila Golf & Country Club, Forbes Park, Makati City, a meeting location accessible to the shareholders as per policy.

- Agenda
  There was due observance of the agenda items as indicated and disclosed in the Notice of 2013 ASM. The Corporate Secretary discussed and explained the rationale of agenda items requiring shareholders' approval. There was also no added agenda item or amendment to material information without prior shareholder notice in compliance to regulatory rules.

- Shareholders participation
  After discussion of the Management Report, the Vice Chairman & CEO gave the shareholders and other attendees the opportunity to raise any question and/or clarification. No question or clarification was raised and such was duly minuted.

- Voting in person or in absentia
  Your Company ensures shareholders are able to vote in person or in absentia, with equal effect to both votes. It allows voting in absentia via proxy thus, giving a shareholder who is unable to attend such meeting the opportunity to participate and vote on the shareholder's behalf.

  The following Poll Voting procedures were observed during the 2013 ASM :
  - Poll voting was conducted as opposed to show of hands for all resolutions;
  - Appointment of SGV & Co. as independent body to count and validate the votes by poll cast by the shareholders for items stated in the agenda requiring approval and/or for ratification;
  - Votes were cast and counted for each agenda item;
  - Voting results were presented for each agenda item during the meeting to inform the participants of such outcome.

- Disclosure
  Results as to approving, dissenting and/or abstaining votes of shareholders taken for all resolutions are publicly disclosed by the next

working day. The list of Board Directors who attended the 2013 ASM are reported and disclosed in a certification of attendance to PSE and SEC. This certification and the minutes of the 2013 ASM are disclosed in the Company's website.

**Protection from Inequitable Conduct**
Your Company's good governance program aims to protect non-controlling shareholders from inequitable conduct and abusive self-dealing of its Directors, Officers and employees.

- Insider Trading
  Your Company's Codes of Conduct and Insider Trading policy explicitly prohibit insider trading to prevent conflict of interest and benefiting from insider information or knowledge not available to the general public. Directors, officers and employees are required to abide by the Company's prescribed restrictions and no-trading periods of its shares of stock in the market. Your Company's amended policy requires its Directors and key officers to report their trades within three (3) business days to Legal Department for eventual reporting to the PSE and the SEC. In 2013, there were no complaints received regarding misuse of insider information committed by any Director or officer.

  - Conflict of Interest
    Directors are required to disclose to the Board (and any applicable committee) any financial interest or personal interest in any contract or transaction that is being considered by the Board for approval. The interested Director should abstain from voting on the matter while the remaining directors discuss and vote on such matter.

    All Directors, Officers and Employees are required to submit an Annual Disclosure Statement of their financial, business or personal interests or dealings with the Company and/or subsidiaries at the end of each financial year. Your Company also requires early submission by a Director, Officer and Employee of a "single transaction" disclosure statement, and due before actual conflict of interest arises, of his direct or indirect financial interest in a specific contract or purchase proposed to be entered into by the Company, subsidiaries or its affiliates with or from a particular contractor or supplier.

  - Company Loan
    The Board abides by the Company's policy not to extend personal loans or credit to Directors unless approved by the Board. There were no such loans extended to Directors in 2013.

**Related Party Transactions (RPT)**
Your Company's Related Party Transaction Policy provides that RPTs be arms-length and at terms generally available to an unaffiliated third party under the same or similar circumstances. There must be a compelling business reason to enter into such a RPT, taking into account such factors as expertise of related party, cost efficiency, among others. The Board-approved Policy sets out the guidelines, categories and thresholds requiring review, disclosure and prior approval by the Board of Directors or Shareholders of such transactions. It also defines RPTs deemed to be pre-approved by the Board in accordance with the Company's Board-approved Table of Authorities. It provides guidelines on the identification, review and approval of RPTs. All RPTs shall be disclosed to the Audit Committee and any material RPT shall be disclosed to the Board. All RPTs are disclosed in the related Notes to Financial Statements of the Company's audited accounts and in required SEC filings.

Generally, Management promptly reports to the Board of Directors (Board) on the terms, business purpose, benefits and other details of each new, existing or proposed RPT for review and approval. Your Board shall approve any RPT before its commencement. However, if the same is not identified beforehand, it must be subsequently reviewed and ratified by the Board. The Audit Committee assists the Board in its review of RPT.

## ROLE OF STAKEHOLDERS

Respect for rights of internal and external stakeholders

Your Company protects the rights and interests of stakeholders as established by law or through mutual agreements. It promotes stakeholder engagement in the corporate governance process. Activities and quarterly meetings with the Multi-Partite Monitoring Team (MMT) ensure continuous communication and cooperation with various stakeholders, regulatory agencies and sectoral groups such as women, youth, livelihood, religious, landowner and academe.

### Employees

Your Company implements organization policies to meet its obligations toward its employees. It invests in talent development programs and performance-enhancing mechanisms to support its corporate mission of empowering employees to prosper in a climate of integrity and excellence. Your Company's compensation reward policy sets remuneration at levels having regard to industry and market standards for similar work responsibilities and positions and gives performance-based cash incentives, with appropriate financial performance of the Company, to affirm or encourage talent. Its competency-based performance management system evaluates employee performance using a Balanced Scorecard that considers technical and behavioral competencies such as adherence to the Company's Code of Conduct, good governance program and Environment, Health and Safety (EHS) policies. It fosters fair treatment of employees and does not tolerate unlawful discrimination and harassment of any nature on the basis of sex, race, religion, age, color or disability. Its Safety and Health policies, processes, infrastructure, equipment and training aim to ensure a culture of safety, health and welfare of the workforce. Your Company's Anti-corruption and Ethics Program provides a robust system of policies, processes and controls. Its whistleblowing reporting mechanism through the Company's website or dedicated email address provides a venue for employees to raise valid ethical concerns. Your Company's human resources programs are further discussed in the Corporate Sustainability and Responsibility (CS&R) section of this Integrated Annual Report.

### Customers

Your Company's mission statement is to supply its customers with quality coal that meets their stringent specification. It measures the characteristics of coal to ensure that customer requirements are determined and understood with notification to the

### CUSTOMER ENGAGEMENT

| | |
|---|---|
| QUALITY CONTROL | • Coal delivery based on agreed quality and contracted delivery schedule.<br>• Company laboratory equipped with modern equipment and facilities to test coal sampled from mine pit up to actual loading of coal to customer's vessel with conformance to ISO and American Society for Testing and Materials for monitoring purposes.<br>• Third party surveyor/laboratory to sample and test coal shipment ensuring non-biased information in actual coal quality and quantity shipped which shall serve as final basis for billing. |
| RESPONSIBLE COMMUNICATION | • Strict adherence to Company's Codes of Conduct on fair dealings and confidentiality in all transactions and business information such as customer data.<br>• No reported complaints in violation of customer data privacy in 2013. |
| CUSTOMER ACCESS | • Transparency to all customers in Minesite visits through access in operations, inspection of mining facilities, monitoring of coal quality and witnessing actual loading of coal. |
| COMPLAINT RESOLUTION | • Timely resolution and updates of concerns or complaints. |
| CUSTOMER SATISFACTION | • Increased customer engagement in survey from 77% to 88% in 2013.<br>• Higher customer satisfaction index from 88% to 97% in 2013. |

customer of significant changes communicated in a timely manner before effecting any change. Tests are conducted and results recorded to evidence conformity with the requirements. Coal shall not be loaded and shipped until all the tests are conducted and all results passed the customer's specification. Customer safety during Minesite visits is ensured through observance of safety procedures by customers in Company premises.

Client feedback mechanism is implemented through periodic customer satisfaction surveys conducted at least annually to measure client perception in meeting customer criteria on Delivery, Product Quality, Responsiveness, Technical Support and Customer Concerns Addressed. Customer concerns, if any, are addressed and resolved through corrective action and after-sales settlement guidelines.

Your Company's continuing recertification to ISO 9001:2008 on Quality Management System affirms the continual improvement of business processes in key performance areas during the year.

**Suppliers and Contractors**

Your Company supports strategic partnerships with suppliers and other business partners with honoring commitment to agreements and timely payment of contracted obligations. The Codes of Conduct promote fair dealings with business partners including observance of confidentiality of proprietary non-public information such as contract terms or bids, that might either be harmful to its suppliers and business partners or of use to their business competitors.

Your Company's quality policy for procurement activities ensure competitive sourcing and pricing of highest quality of goods and services to support the Company's objectives. It includes procedures on accreditation, evaluation of new suppliers and re-evaluation of performance of accredited suppliers of critical materials every twelve months to ensure consistent quality of purchased products and services. Suppliers are selected and evaluated based on their track record, price, payment terms and performance on criteria such as product quality, response to problems and delivery. Canvassing procedures ensure competitive pricing, favorable terms and value-added services without compromising quality. Your Company has integrated 'green' initiatives and sustainable practices in its accreditation procedures including those of its power subsidiaries. Suppliers are screened using environmental criteria such as waste management, environmental/regulatory compliance certificates; labor practices in supply chain covering child labor, forced labor; and human rights criteria.

Your Company's supply chain management considers the impact and influence of its procurement practices related to raw material inputs and natural resource utilization. It has established controls and procedures in receiving, storing and handling of hazardous materials with due care to the environment, health and safety, applicable laws and regulations, and in conformance to the related ISO standards.

**Creditors**

Your Company values the contribution of creditors in its sustainable growth and development. Its financial management objectives ensure timely repayment of loans and compliance to the covenant terms of loan agreements. Its capital management strategy is to ensure it maintains a strong credit rating and healthy capital ratios to support its business, maximize shareholder value and safeguard creditors' rights. This is disclosed and further discussed, together with the financial risk management objectives, risks and policies in Note 29 to Consolidated Financial Statements.

**Government**

Your Company is committed to its vital role in the country's coal mining industry and related energy sector. It partners with the government in economic development through responsible citizenship, judicious use of the country's natural resources and compliance with relevant taxation, laws and regulations. Through payment of mining-specific royalties, your Company assists in providing significant and stable revenues to enable the government fulfill its fundamental objective of optimizing socio-economic benefits and welfare. Royalties paid to the Department of Energy and to the different local government units in the Province of Antique amounted to P 1.56 billion in 2013. Your Company's close partnerships with local government units and key sectors also involve community-based emergency preparedness initiatives such as disaster and risk reduction management workshops and drills.

**Community and Environment**
Your Company works in partnership with its host communities to improve the sustainability of both the community and the environment while promoting local economic empowerment with judicious use of natural resources. Its comprehensive corporate social responsibility program encompasses Five Es – Education, Environment Protection, Economic Empowerment, Employment & Livelihood and Electrification. Likewise, this robust commitment has been cascaded to its power subsidiaries' own programs.

Your Company's integrated Environment, Health & Safety (EHS) management system is built on a framework of continuous improvement of applied environmental and social responsibility performance standards. This includes a Hazard Identification and Risk Assessment process to ensure that environmental aspects associated with your Company's coal mining activity, products and services are identified, their impact to the environment, safety and health hazards evaluated for significance and necessary control measures implemented. Employees and contractors are mandated to comply with your Company's EHS objectives and policies such as the conservation and promotion of the local biodiversity, ecological solid waste management that promotes proper garbage segregation and reduced consumption of electricity, water and paper, among others. Your Company's commitment toward the sustainability of Semirara Island is described in the CS & R section of the Integrated Annual Report.

Your Company integrates value chain processes that minimize pollution and damage to the environment.

## ENVIRONMENT-FRIENDLY VALUE CHAIN

| Air Pollution Management: |
|---|
| Close monitoring of spontaneous combustion activity of coal stockpiles through continuous and thorough compaction. |
| Inspection of stockpiles every start and middle of the operation shift. |
| Road watering by six water trucks during dry season and hauling operation. |
| Setting truck speed limits. |
| Installation of pollution control facilities on the Mine Site power plant smoke stack. |
| Use of dust-treat coagulants during product transfers. |
| Preventive maintenance program of mobile and airconditioning equipment |
| Inspection of stockpiles every start and middle of the operation shift. |
| Road watering by six water trucks during dry season and hauling operation. |
| Setting truck speed limits. |
| Installation of pollution control facilities on the Mine Site power plant smoke stack. |
| Use of dust-treat coagulants during product transfers. |
| Preventive maintenance program of mobile and airconditioning equipment. |
| **Waste Management:** |
| Waste water channelling from Coal Washing Plant operations to settling ponds before recycling for plant watering use or to a constructed dike area for containment. |
| Handling, containment, clean-up and restoration procedures of industrial materials and wastes. |
| Progressive rehabilitation program of old Unong mine and a section of current Panian mine. |
| Ash waste management of Power Plant Station. |

**Anti-Corruption & Ethics Program**

Your Company's program consists of ethics-related policies, soft controls and audit procedures aimed to promote the highest standards of openness, probity and accountability throughout the organization. Ethics is a core competency required and expected of all employees in the performance of their job responsibilities and a performance measure in their evaluation. The IA management team has adequate fraud training to conduct related assurance work in support of the Company against fraud and corruption

- Risk assessment
  Corruption and fraud risks by risk levels are annually assessed as part of the Risk Control Self-Assessment process of your Company's Enterprise Risk Management. In 2013, all business units have been assessed as to their vulnerability to such risks. Risk review results are evaluated by the Internal Audit (IA) in its annual audit plan and reported to the Audit Committee

- Conflict of Interest Policy
  Your Company's Codes of Conduct explicitly provide guidelines for all Directors, Officers and employees, including their immediate family members within a degree of affinity or consanguinity, on anti-corrupt practices involving conflict of interest, business gifts and entertainment, among others. Conflict of interest situations also refer to ownership of a part of another company or business having interests adverse to the Company and accepting commissions or share in profits from any supplier, customer or creditor. Your Company does not seek competitive advantages through illegal, unethical or unfair dealing practices. Improper communications with competitors or suppliers regarding bids for contracts are reported to the senior management, Chairman of the Board or the Audit Committee, as appropriate.

  To monitor compliance with the Conflict of Interest policy, your Company requires early submission by a Director, Officer and employee of a "single transaction" disclosure statement, and due before potential conflict of interest arises, of his direct or indirect financial interest in a specific contract or purchase proposed to be entered into by your Company, subsidiaries or its affiliates with or from a particular contractor or supplier. Failure to make proper disclosure as required may result in disciplinary action.

- Gift and Entertainment Policy
  Your Company's Gift and Entertainment policy and guidelines explicitly disallow employees from any interest in or benefit from any supplier that could reasonably be interpreted as inducing favoritism towards a particular supplier over others. Such guidelines enumerate conditions on the propriety of accepting a gift or invitation to meals and entertainment such as it is unsolicited, part of a business meeting or discussion, not being given to influence business judgment or action, does not violate any laws, and a promotional item or token of nominal value of not more than Two Thousand Pesos (P2,000) under the client's, supplier's or customer's relations program. Your Company communicates a reminder of policy expectations to suppliers and business partners usually during the Christmas holiday season.

- Fraud and Ethics Response Policy
  This Policy sets out the procedures and ways in which employees or other stakeholders can voice their concerns or complaints about suspected fraud or corruption. It also outlines how your Company will deal with such complaints and determine its course of action depending on their nature.

## Whistleblowing

Your Company expressly prohibits retaliation, intimidation, harassment or adverse employment consequences against a reporter who raises a concern or complaint. Reporting of the concern or complaint raised is treated with due care and confidentiality.

Your Company shall investigate and address promptly any concern of reprisal and harassment brought to its attention. Its Hotline reporting mechanism provides a secure reporting venue for employees, customers, suppliers and other stakeholders to raise and communicate valid complaints and confidential concerns on fraud, questionable and unethical transactions in good faith. Hotline reporting procedures include the use of a Hotline reporting form to guide the reporter in providing adequate information and basis to enable your Company to effectively investigate, evaluate and resolve the reported matter. The reporter may choose to report a concern anonymously, however there must be adequate information provided for your Company to have sufficient basis to investigate and have an informed judgment to assess the genuineness of an anonymous complaint or concern.

The whistleblowing mechanism is accessible in your Company's website www.semiraramining.com or through the email address hotline@semiraraminingmkti.net. Investor queries on governance matters may also be raised through a dedicated email address investor_relations@semiraraminingmkti.net

## Alternative Dispute Resolution Policy

Your Company promotes the use of alternative dispute resolution (ADR) options and processes in the settlement of corporate governance related disputes or differences with shareholders and key stakeholders. The policy aims to encourage fair, efficient and equitable resolution through possible use of ADR processes at the earliest stage of a conflict as possible while avoiding or discouraging recourse to unnecessary litigation.

Your Company's active engagement and partnership with the community encourages open communication of issues or concerns, if any, with affected stakeholder groups. Such matters are discussed and easily resolved during community activities or raised during quarterly monitoring meetings with the Multi-Monitoring Team wherein various sectoral stakeholder groups are represented and heard.

## DISCLOSURE AND TRANSPARENCY

Timely accurate disclosure of material information

Your Company commits to a regime of open disclosure and transparency of material information and events regarding its financial performance, ownership and business updates. Your Company's governance structure, objectives, key risks, financial and non-financial performance indicators, systems and policies are described in the Corporate Sustainability and Responsibility section of the Integrated Annual Report.

**Ownership Transparency**

Your Company reports the significant ownership, including direct and indirect beneficial ownership of its shares, relationships of related companies and structure of crossholdings, as well as the extent of its ownership and interests in its subsidiaries. It also discloses the direct and indirect shareholdings of its Directors and senior management. Such information are fully disclosed in the SEC 20-IS and 17-A structured reports.

**Information Policy**

Corporate information is communicated in a timely and transparent manner to individual and institutional shareholders by timely and adequate disclosures through announcements, quarterly or annual reporting, Company website and investor relations activities such as analyst briefings and media/press conferences.

- Announcements/updates
  Your Company releases announcement or disclosures on material business developments and updates as needed.

- Quarterly/annual reporting
  Your Company commits to the timely issuance of quarterly and annual structured reports, including financial statements that are prepared in accordance with financial reporting and accounting standards.

- Company website
  Your Company's website www.semiraramining.com provides up-to-date financial and business information on the results of its business operations, organization structure, corporate governance documents and policies, downloadable reports, Notice of ASM, ASM minutes, news updates, disclosures,  among others.

**Investor Relations**

Your Company's Investor Relations program aims to sustain investor confidence by providing knowledge, understanding and transparency of the Company's business, operating and financial condition to the investing public. The Company maintains a policy of open and constant communication and disclosure of its activities, subject to insider information guidelines. It engages with institutional and prospective investors, investment analysts, fund managers and the financial community through conference calls, participation in analyst-media briefings, reverse roadshows and investor conferences in the region. It arranges visits to the Mine site and subsidiary power plant operations for institutional investors. Your Company also partners with media in informing stakeholders of timely business developments or on an as-need basis.

Highlights of 2013 Investor Relations activities:

| | |
|---|---|
| Regional conferences | ASEAN CORPORATE DAY (Macquarie)<br>April 18-19, 2013, Hong Kong |
| | CLSA ASEAN Access Day<br>November 25, 2013, Singapore |
| | CLSA ASEAN Access Day<br>November 26, 2013, Hong Kong |
| Philippine conferences | J.P. Morgan ASEAN Corporate Access<br>January 31, February 1, 2013 |
| | 2nd Annual dbAccess Philippines<br>October 16-18, 2013 |
| **Media/Press briefings with Q & A** | Three (3) - February 2013, May 2013 |
| **Press releases issued by Company** | Two (2) – October 2013 |
| **Media visits at Mine Site** | Three (3) major Philippine broadcast networks, February 2013 |
| **Investor/Creditor visits at Mine Site and Subsidiary Power Plant Site** | Two (2) - May 29, 2013 and February 21, 2013, respectively |

Your Company has an Investor Relations unit reporting to the Chief Finance Officer, with the following contact details :

Ms. Sharade E. Padilla
Asst. Vice President
Investor and Banking Relations Officer

Email: sepadilla@semiraraminingmkti.net
Tel. +632 8883644
Fax +632 8883553

# RESPONSIBILITIES OF THE BOARD
## Effective Board leadership and performance

The Board of Directors (Board) is responsible for the overall governance of your Company. It establishes and approves the vision, mission, strategic objectives and key policies. It adopts and approves a strategy map and pro-actively oversees strategy execution complemented by adequate control mechanisms and risk management systems for its effective key oversight and monitoring of Management performance. It monitors implementation and corporate performance covering financial and non-financial aspects.

The Board establishes decision authority policies, levels, limits and guidelines for Management according to its risk appetite level and required Board approvals for governance matters such as debt commitment, capital expenditures, equity investment, divestitures, change in share capital and asset mortgage, among others.

**Vision and Mission**

The Board periodically revisits at least once every five years your Company's Vision and Mission Statement, with its last review and approval on October 30, 2012. Your Company ensures there is understanding and achievement of its Vision, Mission, corporate values, goals and objectives as part of its annual strategic planning process which also includes integration of a strategy map and top-down communication of such by Management in all levels of the organization.

**Board's Good Governance Charter and Code of Conduct**

Your Board promotes a culture of ethics, social responsibility and good governance. Its Good Governance Guidelines for Board Directors serve as your Board's charter with policies regarding directorship tenure, service in other company boards, conflict of interest, among others. Your Company's Code of Conduct (Code) for Directors and Officers embodies its commitment of to conduct business with the highest ethical standards and in accordance with applicable laws, rules and regulations. Code provisions include conflict of interest, gifts, corporate giving, insider trading, corporate opportunities, accounting and financial reporting, influencing external auditor, political activities, fair dealings, confidentiality, protection and proper use of company assets, among others.

All Directors and Officers are expected to fully adhere to the principles and provisions set forth in the Code, and are required to annually certify their compliance with the Code. Code provisions. The Code is administered by the Audit Committee and reviewed periodically modified to enhance effectiveness. The Good Governance unit assists the Board in the implementation and monitoring through a robust system of governance and control processes. In 2013, all Directors and officers have certified their compliance with the Code.

**Board Structure**

The full Board consists of eleven (11) Directors of whom four (4) are regular executive directors, five (5) are regular non-executive directors and two (2) are non-executive Independent Directors. The number of Independent Directors is in compliance with the Philippine regulatory requirement for boards of publicly–listed companies. All Directors are evaluated and nominated by the Nomination and Election Committee as having met the criteria and qualifications in accordance with regulatory requirements and Good Governance Guidelines for the Board of Directors on tenure policy, term limits and service to other boards. All non-executive Directors and executive Directors including the CEO are subject to election or re-election annually at the Annual Shareholders' Meeting. The procedures, process adopted and criteria are defined in your Company's SEC Annual Corporate Governance Report and available in the Company's website.Your Company discloses to the PSE and subsequently in its website the nominations and due dates for submission of such nominations.

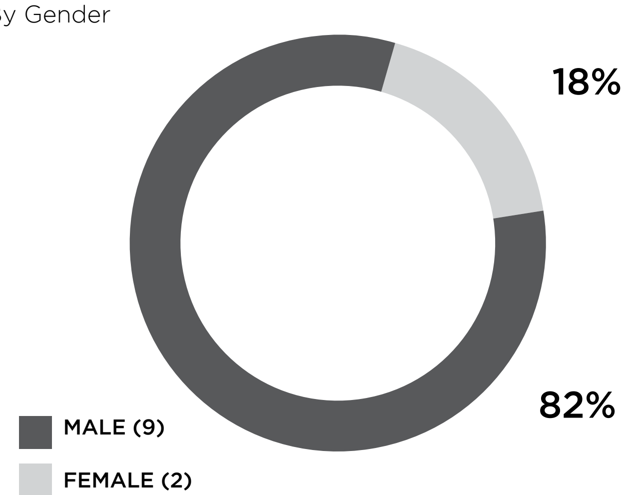
The number of Board seat memberships held by your Company's Directors are in consonance with best practices espoused by the ASEAN Corporate Governance Scorecard. No individual Director nor Independent Director has simultaneously served in more than five (5) boards of PLCs. Moreover, your Company's executive directors do not serve on more than two (2) boards of listed companies outside of parent DMCI Holdings Inc.'s group. Board profile with concurrent directorships held are fully disclosed in the SEC 20-IS, Definitive Information Statement and Integrated Annual Report.

**Board Diversity**

The Board represents a diverse mix of highly qualified individuals of such stature and experience in the coal and/or energy industries, finance, government, business and operations which enable them to effectively participate in Board deliberations and fulfill their fiduciary duties. Two of its non-executive Directors have prior extensive work experience in the coal mining and/or energy industries, both major industries of which the Company and its subsidiaries are operating in. There is no discrimination of gender, age and religion in the selection and appointment of Directors.

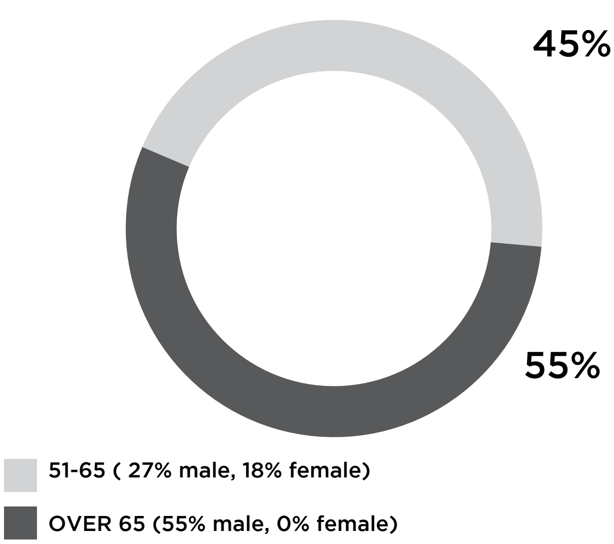
**BOARD DIVERSITY**

By Gender



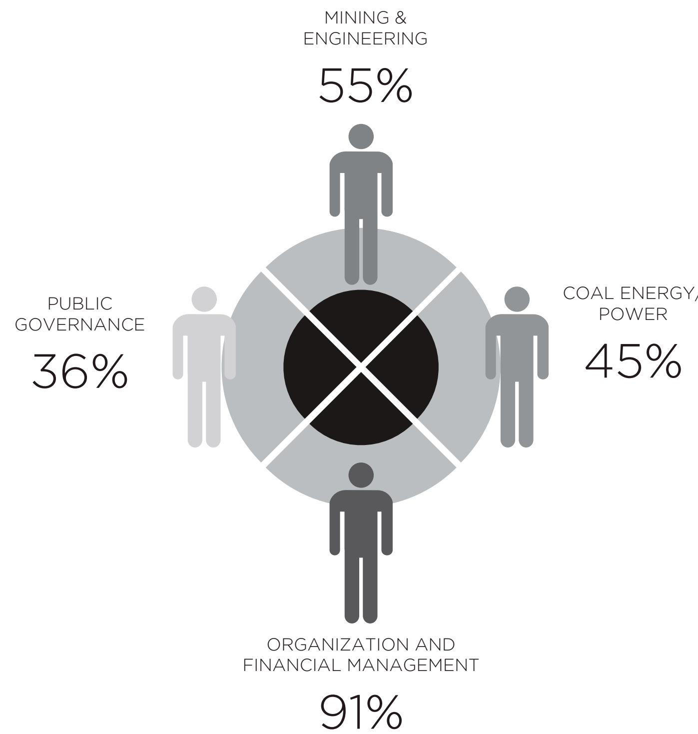

**BOARD DIVERSITY**

By Age




**BOARD DIVERSITY**

Directors with Areas of Expertise and Professional Skills




**Chairman and Chief Executive Officer (CEO)**

The roles of the Chairman and CEO are separate to foster an appropriate balance of power, increased accountability and better capacity for independent decision-making by the Board.

**Chairman**

The Chairman is a non-executive director who oversees and leads the Board on behalf of the shareholders. His Board duties include, among others, presiding over the meetings of the Directors and shareholders, ensuring that Board meetings are held in accordance with the by-laws or as the Chairman may deem necessary; coordinating the agenda of Board meetings with the Corporate Secretary and proposed inputs of the CEO, Management and Directors; and maintaining qualitative and timely lines of communications between the Board and Management. The current Chairman is not an immediate past CEO of the Company. The current Board Chairman is not the immediate past CEO of your Company.

**CEO**
The CEO implements the key strategies and policies as well as annual targets and objectives set by the Board. He provides leadership, direction and overall management of the Company's business and activities. He leads Management in the development and implementation of short and long term plans, financial management and annual budget, controls and risk system, among others. The Vice Chairman concurrently holds the position of CEO.


| | CHAIRMAN | CHIEF EXECUTIVE OFFICER |
|---|---|---|
| Role | Oversees and leads the Board on behalf of the shareholders, protecting their rights and maximizing shareholders' returns. | Provides leadership, direction and overall management of the Company's business. |
| Accountabilities | Is accountable to the shareholders;<br>Ensures that Board meetings are held in accordance with the by-laws;<br>Presides or chairs Board meetings;<br>Coordinates Board meetings' agenda | Is accountable to the Board;<br>Implements the key strategies and policies; as well as annual targets and objectives set by the Board. |
| Deliverables | Leads the Board in establishing the vision and mission, strategic objectives, key policies as well as adequate control mechanisms and risk management systems to effectively oversee and monitor Management's performance. | Develops and implements short and long term plans, financial management as well as control and risk systems;<br>Ensures achievement of annual budget, financial and operating performance. |

**Independent Directors**
An Independent Director (ID) is defined as one with no interest or relationship with the Company that may hinder his independence from the Company or its management, or may reasonably be perceived to materially interfere in the exercise of his independent judgment in carrying out the responsibilities expected of a director. Your Company's IDs possess the qualifications and none of the disqualifications under existing Philippine regulatory rules and requirements for IDs. They have been nominated by a non-controlling shareholder during the nomination period in 2013, and are independent of Management and major shareholders of the Company. More importantly, they bring objectivity and independent mindset during Board deliberations and discussions.

Your Company's IDs have been elected and re-elected as Independent Directors with eight years tenure since their appointment as such from May 2005 to reporting year 2013. Their cumulative tenure complies with the SEC's prescribed ten (10) year-limit for Independent Directors, and their election as such in no more than five (5) companies in each conglomerate, both terms effective 2012. They have also been elected as such to the Board of your Company's wholly-owned subsidiary, SEM-Calaca Power Corporation since February 2011.

**Board Meetings**
The Board had nine (9) meetings including its organizational meeting in 2013. All Directors have fully complied with SEC's minimum Board meeting attendance requirement of 50% Board meetings are open and candid with independent views given due consideration. To enhance best practices in Board performance effectiveness, Your Company is seeking the amendment of its By-Laws increasing the Board attendance quorum requirement from majority as per regulatory requirement to two-thirds (2/3) for shareholder approval in the coming 2014 ASM.

BOARD OF DIRECTORS 2013

| Directors | Board Appointment | Meeting Performance | |
|---|---|---|---|
| | | Board Meetings, incl. Organizational | Annual Shareholders' Meeting |
| David M. Consunji | Chairman<br>Non-executive Director | 8/9 | 1/1 |
| Isidro A. Consunji | Vice Chairman,<br>Chief Executive Officer | 8/9 | 1/1 |
| Victor A. Consunji | Executive Director, President &<br>Chief Operating Officer | 9/9 | 1/1 |
| George G. San Pedro | Executive Director,<br>VP-Operations & Resident Manager | 6/9 | 1/1 |
| Ma. Cristina C. Gotianun | Executive Director,<br>Executive Vice President | 9/9 | 1/1 |
| Jorge A. Consunji | Non-executive Director | 8/9 | 1/1 |
| Herbert M. Consunji | Non-executive Director | 8/9 | 1/1 |
| Cesar A. Buenaventura | Non-executive Director | 9/9 | 1/1 |
| Ma. Edwina C. Laperal | Non-executive Director | 9/9 | 1/1 |
| Victor C. Macalincag | Independent Director | 9/9 | 1/1 |
| Federico E. Puno | Independent Director | 9/9 | 1/1 |

**Board and Director Development**
Your Company's Board and Director Development program aims to raise the quality of its Board operations to a higher level. This includes orientation, training, continuing education, committee assignments and Board evaluations for improvements, among others. New Directors are given a formal Board Director performance expectations list which provides a common ground for their individual performance. Directors are encouraged to visit Minesite and power plant operations at least once in two years. Board Directors have subjected themselves to formal self-assessments of their skills and expertise, including identification of development areas of interest to enhance their qualifications and effectiveness as Directors. All Directors have undergone corporate governance orientation in compliance with SEC regulations.

- Orientation
  Focuses on knowing your Company's unique aspects such as its history, operations, product, Board policies, etc. Directors are provided with an orientation kit of compiled reading and video materials intended to serve as a useful tool and ready reference resource for the Board's work and duties during the year. They are encouraged to visit the Company's mine sites and subsidiary operating plants to gain a closer understanding of business operations

- Continuing Development
  Training varies upon each director's requirements, quality and relevance of the training available. All Directors are encouraged to avail themselves of educational opportunities as appropriate and as part of their continuous professional education. They are periodically provided with reference materials on global best practices and governance issues as part of their continuing education. The Company encourages and supports membership of its Directors and key officers in the Institute of Corporate Directors (ICD), a professional organization committed to the professional practice of corporate directorship. Directors and officers participate in ICD's continuing education programs such as roundtables, initiatives such as the ACGS working session, forums governance seminars and updates.

In 2013, Director governance enhancement trainings included participation in ICD's ASEAN Corporate Governance Scorecard Briefing in April 10, 2013 and ECCI's Sustainability Reporting awareness seminar in August 14, 2013.

**Corporate Secretary**
At the beginning of each year, the Corporate Secretary advises the schedule of regular Board meetings and Board committee meetings in line with your Company's regulatory reporting dates. Special Board meetings may be called as the need arises. He assists the Chairman in setting the Board agenda and provides Directors with meeting agenda and related materials at least five (5) days in advance of Board meeting date to ensure that they have accurate sufficient information as basis for their informed decisions or approvals. He. He ensures that all Board procedures, rules and regulations are strictly observed. He is responsible for the safekeeping and preservation of the integrity of the minutes of Board meetings. He provides updates to the Directors and Management regarding statutory and regulatory changes. The Corporate Secretary and Vice President – Legal, Atty. John R. Sadullo, possesses the legal qualifications and secretarial competencies to effectively perform the secretarial and related duties.

**Director Remuneration**
Board Director remuneration consists of an annual retainer fee, per diem, short-term cash incentive and reimbursement of allowances, as appropriate. The shareholders approved in its May 2009 Annual Shareholders' Meeting director compensation at a fixed annual retainer fee of Two Hundred Forty Thousand Pesos (P240,000) per Board Director per calendar year and a fixed per diem of Twenty Thousand Pesos (P20,000) for each Director serving as a Board Committee Chairman or Committee Member for every Board Committee meeting held and attended. There has been no change or increase in Board per diem or retainer fees since then. When appropriate, the Board approves, upon recommendation of the Compensation and Remuneration Committee, short-term corporate

performance-based bonuses for Board Directors. Your Company's Amended By-Laws prescribe a limit on the aggregate amount of Director bonuses which shall not exceed two percent (2%) of the Company's profit before tax during the previous year, while limit to total yearly compensation package, including bonuses granted, of Directors as such directors shall not exceed ten percent (10%) of the Company's net income before tax during the previous year.

In 2013, aggregate amount of cash bonus variable pay related to the preceding year's financial performance received by executive and non-executive Directors, including Independent Directors and the CEO, did not exceed abovementioned limits set by the Company's Amended By-laws. Details of Director compensation are disclosed in relevant sections of the Company's SEC 20-IS Information Statement and 17-A annual report.

**Executive Succession Planning**

The Board-approved Executive Succession Plan Policy is a statement of commitment toward leadership continuity involving assessment of leadership needs and preparation for an eventual permanent leadership change to ensure the stability and accountability of the Company to its stakeholders. It outlines succession procedures for the CEO including the process of appointment and time frame in case of an interim leadership, time frame for appointing a board transition committee and its roles – e.g. communicating to key stakeholders. Your Company shall develop a pool of candidates while at the same time encouraging the professional development and advancement of current employees. Succession processes to ensure continuity of leadership and changes in key officers and critical positions include identifying potential candidates and leadership gaps, assessment of their strengths and developmental needs, readiness of current staff to assume critical positions and implementing strategies.

**CEO and COO Performance Evaluation**

The Board annually conducts reviews of the CEO's and COO's performance based on key result areas consisting of Board-approved financial performance metrics relating to the Company's business and operating objectives, and non-financial metrics covering strategic objectives, governance, internal processes, business development and corporate social responsibility. The Chief Governance Officer administers the performance evaluation process, tabulates the rating results and summarizes evaluation comments. Evaluation results are submitted to and/or discussed with the CEO, COO, Nomination & Election Committee and Compensation & Remuneration Committee for proper disposition or action. In 2013, the Board evaluated the CEO's and COO's performance in the preceding financial year.

**Board Performance Evaluation**

The Board's annual performance evaluation process covers full Board self-assessment and individual peer director appraisal. Formal questionnaire for the full Board self-assessment covers Board responsibilities, structure, meetings, processes, and management support, while that of individual director performance evaluation areas cover leadership, interpersonal skills, strategic thinking and participation in Board meetings and committee assignments. In 2013, full Board and peer director evaluations were administered and compiled by the Chief Governance Officer who subsequently reported to the Board the overall rating results, highlighted the Board's strengths and areas needing Board attention, and provided private feedback to each Director as assessed by his peers.

**Board Committees and Appraisal**

The Board established three (3) Committees to support in the performance of its fiduciary functions, namely Nomination and Election Committee, Compensation and Remuneration Committee, and Audit Committee. The Committees are guided by Board-approved Charters in the discharge of their roles and oversight responsibilities. These Charters are disclosed at the Company's website: www.semiraramining.com. Majority membership of Independent Directors in all Board Committee enhances the Board's key oversight function and independence. The Board Committees annually review their respective Charters for effectiveness, and endorse changes, if any, for Board approval. The Corporate Secretary, Chief Governance Officer and Legal department provide full support to the Board and good governance committees.

The Board Committees annually conduct a review of the effectiveness of the Committees' performance using formal self-assessment questionnaires based on their respective Charters and benchmarked against best practices, with results thereof discussed for appropriate disposition.

In 2013, all Chairmen and Members of the Board Committees attended the Annual Shareholders' Meeting (ASM) to address possible queries on matters of the respective Committees.

**Nomination and Election Committee**

Chairman – Isidro A. Consunji, Vice Chairman & CEO
Member – Victor C. Macalincag, Independent Director
Member – Federico E. Puno, Independent Director

Your Board's Nomination and Election Committee (NOMELEC) is comprised of three (3) Board Directors, with majority membership of Independent Directors. The Committee's main function is to review, recommend and promulgate guidelines involving the nomination process and criteria for the Board of Directors as stated in the Amended By-Laws, Revised Code of Corporate Governance and pertinent SEC rules. It reviews each Director's continuation on the Board every year, taking into account meeting attendance, participation and contribution to the Board. The Committee also oversees Board & Director performance and development and succession planning for SMC Group's Board and key officers.

The Committee had three (3) meetings attended by all Members on March 1, 2013, March 20, 2013 and September 26, 2013. During the year, it focused oversight on the following areas:

- Nomination and selection
  Reviewed with the Corporate Secretary the nomination process, criteria, qualifications and final selection of Board nominees for directorship ensuring that they meet the requisite qualifications;

- Executive succession planning and leadership
  Discussed and reviewed with senior management the organizational development program, executive succession planning and leadership needs of SMC group, as well as endorsed for Board approval the promotion and appointment of key officers; and

- Board performance and development
  Lead the Board's annual appraisal process, supported continuing education and development needs of the Board and key officers as part of the continual review and improvement of Board effectiveness.

**Board Nomination, Selection, Appointment and Re-election**

| PROCEDURE | PROCESS ADOPTED | CRITERIA |
|---|---|---|
| Executive Directors | Executive Directors are appointed during the organizational meeting of the company by the members of the Board of Directors | Directors must possess all the qualifications and none of the disqualifications of directors as stated in the Company's By-Laws and all qualifications/ disqualifications under the Revised Code of Corporate Governance. Directors are chosen based on their track record and performance. |
| Non-Executive Directors | Every March (prior to Annual Meeting on first Monday of May) of each year directors are nominated and the final list of nominees is prepared; only those whose names appear in the final list shall be eligible for election at the Company's annual meeting. The final list goes through the selection process by the NOMELEC. | -do- |
| Independent Directors | Every March (prior to Annual Meeting on first Monday of May) of each year IDs (at least 2 or 20% of the board size whichever is less) are nominated and the final list of nominees is prepared; only those whose names appear in the final list shall be eligible for election at the Company's ASM. The final list goes through the selection process by the NOMELEC.<br><br>Subject to 5 day written notice to the SEC, any vacancy due to resignation, disqualification or cessation from office shall be filled by vote of at least majority of remaining directors, if still constituting a quorum upon nomination of the NOMELEC, otherwise said vacancy shall be filled by the stockholders in a regular or special meeting called for that purpose. | Must possess all the qualification and none of the disqualifications of directors under Company's By-laws;Guidelines under the Revised Code of Corporate Governance and SEC Memorandum Circular No. 9. |

### Compensation and Remuneration Committee

Chairman – Ma. Cristina C. Gotianun, Executive Director, Executive Vice President
Member – Victor C. Macalincag, Independent Director
Member – Federico E. Puno, Independent Director

Your Board's Compensation and Remuneration Committee is comprised of three (3) Board Directors, with majority membership of Independent Directors. The Committee's main function is to establish a formal and transparent procedure for developing a remuneration policy for Directors, officers and key employees consistent with the Company's culture, strategy and control environment. It annually reviews and recommends for Board approval Director remuneration set within the maximum level by the Company's Amended By-Laws and as approved by the shareholders. It reviews compensation-related disclosures of Directors and Executives in the Company's annual and related reports to be in accordance with regulatory requirements and reporting standards. It also requires Directors and Officers to declare under penalty of perjury all their existing business interests or shareholdings that may directly or indirectly cause conflict of interest in the performance of their duties. As per its Charter, the Committee engaged, at the Company's expense, the services of Rodolfo C. Salazar as key consultant to advise and assist the Committee in its oversight responsibilities, and to assist Management in implementing strategic priorities. He is required to formally disclose any financial, business or personal interests in an Annual Disclosure Statement.

The Committee had two (2) meetings attended by all Members on March 5, 2013 and November 7, 2013. During the year, it performed oversight of the following functions, among others:

- Board remuneration
  Reviewed and benchmarked SMC's Board and Director remuneration policy, types and levels against latest survey data of a reputable third party to ensure these are at par with current business practices of boards of similar size and type;

- Executive remuneration
  Reviewed SMC Group's executive compensation and performance management against similar organizations and benchmarked against survey reports of Towers Watson and Mercer to provide a competitive remuneration framework and reward levels calibrated to performance of SMC Group's business objectives and to ensure continued alignment of executive management and shareholder interests; and

- CEO and COO performance appraisal
  Reviewed and recommended reward levels for the CEO and COO based on the results of the Board's evaluations of their performance in successfully steering SMC Group towards sustained profitability amidst challenging business conditions in 2013.

### Audit Committee

Chairman – Victor C. Macalincag, Independent Director
Member – Federico E. Puno, Independent Director
Member – Victor A. Consunji, Executive Director, President & COO

Your Board's Audit Committee is comprised of three (3) Board Directors, with majority membership of Independent Directors. Its main function is to assist the Board in fulfilling its oversight responsibilities of financial reporting, external audit performance, internal audit function, internal control and risk management processes as well as compliance in reporting, legal and regulatory requirements. It is primarily responsible for the appointment, re-appointment and removal of the external auditor.

The Committee is chaired by an Independent Director who is a Certified Public Accountant. Its Members possess the requisite levels of financial and accounting competencies, experience and other qualification requirements set by the SEC, as well as having an adequate understanding of the Company's mining business and related industries. Both Independent Directors have prior extensive working experiences and held key positions in accounting, finance and treasury functions of government and government-owned & controlled corporations.

| | MEETING PERFORMANCE 2013 | | | | | | | | TOTAL |
|---|---|---|---|---|---|---|---|---|---|
| **Audit Committee** | Mar 5 | Mar 19 | May 9 | Jun 26 | Aug 6 | Oct 8 | Nov 7 | Dec 11 | |
| Victor C. Macalincag<br>Chairman<br>Independent Director | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | 8/8 |
| Federico E. Puno<br>Member<br>Independent Director | ✓ | ✓ | ✓ | ✗ | ✓ | ✓ | ✓ | ✓ | 7/8 |
| Victor A. Consunji<br>Member | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✗ | 7/8 |

Committee Meetings are scheduled at appropriate points to address matters on a timely basis. Written agenda and materials are distributed in advance to allow for meaningful review and full discussion during meetings. Minutes of the Committee meetings are provided to the Board. The Compliance Committee, Chief Governance Officer & Compliance Officer and the management team of Finance, Legal, Internal Audit including those of the Subsidiaries are regularly invited to Committee meetings to discuss updates in regulatory developments, financial reporting, tax and compliance matters. The Committee reviewed and discussed the Company's financial performance, annual budget, strategic issues, equity investments, risk management, conflict-of-interest, related party accounts, tax planning, equity issues and market/industry developments.

In 2013, the Committee assisted the Board in its oversight of the following functions:

- Financial reporting process and the financial statements
  Reviewed, approved and endorsed for Board approval the quarterly unaudited and annual audited consolidated financial statements; ensured that financial statements are in accordance with the required accounting and reporting standards; and reviewed the adequacy of financial reporting disclosures, including significant related party transactions to provide a transparent and fair view that meet shareholder needs.

- External audit
  Discussed and approved the external audit work engagement, scope, fees and terms; discussed with SGV & Co. and Management significant financial reporting issues, audit observations, and overall quality of the financial reporting process as well as regulatory updates in financial and tax reporting; and recommended to the Board the reappointment of SGV & Co. as external auditor in 2014 based on SGV's performance, independence, qualifications and with due regard of Management's feedback;

- Internal audit
  Reviewed and approved Internal Audit's annual plan based on a risk-based approach and ensured Management provided adequate resources to support the function and maintain its independence; and met in executive sessions to review and discuss Internal Audit's assurance and advisory work during the year;

- Internal control
  Reviewed and discussed with Management, SGV & Co., Internal Audit and Compliance Committee the results of assurance reviews on controls and compliance issues and ensured Management responded appropriately for the continuous improvement of controls and processes;

- Risk management
  Discussed with Management and Internal Audit the results of risk reviews and identified key risks to the Company's mission and strategic objectives, ensuring the adequacy of the Company's Enterprisewide Risk Management framework, risk management processes, systems, mitigation measures, monitoring and reporting;

- Compliance with regulatory and legal requirements
  Discussed and reviewed with the Compliance Committee significant updates and actions on SEC, PSE, legal, tax, claims, litigations, environmental, safety and other regulatory matters.

The 2013 Audit Committee Report to the Board of Directors is included in the Consolidated Financial Statements section of the Integrated Annual Report.

*Related Party Transactions Oversight*
Per Board-approved Related Party Transaction (RPT) Policy, the Audit Committee shall assist the Board in its review of RPTs. The Committee may establish guidelines to manage and monitor conflict of interest of Management, Board Directors and shareholders, including misuse of corporate assets and abuse in RPTs. The Committee's quarterly review of the financial statements included related party accounts and considered such factors as fairness, materiality, commercial reasonableness of the terms and extent of conflict of interest, actual or apparent, of the related party, as defined by the policy, participating in the transaction. In 2013, the Committee ensured that such RPTs are ordinary in the course of the Company's business, under reasonable terms and did not include financial assistance or loans to Board Directors, affiliates or related entities which are not wholly-owned subsidiaries.

*Committee Performance Assessment*
Per Audit Committee Charter, the Committee shall annually conduct a self-assessment of its own performance using a formal questionnaire with defined quantitative rating and corresponding qualitative description for such rating. In 2013, the Committee conducted, and reported to SEC, the results of its self-assessment and rating of its performance which indicated an overall compliance level in consonance with abovementioned SEC guidelines on effectiveness of Audit Committee performance.

## INTERNAL AUDIT

*IA Structure*
The Internal Audit (IA) functionally reports directly to the Audit Committee. It is guided by a Board-approved Internal Audit Charter and adopts a risk-based audit approach aligned with the professional auditing standards as mandated by SEC's 2009 Revised Code of Corporate Governance and as set by The Institute of Internal Auditors (IIA). The IA provides the Audit Committee and Management with independent and objective assurance and advisory services on the Company's business processes, controls, and risk management practices and through regular reporting of their audit activities in relation to its annual audit plan, including the significant results of the audit. IA annually attests to the Board that a robust internal audit, control and compliance system is in place and working effectively. In 2013, the IA amended its Charter and updated the IA Policies and Procedures to enhance provisions reflective of the IIA guidelines.

The appointment, performance evaluation and replacement of the internal auditor requires the approval of the Audit Committee. IA Managers, Karmine Andrea B. San Juan and Carla T. Levina, lead and manage the IA function of SMC & its Subsidiaries.

*IA Performance*
IA's Quality Assurance and Improvement Program (QAIP) aims to provide assurance on the audit quality and value-added services to its stakeholders as well as to ensure operating efficiency and effectiveness of its organization and resources. Formal IA policies and procedures ensure adherence to IIA Standards. IA conducts an assessment of its own performance against its IA Charter and the IIA Standards, the results of which are reported annually to the Audit Committee. Audit client

feedback is obtained through a formal survey upon completion of an individual engagement to assess IA's effectiveness in meeting the needs of its audit clients and to identify opportunities for improvement.

In 2013, the Audit Committee reviewed IA's overall performance based on IA's primary mandate of reassurance and value protection and also in providing added value through advisory services and business risk insights. The assessment aims to seek continual improvement of the function's strategic role, independence and effectiveness using a formal questionnaire covering areas on IA's responsibilities and accountability, charter, organization structure, skills, experience, communication and quality performance.

*IA Professional Development*
The Company supports IA's continuous professional training and career development through memberships in professional organizations such as IIA, Information Systems and Control Association (ISACA), Philippine Institute of Certified Public Accountants (PICPA), and through participation in external and in-house trainings and seminars.

### EXTERNAL AUDIT

Your Audit Committee oversees the external audit function on behalf of the Board. Its oversight includes the review and approval of the appointment, reappointment or replacement of external auditor, audit work engagement, scope and related fees, among others. In 2013, Your Company's external auditor is SyCip, Gorres, Velayo & Co. (SGV), with Ms. Cyril Jasmin B. Valencia as the Assurance Partner-In-Charge starting 2012, in compliance with SEC regulatory policy requiring audit partner rotation every five years to ensure independence. In 2013, total external audit & audit-related fees paid by your Company and its subsidiaries amounted to P 2.2M and P 2.4M, respectively. There were no tax fees and other assurance services for tax accounting, compliance, advice, planning and any other form of tax services paid to SGV. No Director or Key Officer is a former employee or partner of the current external auditor in the past two years.

## AWARDS AND RECOGNITION

**2013 PSE Bell Award Finalist**
Semirara Mining Corporation was among the top ten finalists honored by the PSE in its 2013 Bell Awards under the publicly listed companies (PLCs) category. The PSE Bell Awards program gives recognition to PLCs that adhere to the highest corporate governance standards in the country. The Company was evaluated and shortlisted from 254 PLCs based on the PSE's Corporate Governance Guidelines for Listed Companies, which provide for, among others, a sound business strategy, an effective board of directors and policies to protect shareholders rights.

**Top 50 Philippine PLCs 2013 ASEAN Corporate Governance Scorecard (ACGS) Run**
The Company was included in the Top 50 Philippine PLCs in the 2013 ACGS Run based on the review conducted by the Institute of Corporate Directors (ICD) tasked by the SEC as the ranking body to submit the ACGS scores of PLCs for SEC evaluation. SEC is the official Philippine representative to the ASEAN Capital Markets Forum (ACMF) with other members being Singapore, Thailand, Indonesia, Malaysia and Vietnam. The ACGS is adopted by ACMF in preparation of the eventual unified capital market for ASEAN PLCs in 2015.


**FinanceAsia's Best Philippine Companies - 2013 Most Committed to a Strong Dividend Policy, 2014 4th Most Committed to a Strong Dividend Policy, 2014 9th Best CSR**

The Company was voted as one of the companies Most Committed to a Strong Dividend Policy in Philippines by investors and analysts in FinanceAsia's 13th annual Best Companies in Asia Poll in 2013. FinanceAsia is a Hong Kong-based reporting publication on Asia's financial and capital markets through a daily website and monthly magazine. The publication most recently released the results of its 2014's 14th Annual poll vote results with the Company ranked 4th in the Most Committed to a Strong Dividend Policy and 9th in the Best CSR category.

**2013 ASEAN Energy Award, Corporate Social Responsibility (CSR) Category, 2nd Runner-Up**

The Company's 5Es Program won 2nd Runner-Up in the ASEAN Best Practices in Coal Projects under CSR category of the 2013 ASEAN Energy Awards (AEA). The AEA is Southeast Asia's prestigious awards program that recognizes excellence, creativity and outstanding work in the fields of coal and energy by companies from member-countries in the region. The awarding ceremony was held during the 31st ASEAN Ministers of Energy Meeting and the Energy Business Forum at Bali, Indonesia. The 5Es Program encompasses Education, Environment Protection, Economic Empowerment, Employment & Livelihood and Electrification is designed towards broad-based sustainable growth of the community and other stakeholders through economic, social and environmental development.

# CORPORATE SUSTAINABILITY AND RESPONSIBILITY

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- Information Technology Risk Management
- Financial Risk Management
- Risk Cover

Fostering diversity
Attracting and rewarding talent
Planning Leadership Continuity
Harnessing Organizational Development
Encouraging total well-being
Fostering positive workplace culture
Working safe, living safe
Reinforcing Mining Safety
Engagng plant safety



- Environmental monitoring
- Air and water quality, and materials control
- Rehabilitating Semirara Island's marine environment
- Greening Semirara Island: rehabilitating as we mine
- Mitigating impact of furnace bottom ash of power units

- Localizing employment
- Reaping economic empowerment
- Education
- Emergency preparedness and the bayanihan spirit
- Electricity
- Water supply

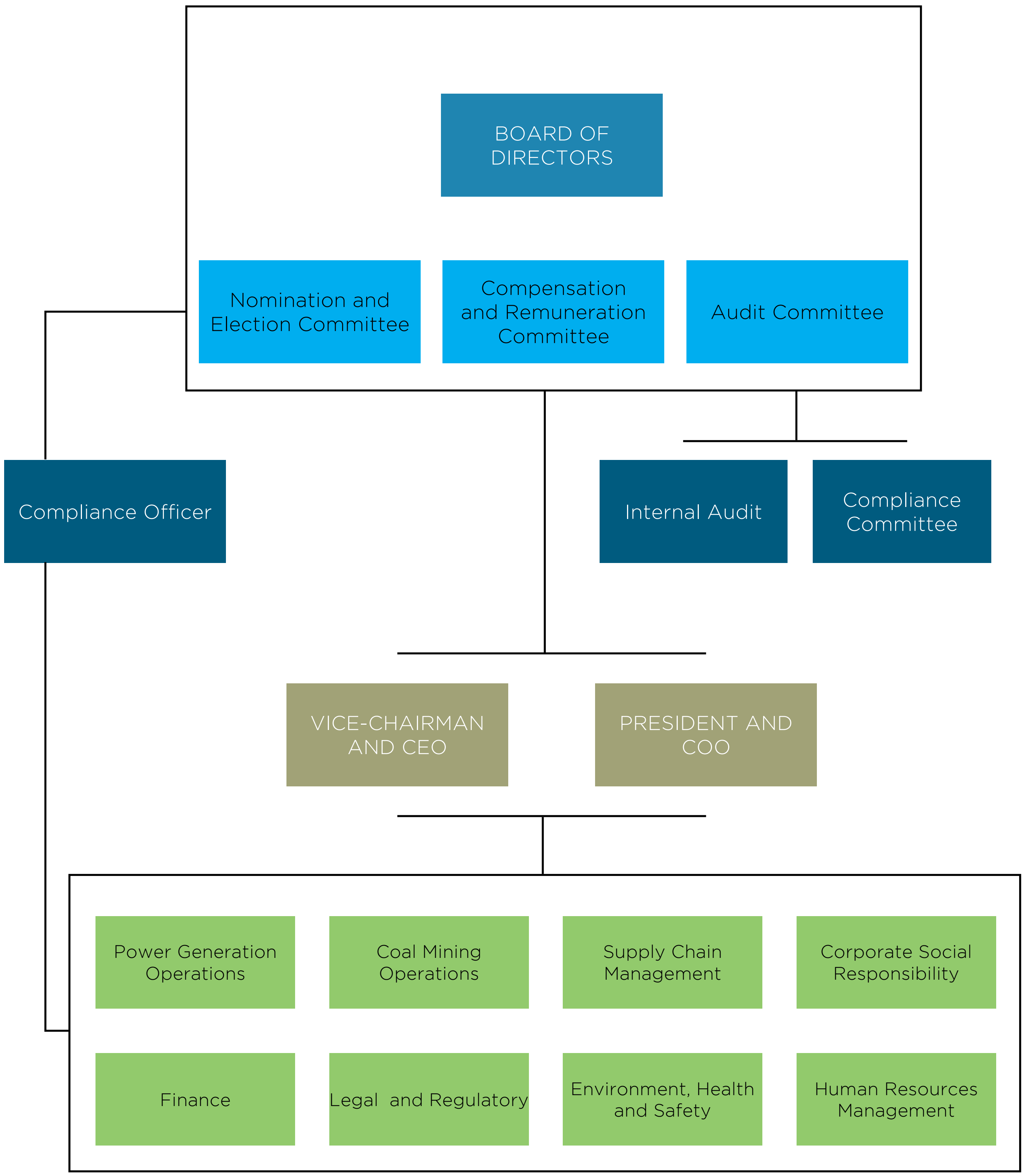
CORPORATE SUSTAINABILITY AND RESPONSIBILITY

# Inclusive Growth

Being the country's sole player operating with a full forward integration of coal and power businesses, Semirara Mining Corporation values the environment and its stakeholders, especially its host communities. It is constantly mindful of its responsibility and impact to its people, the environment, the communities that support it and to other significant stakeholder groups.

Your Company recognizes that good governance practices is key to the sustainability of the business. Sustainability plays a vital role in how we determine our corporate values, set our objectives, conduct our everyday business, govern the organization, and relate to those outside the organization.

## GOVERNANCE STRUCTURE



# SUSTAINABLE GOVERNANCE
Protecting Value

**Corporate Objectives**
Your Company's strategies are focused towards optimizing shareholder value and ensuring inclusive sustainable growth of its business. Its corporate objectives are :

- Continuing Growth
  This is supported by establishing a quality management system in core production and sub-processes to achieve operational excellence and by increasing domestic shipments to strengthen market presence.

- Value Creation
  This is supported by expansion activities in the Company's forward integration of its coal to power generation operations and business development of allied products.

- Value Protection and Sustainability
  This is supported by capital and asset management through cost optimization, talent development and an environment, health and safety management system, among others.

Actual operating performance is reported and measured against a Board-approved Budget, key financial and operating performance indicators such as profitability, growth, liquidity, return on equity and production efficiency, among others. Expansion activities and business development programs are regularly reported during Management, Audit Committee and Board meetings.

**Good Governance Program**
Semirara Mining Corporation believes that good corporate governance creates and adds shareholder value over the long term and ensures sustainability of the business.

**Code of Conduct**
The Company has adopted Codes of Conduct for Directors & Executive Officers, and Employees (Codes) to affirm its standards of professional and ethical business conduct, workplace safety and environmental responsibilities. The Codes reflect the Company's core values of teamwork, excellence, loyalty, integrity, commitment and professionalism. They provide policies and guidelines on observance of law, respect of environment, safety, insider trading, fair dealings, confidentiality of information, accounting and financial reporting integrity, corporate and charitable giving, among others.

The Audit Committee administers the Code of Conduct for Directors and Executive Officers, while the Human Resources Management has the primary responsibility for implementing and administering compliance to the Employee Code of Conduct. The Company shall at all times observe due process and procedures in the implementation of the provisions of the Codes.

The Company conducts orientation or reorientation training sessions of the Codes to new and existing employees and full-time service providers as part of culture-building of its core values and ethical conduct. The Codes are available in the Company intranet and own website for ease of access of the stakeholders. Directors, Officers and Employees are required to annually certify compliance to the Codes and submit an Annual Disclosure Statement of any financial, business or personal interests or dealings with the Company or its subsidiaries. Principal contractors and consultants are likewise expected to adhere to the provisions of the Codes in the course of performance of their services to the Company.

**Corporate Governance Training**
The Board Directors, officers and key Legal staff have participated and are encouraged to participate in trainings and updates on Corporate Governance and compliance-related topics.

**Subsidiary Good Governance Program**
Your Company's operating Subsidiary, SEM-Calaca Power Corporation mirrors a similar overall corporate governance framework through its own Board-approved Code of Corporate Governance. This includes the appointment of its Parent's two (2) Independent Directors also

as such and establishment of good governance committees, specifically, Audit, Compensation & Remuneration and Nomination & Election Committees, to assist in the Subsidiary Board's oversight functions. The Committees are guided by Board-approved respective Committee Charters. The Subsidiary also adopted good governance initiatives such as the Code of Conduct and Business Ethics, Business Interest Disclosure, Related Party Transaction Policy and ERM Policy, among others.

## INDUSTRY ASSOCIATION

Your Company leads and actively participates in the promotion, development and growth of the coal mining industry and the enhancement of ASEAN coal energy cooperation in the country and in the region through its memberships in the Philippine Chamber of Coal Mines, Inc. and AFOC National Committee of the Philippines, Inc.

## ENTERPRISE RISK MANAGEMENT

Semirara Mining Corporation) and its subsidiaries (SMC Group) recognize that risks are an integral part of our business which cannot be totally eliminated. Risks are better controlled if measured more consistently, accurately, and timely. SMC Group's Enterprise Risk Management (ERM) framework is guided by international leading practices and the Committee of Sponsoring Organizations of the Treadway Commission or COSO's ERM – Integrated Framework. It provides a Group-wide disciplined approach to risk management in relation to SMC Group's achievement of strategic and business objectives.

### Risk Governance

Your Board sets the tone and establishes the risk appetite level for SMC Group's ERM to be applied across the organization and to provide reasonable assurance that risks are identified, assessed, managed, monitored and communicated in a timely manner, and aligned to the Group's strategic and business objectives. SMC Group's risk governance structure gives due regard to the global Institute of Internal Audit's Three Lines of Defense in Effective Risk Management and Control. Its ERM efforts are focused toward risk ownership, controls, compliance and assurance activities.

Your Audit Committee assists the Board in risk management oversight to ensure risk practices are aligned with established strategic and business objectives, policies are followed, limits are respected and controls established. Management and risk owners support, implement, monitor and report ERM processes and policies in their day to day business activities. The Internal Audit provides risk assurance on the effectiveness of risk management processes to the Board and Management. Your Company has designated Arnel P. Jadormio a licensed Mining Engineer as Mining Risk Officer, to supervise the implementation, reporting, monitoring and enhancement of the ERM process in the mining operations.

### ERM Process

Risk Self-Assessment (RSA) process is conducted during the Company's annual strategic planning while Risk and Control Self-Assessment (RCSA) process is done at the tactical level to identify, assess and monitor the key risks, controls and related action plans for those with significant risks. Appropriate risk responses and action plans are aligned with the Board's risk appetite. Results of unit risk reviews are reported by Internal Audit to the Audit Committee for assurance reporting that significant risks are effectively managed or mitigated.

Business units drive implementation of risk management processes embedded in performance management measures, annual planning and budgeting. Risk related practices include continual review and enhancement of business processes and mitigation measures, updating of control procedures and financial reporting system, among others.

### ERM Policy

SMC Group's policy is to maximize strategic and business opportunities and minimize adverse outcomes thereby optimizing shareholder value and ensuring sustainable growth through an effective balance of risks and rewards.

## STRATEGIC RISK PROFILE

| | RISK CATEGORY | RISK MANAGEMENT STRATEGY |
|---|---|---|
| 01 | OPERATIONS RISKS | |
| | Coal Quality | In-situ determination of coal quality for proper blending;<br>Implement ISO Integrated Management System (IMS). |
| | Supply Chain | Adopt sparing system for critical parts;<br>Engage in consignment parts agreements. |
| | People & Talent | Continuous "On the Job Training" and Cadetship program;<br>Partner with TESDA accredited Technical Training Center on-site. |
| | Depletion | Expand exploration drilling;<br>Mine management system;<br>Reconnaissance program for new coal concessions. |
| | Natural Calamities | Risk transfer for physical assets through insurance cover;<br>Implement Business Continuity Management System;<br>Adhere to open pit mine safety standards |
| | Asset Performance | Engage Original Equipment Manufacturer for repair and rehabilitation of power units;<br>Upgrade distribution control system to digital system;<br>Implement plant maintenance system for predictive, preventive and corrective maintenance. |
| 02 | MARKET RISKS | |
| | Shift in Demand | Maintain competitive production cost versus those of alternative fuel sources. |
| | Price Volatility | Implement different pricing schemes for local and foreign customers. |
| | Market Dependence | Diversify customer base;<br>Forward integration from coal to power generation |
| 03 | INVESTMENT RISKS | |
| | Allocation of Capital | Maintain Debt to Equity ratio at not > 2x at consolidated level;<br>Maintain Current Ratio of > 1x consolidated level. |
| | Project Management | Engage Owner's Engineer for the Project;<br>Appoint Owner's Representative to perform direct supervision;<br>Hire technical experts to perform progress inspection at manufacturing phase. |
| | Guarantees | Fund through Project Financing;<br>Limit Parent guarantee to its equity share in the project. |
| 04 | REPUTATION AND COMPLIANCE RISKS | |
| | Contractual Breach | Require Legal review for all contracts/agreements;<br>Regularly coordinate between Marketing and Operations to ensure customer specifications are satisfied. |
| | Loan Covenants | Legal review before financial close;<br>Finance review/monitoring on financial covenants. |
| | Laws / Regulations/ Reputation | Conform to ISO Integrated Management System – Quality, Safety, Health, Environment;<br>Comply with applicable laws and regulations;<br>Keep abreast with emerging laws and regulations affecting mining and power industry; |

**Risk Appetite**
SMC Group operates within an overall Low risk range in the pursuit of its objectives, with the lowest risk appetite for risks related to operations and regulatory compliance.

**Strategic Risk Profile**
SMC Group considers operations risk as its topmost strategic risks. Its ERM recognizes not only existing operations, financial and compliance risks but also external developments and emerging risks. The CEO meets regularly with the Management Committee to focus on the most critical enterprise-wide level risks and ensure integrated responses to such risks. Likewise, opportunities with identified risks are managed for strategic advantage.

**Integrated Management System**
To manage the key risk areas for coal mining and mining-related activities, Your Company has adopted the quality systems and principles of the International Organization for Standardization (ISO) since 2008. The Governing Board of Certification International Philippines, Inc. has recertified its Integrated Management System covering the coal mining operations and support activities as conforming to the Standards on ISO 9001:2008 Quality Management System, ISO 14001:2004 Environmental Management System and OHSAS 18001:2007 Occupational Health and Safety Management System. These management systems ensure continuous improvement of policies to guide operations in the areas of health and safety, environment and community relations. Operating subsidiary SEM-Calaca Power Corporation has established a similar quality system with policies and procedures and is working towards its own international standards certification for ISO 9001:2008 conformance in the coming year.

**Emergency Preparedness and Response (EPR) Program**
Your Company has identified potential accidents and emergency situations and established appropriate preparedness and response procedures, including preventive actions and where appropriate, how to mitigate the environmental impacts and/or risk that may be associated with unplanned events, accidents and emergency situations. Building evacuation, landslide, fire and earthquake drills are conducted

**EPR TRAINING AND DRILL ACTIVITIES IN 2013**

| | |
|---|---|
| Emergency Preparedness and Firefighting | Power Plant Site, February 21-22, 2013 |
| Fire Drill on Equipment Vehicle | Mine Site, April 9, 2013 |
| Landslide Drill | Mine Site, April 15, 2013 |
| Bandaging and Splinting, Personnel Injury | Mine Site, April, May 2013 |
| Fire Evacuation, Firefighting | Mine Site, April, May 2013 |
| Fire Drill, Earthquake Drill, First Aid | Mine Site, April, May 2013; Corporate Office, November 2013 |
| Building Evacuation, Fire Drill | Corporate Office,, March 2013 |
| Unannounced Fire Drills | October, November 2013 |
| Oil/Chemical Spill Drill | Mine Site, December 2013 |
| Gas Leak Drill/Electrocution | Mine, Site, December 2013 |

at least annually and evaluated by the designated government agency to test the effectiveness of these exercises. Emergency preparedness and response procedures are tested periodically to ensure full understanding and observance of all employees and regularly reviewed for improvement.

**Business Continuity Management System**

Your Company's Business Continuity Management System (BCMS) aims to ensure early business recovery and continuity of critical services in the event of a disruption, whether anticipated or unplanned, that might be, or could lead to a business loss, emergency or crisis. Its holistic framework is set in accordance with ISO 22301:2012 Societal Security – BCMS – Requirements, including business impact analysis, risk assessment and risk treatment action plans. Its crisis management and business continuity processes are focused toward building organizational resilience with the capability for an effective response to safeguard the interests of the various stakeholders. Business impact assessment workshops and awareness trainings have been conducted. Your Company appointed George G. San Pedro, VP – Operations and Jaime B. Garcia, VP - Procurement and Logistics as Business Continuity Planning (BCP) Directors for Mine Site and Corporate Office, respectively, and John R. Sadullo, VP-Legal as Communications Coordinator to lead the BCP team responsible for the activation, implementation and maintenance of the BCMS.

**Information Technology Risk Management**

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

**Financial Risk Management**

Your Company's financial risk management is geared toward sound and prudent allocation of its financial resources to fund investments and expansion activities, maintain healthy financial ratios and ensure appropriate returns to shareholders. It exercises a Low financial risk tolerance in funding sources and managing capital requirements consistent with the Board's established overall Low risk appetite. Your Company's financial risk management objectives and policies to effectively manage its financial assets and liabilities are discussed in Note 29 to Consolidated Financial Statements.

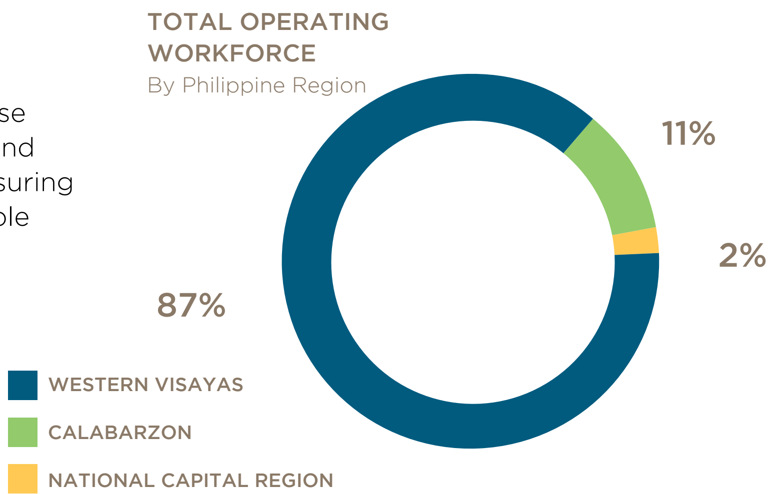
**Risk Cover**

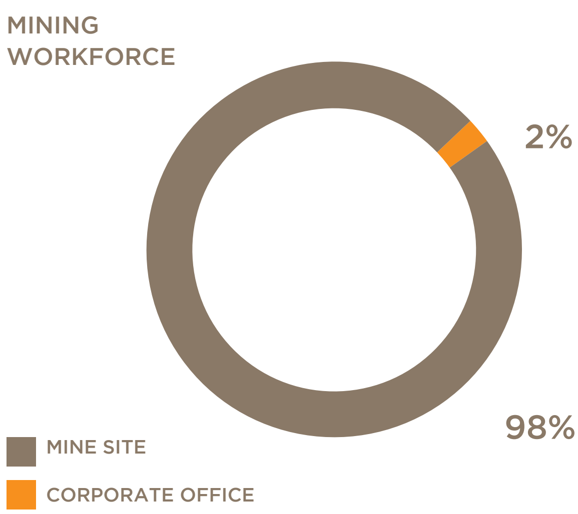
Your Company includes risk transfer as risk treatment for risks relating to its mining equipment and fixed assets through Industrial All-Risk (IAR), Floater, Fire, Marine Hull and Aircraft Hull insurance covers. This risk management strategy is similarly implemented through an IAR with Business Interruption cover in your Company's power plant operations.

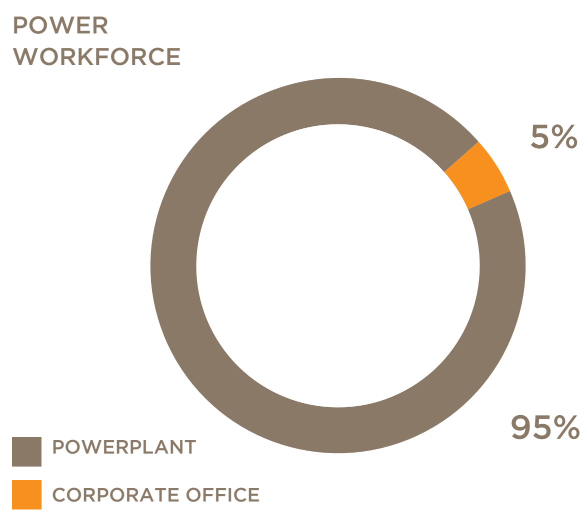
## SUSTAINABLE HUMAN RESOURCES

People First: Mining Potentials, Ensuring Safety, Powering Growth

Your Company, recognizing that people are a company's greatest assets, places a premium on programs pertaining to its manpower. These initiatives are centered on developing talent and rewarding performance, with emphasis on ensuring the safety, health and total well-being of people within the organization.



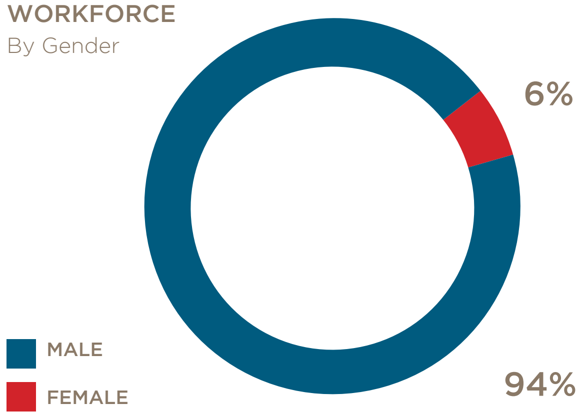




| CATEGORY | MINING | | POWER | |
|---|---|---|---|---|
| | Male % | Female % | Male % | Female % |
| Executives | 77% | 23% | 100% | 0% |
| Managers | 77% | 23% | 83% | 17% |
| Supervisors | 93% | 7% | 83% | 17% |
| Staff | 95% | 5% | 89% | 11% |
| **TOTAL** | 94% | 6% | 88% | 12% |

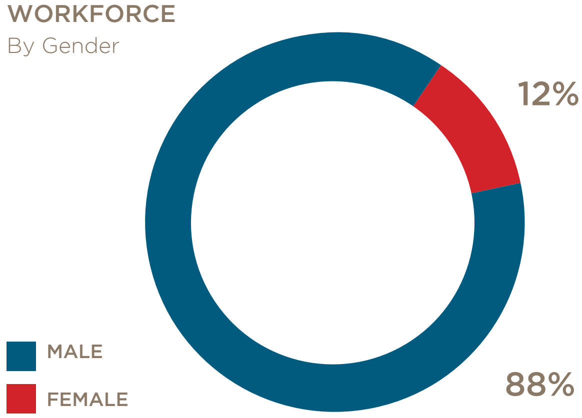
| | | |
|---|---|---|
| **Mining Workforce** | Male 2,234 | Female 137 |

MINING WORKFORCE
By Gender




| | | |
|---|---|---|
| **Power Workforce** | Male 262 | Female 37 |

POWER WORKFORCE
By Gender



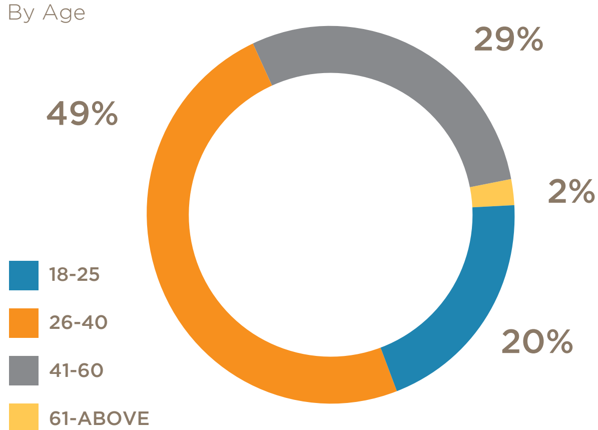

**Fostering diversity**
Fair treatment is well in place at SMC Group, which does not tolerate discrimination and harassment in any form on the basis of gender, race, religion, age, color or disability. All such harassment, whether it occurs in the workplace or at outside work-related activities, is strictly prohibited. SMC Groups's remuneration policy promotes a performance-based management system that considers competencies regardless of gender.

**Attracting and rewarding talent**
Your Company's remuneration philosophy aims to ensure an overall compensation structure that is closely linked to individual performance, Company performance and shareholder value. Its compensation policy sets compensation levels that are appropriately competitive in attracting, motivating and retaining competent individuals. Its talent management program includes a regular review of rewards and benefits through benchmarking of market and industry remuneration data based on compensation surveys.

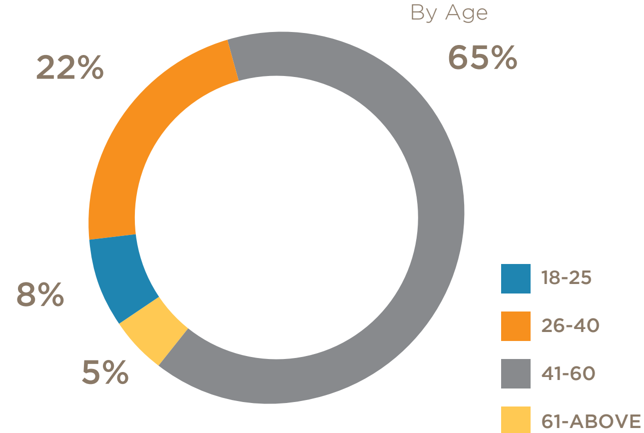
Your Company's core values on teamwork, excellence, integrity and professionalism are integrated in its competency-based performance management system. All employees are expected to perform their duties with highest ethical standards and excellence. Performance Objectives, Targets and Programs (OTPs) aligned with your Company's strategic and operational plans of the organization are defined at the beginning of the year throughout the organization. Key Performance Indicators (KPIs) to measure employee engagement in your Company's strategy map are set and agreed with Management. Management conducts performance monitoring of the OTPs on individual and functional levels through periodic meetings with department heads. These performance monitoring meetings enhance teamwork, collaboration, fairness and transparency among the business units.

Regular performance appraisal ensures that talent is recognized and rewarded appropriately for contributions to the Company's growth and profitability. Behavioral KPIs on team effectiveness,

MINING WORKFORCE
By Age




POWER WORKFORCE
By Age






ethics, governance and commitment to your Company's integrated Environment Health and Safety (EHS) policy are integrated in the assessment of individual performance.

**Planning Leadership Continuity**

Your Company's executive succession program aims to ensure continuity of highly qualified individuals to sustain the organization's leadership requirements, retain and develop leadership competencies to support future growth, and motivate employees with promising potentials to aspire for advancement. Management and department heads have identified key or critical positions and evaluated their impact to the organization's business. Employee candidates are assessed as to their qualifications, potentials for leadership positions and readiness to assume such positions. Coaching, mentoring, management assignments in functional or business units where candidates have no previous working experience and development courses are aimed to harness management skills with broad-based governance perspective and accelerate succession readiness. Your Board's Nomination and Election Committee oversees the development and implementation of the executive succession planning ensure continuity in critical key positions.

**Harnessing Organizational Development**

Your Company values high-performing talent in the alignment of business needs and sustainability. Its development programs focus on training and career development aim to nurture and maximize the full potentials of its human resources. Training programs are designed based on competencies and talent requirements of the individual employees. These training programs under Behavioral, Leadership, Quality Management, Environmental Safety & Health (ESH) and Professional Development categories are designed to meet specific target objectives towards people and organizational excellence.

Semirara's talent development program includes trainings, seminars and workshops such as skills upgrade, leadership, short management courses, ISO quality management principles, ESH, risk awareness, sustainability, among others. During the year, ESH initiatives included, among others, Office Safety and Ergonomics to orient staff regarding workplace safety, and Basic Occupational Safety and Health training for incoming 2014 Safety Committee members. Professional development programs also include technical trainings of engineers outside the country.

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## 2013 MINING WORKFORCE TRAINING



| Training Category | Executives | Managers | Supervisors | Staff | TOTAL |
|---|---|---|---|---|---|
| Professional & Technical Development | 156 | 344 | 4,383 | 2,776 | 7,658 |
| Leadership | 74 | 102 | 2,180 | 992 | 3,348 |
| Quality Management System | 9 | 113 | 1,753 | 2,840 | 4,715 |
| Environment, Health & Safety | 86 | 93 | 190 | 1,394 | 1,763 |
| Values | - | 16 | 64 | 2,744 | 2,824 |
| No. of Training Hours | 325 | 668 | 8,570 | 10,746 | 20,308 |
| Training Hours per Category % | 2% | 3% | 42% | 53% | 100% |
| | | | | | |
| Number of Mining Workforce | 13 | 31 | 277 | 2,050 | 2,371 |
| Average training hours per level | 25 | 22 | 31 | 5 | 9 |
| Total 2013 Training Cost | | | | | P 1,568,521 |
| Average Training Cost per Mining Workforce | | | | | P 661.00 |

**Encouraging total well-being**
There is emphasis in achieving work-life balance to make sure that your Company's workforce expend equitable time and energy for work and family concerns. A holistic health program covers annual physical examination, physical fitness and sports activities.

Your Company-owned–operated infirmary facility provides free primary medical services not only to the Mine Site workforce and their dependents, but to local residents. The facility has at least four (4) medical doctors on call at any day, two (2) dentists, two (2) medical technologists, one (1) x-ray technician, seven (7) nurses, a midwife, three (3) nurse aides who also function as pharmacy assistants, and caregivers. It has been reinstated as a Philippine Health Insurance Corporation (PhilHealth) - accredited facility in 2013. The hospital's pharmacy offers more reliable supply and discounted cost of medicines to the island community.

Opportunities are in place for recreational activities to promote physical fitness, foster camaraderie and team spirit, as well as spiritual activities to enrich one's personal values. Maligayang Semirara, a year-round arts, music and sports program that aims to promote community- and self-sustainability, presents

| LIST OF BENEFITS TO FULL-TIME EMPLOYEES | | |
|---|---|---|
| **Govt Mandated Benefits** | **Additional Company Benefits** | **CBA** |
| SSS Contribution | Life and Accident Insurance | In-House Health Care (R&F) |
| Pag – Ibig (HDMF) Contribution | Health Care Insurance | 1 sack milled rice every 2 mos. (R&F) |
| Phil Health Contribution | Sick Leave Credits after first year of employment - 15 days per year | Service Award (R&F) |
| 13th Month Pay | Vacation Leave Credits after first year of employment - 15 days per year | Bereavement Financial assistance |
| Maternity Leave - 60 up to 78 days | Free primary medical services to Mine Site workers & their dependents | Emergency leave - 4 days/year |
| Paternity Leave - 7 days | | Medicine Allowance upon anniversary (R&F, Special Skills) |
| Solo Parent Leave - 7 days | | Relocation allowance (upon retirement) |
| Special Gynecological Surgery Leave Benefits for Women – two months | | |
| Retirement Benefit (RA 7641) – Your Company has a funded, noncontributory defined benefit plan. | | |

better work-life balance to company workers and island residents. The same program provides the children of Semirara Island creative and physical outlet for their youthful energy, an avenue to discover and develop skills in the arts, music and sports. As of December 2013, 395 employees are active members of Maligayang Semirara. Other wellness programs include physical fitness activities such as Zumba and aerobics classes, and information campaign on how to have a healthy lifestyle and financial health seminars.

In 2013, your Company extended psychological, medical, educational and financial assistance, both short-term and long-term, to mine personnel and their families directly affected by the unfortunate landslide incident of a section of the Panian mine west wall. Total financial and related benefits amounted to P 14.85 M. This included scholarships from present up to future college levels, burial expenses, continued housing facilities or program, present and long-term employment for dependents. Affected families underwent psycho-emotional debriefing aside from spiritual guidance and support. Your Company continues to provide continuing medical and psychological support to a survivor.

| Additional Company Benefits for Mine Site Workforce: |
|---|
| Free Housing |
| Free Power & Water utilities |
| Free Education (K to 12) for dependents |
| Subsidized medicine cost in Company hospital pharmacy |

### Fostering positive workplace culture

In 2013, your Company conducted an organizational climate survey throughout SMC Group to engage employees and enhance their contributions in the continual improvement of the organizational development process.  The activity demonstrates your Company's commitment to continually improve its professional climate to elicit best performance from the workforce.

### Working safe, living safe

Safety is a core value of your Company and defines its culture as a responsible mining and energy company. Your Company's workplace safety objective is to eliminate or reduce to the lowest level any risk that may result in fatality, personal injury, illness, property or environment damage. Working safely as a condition to employment is reinforced by training sessions on basic occupational health and safety, and conducting regular drills on emergency preparedness such as fire and earthquake. In December 2013, your Company's coal mining operation and support activities is recertified in its fifth consecutive year by the Governing Board of Certification International Philippines, Inc. as being in conformance to International Organization for Standardization ISO 18001:2007 on Occupational Health and Safety Management System.

33-prism Robotic Total Station safety equipment

### Reinforcing Mining Safety

The Company adopts global best practices in open-pit coal mining operation with safe production as its most important objective. It ranks loss of life or unacceptable threat to human safety as its most significant interruption impact factor.

Safety risks are addressed with focus on prevention and zero tolerance for fatality. Mining safety procedures are strictly enforced, including measures on slope stability and rebuilding, installation of dewatering pumps to control water intrusion or seepage and crack monitoring teams to continuously monitor ground displacements.

Road and safety driving rules are strictly observed by equipment operators to ensure non-vehicular collision due to poor visibility from dust, a common risk to coal mining activity. All mobile equipment and vehicles are required to maintain safe driving distance of at least thirty (30) meters uphill and downhill, and to turn all headlights on at all times during the day. Reinforced education and training of workers and equipment operators for the proper use, repairs and maintenance of mining equipment have reduced accidents and injury events in the workplace. Job hazards, work instructions and guidelines are established and communicated to the workforce to ensure that such are carried out under controlled condition. Sufficient training and information are undertaken to promote a safety culture and safety behavior expected from everyone. Your Company's suppliers and contractors working on the Company's premises as well as customers and other visitors are required to comply with your Company's health and safety procedures.

In 2013, your Company enhanced its Safety programs by escalating the crack monitoring activities, hiring of additional safety personnel and the acquisition of a Robotic Total Station with thirty-three prisms strategically located around the pit for 24/7 monitoring wall movement. It engaged a third party consultant having expertise on slope stability to evaluate the mine design, extraction plan and physical stability of Panian mine to prevent potential landslide on the slope of similar nature to the February 2013 incident.

During the year, your Company's Safety Management System and Policy were redrafted, reviewed with engagement from all necessary units within the organization and guided by the standards your Company is certified for, namely, ISO 14001:2004 for Environmental Management, ISO 9001:2008 for Quality Management and Occupational Health and Safety Management (OHSAS) 18001:2007. Department units revisited major safety procedures through their respective departmental health and safety committees. The Central Safety and Health Committee has committed to work with the Safety Unit in developing and implementing an improved 2014 program to ensure a safe workplace for Mine Site personnel and guests.

**Engaging Plant Safety**

Your Company's operating power subsidiary embraces the same culture of ensuring a safe workplace for its workforce. Formal safety policy supported by programs and procedures is in place at the power plant station. It has a Safety Division functional unit with a full-time Safety Officer which conducts site safety patrols considering ongoing activities of the Unit 1 rehabilitation and full internal safety inspection on a quarterly basis, among others. Its Safety Committee conducts monthly meetings.

A formal Contractor Safety Management program is in place and enforced, with stricter safety requirements imposed on contractors. Contractor supervisors are responsible for providing safety orientation on site safety and procedures to their own staff. Contractor violations of safety rules and erring practices are dealt with immediately and duly considered against contractor performance.

Safety training programs are conducted as planned and regularly provided to plant personnel. Trainings such as basic firefighting, emergency preparedness and exercise drills are organized regularly. Fire Safety /Lock-Out Tag-Out, Safety Audit and Behavioral-based safety trainings were conducted in 2013. Supervisors of subcontractors are trained and briefed on plant site safety rules and are responsible for training their workers. Violations of safety rules are duly recorded.

**2013 SAFETY DATA**

| | Mine Site | Power Plant Site |
|---|---|---|
| No. of Non-Lost time Accidents, Non-Fatal | 55 | 6 |
| No. of Lost time Accidents, Non-Fatal | 3 | 1 |
| No. of Lost time Accidents, Fatal | 11* | 0 |
| Lost Work Days | 73,143* | 18 |
| Total Manhours Worked | 6,546,564 | 778,592 |
| Lost Time Injury Rate or Frequency Rate | 2.14 | 3.54 |
| Severity Rate | 1,1172.75 | 64 |

*Includes 5 casualties and 5 missing from February 2013 wall slide incident

| | Mine Site | Power Plant Site | Corporate Office | Total Operating Workforce |
|---|---|---|---|---|
| No. of Safety Committee Personnel | 39 | 32 | 13 | 84 |
| Total | 2,331 | 284 | 55 | 2,670 |

*Common Kingfisher*

*Asian Glossy Starling*

# LIFE SUSTAINING ENVIRONMENT

Integrating environmental stewardship, health and safety



Your Company's Environment, Health and Safety (EHS) management system integrates value chain processes that minimize pollution and damage to the environment. This includes a Hazard Identification and Risk Assessment process aimed to ensure that the impact of your Company's coal mining activities, its products and services, are identified, evaluated, and any safety and health hazard minimized, mitigated or controlled. Your Company takes environmental safety, stewardship and management seriously, demonstrating this through its flagship programs that has planted more than two million trees on the island since 2000 and that has successfully brought the population of giant clams to almost 100,000 since 2006.

More importantly, it has adopted an integrated approach to health, safety and the environment, using the process of hazards and risks identification, assessment and control as the necessary stepping stone to building a sustainable environment. Employees are mandated to comply with the Company's EHS objectives and policies such as the conservation and promotion of the local biodiversity, ecological sold waste management that promotes proper garbage segregation and reduced consumption of electricity, water and paper, among others.

**Environmental monitoring**

Subject to stringent national regulations, your Company complies with the conditionalities of its Environmental Compliance Certificate (ECC), working closely with the Multi-Partite Monitoring Team (MMT) for the Panian mine operations—comprised of representatives of the government and various stakeholder groups—that oversees and evaluates your Company's compliance with applicable laws, rules and regulations and said ECC conditions.

The MMT for the mine on Semirara Island meets quarterly. In 2013, it conducted two (2) on-site monitoring activities, reporting on the quality of air and water, mine operation and relevant social and environmental projects and concerns.

> On 05 - 07 June, representatives from the Department of Environment and Natural Resources' (DENR) Regional and Provincial Offices, Environmental Management Bureau , the Office of the Municipal Mayor of Caluya, the three barangays of Semirara Island and various local stakeholder organizations visited the Panian pit, the East Panian Expansion area, progressive rehabilitation in Panian, coal stockpile and drainage, coal washing plant and its water impounding area, and Unong Lake.
>
> On 09 - 11 October, the MMT visited the new Circulating Fluidized Bed coal power plant that Semirara Mining Corporation is constructing on the island.  Also visited were the Semirara Sports Complex; the Panian mine, siltation pond and progressive rehabilitation area; the East Panian Expansion Project; the coal washing plant; and the Tabunan Marina Hatchery Laboratory.

Your Company's Environmental Unit, together with concerned groups, regularly assess its environmental programs for effectiveness and improvement. Air and water quality, noise level and hazardous-regulated materials are regularly tested, measured and monitored against standards and baseline data.

Sea water sampling and analysis were conducted in April and September 2013 at five (5) sites within Barangay Semirara covering the baseline parameters as done by Lichel Technologies, Inc. in 2009. Results of the this activity, below, shows sea water in and around the mine site is within the standards set by DENR Administrative Order 1990-34 for Coastal and Marine Waters, Class SC.

| Parameters | DAO 34: CLASS SC REQTS | SEA WATER ANALYSIS, 2013 | | | | | |
|---|---|---|---|---|---|---|---|
| | | SUJA | | | SHIPLOADER | | |
| | | Baseline 1997 | April | Sept | Baseline 1997 | April | Sept |
| DO, mg/l | ≥5.0 | Not measured | Not measured | 6.25 | 8.0 | Not measured | 6.25 |
| Temperature,°C | Max rise of 3°C | Not measured | 31.1 | - | Not measured | 31.2 | - |
| pH | 6.0 – 8.5 | 8.28 | 7.53 | 8.15 | 6.93 | 7.86 | 8.14 |
| Tot. Arsenic, mg/l | 0.05 | Not measured | - | - | Not measured | - | - |
| Tot. Mercury, mg/l | 0.002 | Not measured | <0.001 | <0.001 | Not measured | - | - |
| Tot. Chromium, mg/l | 0.1 | 0.09 | | <0.01 | Not measured | - | - |
| Tot. Cadmium, mg/l | 0.01 | Not measured | - | - | Not measured | - | - |
| Tot. Lead, mg/l | 0.05 | Not measured | - | - | Not measured | - | - |
| Tot. Cu, mg/l | 0.05 | Not measured | - | - | Not measured | - | - |
| Tot. Manganese, mg/l | - | Not measured | - | - | Not measured | - | - |
| Oil and Grease, mg/l | 3 | 0.3 | - | 0.8 | ND | - | - |

| Parameters | DAO 34: CLASS SC REQTS | SEA WATER ANALYSIS, 2013 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | CAPIS-CAPIS | | | PANIAN 1 | | | PANIAN 2 | | |
| | | Baseline 1997 | April | Sept | Baseline 1997 | April | Sept | Baseline 1997 | April | Sept |
| DO, mg/l | ≥5.0 | 8.0 | Not measured | 6.88 | 9.0 | Not measured | 6.25 | 5.0 | Not measured | 6.88 |
| Temperature,°C | Max rise of 3°C | Not measured | 31.2 | - | Not measured | 31.2 | - | Not measured | 31.1 | - |
| pH | 6.0 – 8.5 | 7.05 | 7.98 | 8.07 | 8.08 | 8.01 | 8.15 | 8.26 | 8.03 | 8.18 |
| Tot. Arsenic, mg/l | 0.05 | Not measured | - | - | ND | 0.0021 | 0.0021 | Not measured | 0.0018 | 0.0026 |
| Tot. Mercury, mg/l | 0.002 | Not measured | - | - | 0.001 | <0.001 | <0.001 | Not measured | - | - |
| Tot. Chromium, mg/l | 0.1 | Not measured | - | - | ND | | <0.01 | Not measured | - | - |
| Tot. Cadmium, mg/l | 0.01 | Not measured | - | - | 0.26 | <0.003 | <0.003 | Not measured | - | - |
| Tot. Lead, mg/l | 0.05 | Not measured | - | - | 0.6 | <0.01 | <0.01 | Not measured | - | - |
| Tot. Cu, mg/l | 0.05 | Not measured | - | - | ND | - | <0.05 | Not measured | - | - |
| Tot. Manganese, mg/l | - | ND | - | - | ND | - | 0.16 | ND | - | 0.24 |
| Oil and Grease, mg/l | 3 | Not measured | - | - | Not measured | - | - | Not measured | - | - |

Noise level self-monitoring is also conducted quarterly, with baseline data captured by Lichel Technologies of Pasig City in May 2009.

Measurements from 2009 to 2013 show noise levels in populated areas in Bgy. Semirara to be within standard as prescribed in Presidential Decree 984, Noise Control for Class C Residential Areas at daytime.

Regular and surveillance audits are also consistently conducted by internal auditors, external parties and local regulators to assess your Company's continuing compliance with corporate policies, government regulations, industry guidelines and relevant internationally-recognized standards.

In December 2013, your Company received re-certification from the Governing Board of Certification International Philippines, Inc. for conformance, for the fifth consecutive year, to the International Organization for Standardization ISO 14001:2004 on Environmental Management System.

Similarly, air quality and emission data at Power Plant site are regularly monitored by its Environmental Unit.

**MINE SITE NOISE LEVEL**

| STATION | STANDARD (residential area) | BASELINE 2009 | ANNUAL AVERAGE per quarterly results, decibels | | | |
|---|---|---|---|---|---|---|
| | | | 2010 | 2011 | 2012 | 2013 |
| DMCI Village Basketball Court | 55 dBA | 52 dBA | 54.49 dBA | 52.18 dBA | 51.17 dBA | 53.13 dBA |
| Molave Housing Phase 1 | 55 dBA | 53 dBA | 52.71 dBA | 50.32 dBA | 50.64 dBA | 52.48 dBA |
| STCI | 55 dBA | 51 dBA | 51.27 dBA | 52.27 dBA | 51.25 dBA | 51.72 dBA |
| Sitio Villaresis Basketball Court | 55 dBA | 50 dBA | 53.00 dBA | 51.53 dBA | 51.20 dBA | 52.16, dBA |

**MINE SITE AMBIENT AIR QUALITY MONITORING**
One (1)-hour sampling, 2010, 2012 and 2013

| National Ambient Air Quality Standard | SO2 340 µg/Ncm or 0.13ppm | | | NO2 260 µg/Ncm or 0.14ppm | | | TSP 300 µg/Ncm | | |
|---|---|---|---|---|---|---|---|---|---|
| Sampling Station | 2010 ppm | 2012 µg/Ncm | 2013 µg/Ncm | 2010 ppm | 2012 µg/Ncm | 2013 µg/Ncm | 2010 ppm | 2012 µg/Ncm | 2013 µg/Ncm |
| DMCI Village | 0.015 | 39.8 µg/Ncm 0.02 ppm | 122.07 | <0.005 | not detected | not detected | 750.85 | 224.7 | 54.74 |
| Molave Housing | 0.015 | 48.1 µg/Ncm 0.02 ppm | 83.99 | <0.005 | not detected | not detected | 293.4 | 274.3 | 4.87 |
| STCI | 0.016 | 85.8 µg/Ncm | 50.05 | <0.005 | no data | no data | 91.55 | no data | no data |
| Sitio Villaresis | 0.016 | 137.97 µg/Ncm | 107.09 | <0.005 | no data | no data | 137.97 | no data | 10.15 |
| *** 2010 baseline data by Global Environmental Services, Pasig City** | | | | | | | | | |

**POWER PLANT SITE AMBIENT AIR QUALITY MONITORING**
One (1)-hour sampling, 2010, 2012 and 2013

| National Ambient Air | SO2 | | NO2 | | TSP | |
|---|---|---|---|---|---|---|
| Quality Standard | 340 µg/Ncm | | 340 µg/Ncm | | 340 µg/Ncm | |
| | 2012 | 2013 | 2012 | 2013 | 2012 | 2013 |
| TOTAL PLANT | 5.38 | 5.39 | 14.48 | 17.44 | 34.78 | 13.82 |

**POWER PLANT SITE EMISSION DATA**
2012 and 2013

| | SO2 | | NO2 | | CO | | TSP | |
|---|---|---|---|---|---|---|---|---|
| Emission Data | < 1500 mg/Ncm | | < 1500 mg/Ncm | | < 500 mg/Ncm | | < 200 mg/Ncm | |
| | 2012 | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 | 2013 |
| Unit 1 | 1063.50 | 840.83 | 2.50 | 2.08 | 10.50 | 95.50 | 58.50 | 55.67 |
| unit 2 | 1051.67 | 1344.78 | 44.66 | 50.90 | 25.56 | 11.10 | 66.23 | 47.20 |

**Air and water quality, and materials control**
Your Company integrates value chain processes that minimize pollution and damage to the environment. Standard operating procedures include close monitoring and standardized compaction response to spontaneous combustion activity in the coal stockpiles at all areas of operation.

Air pollution control measures include road watering by water trucks during dry season and hauling operation, setting of truck speed limits, use of standard pollution control and monitoring device for power plant in Calaca, Batangas , use of dust-treat coagulants when transferring coal, and implementation of a preventive maintenance program for mobile and air-conditioning equipment.

Waste water from your Company's Coal Washing Plant is channeled to settling ponds and then recycled and supplied to the plant nurseries and rehabilitation areas in Panian for watering trees and plants. Excess water is diverted to a containment dike.

Your Company has established procedures in the handling and containment of industrial materials and wastes, including clean-up and restoration where needed.

Employees are mandated to comply with your Company's EHS objectives and policies such as the conservation and promotion of the local biodiversity, ecological solid waste management that promotes proper garbage segregation and reduced consumption of utilities and consumer products, among others.

**Rehabilitating Semirara Island's marine environment**
The Tridacna gigas (T. gigas), the largest of the world's shellfishes and an endangered species of the giant clam, is being spawned and reseeded in the reefs of Semirara Island to reverse the damages wrought by overfishing and dynamite and cyanide fishing in the 1990's.

150 juveniles of the T. gigas from the University of the Philippines - Bolinao, Pangasinan was brought to Semirara Island in 2006 to see if these bivalves would survive reseeding in Semirara and thus prove that the waters around the island can sustain life of marine organisms as sensitive to pollution as the T. gigas.

Given the good survival rate of the T. gigas, 96 pieces of broodstock were brought to Semirara in 2009 and used for trial spawning.

Consultation with the communities soon followed and that led to the establishment of a 150-hectare coastal area as a marine sanctuary in Bgy. Semirara.

In 2010, your Company established the Tabunan Marine Hatchery Laboratory to lead the efforts in marine rehabilitation through spawning—and reseeding—of giant clams given this species' symbiotic relationship with corals and fishes.

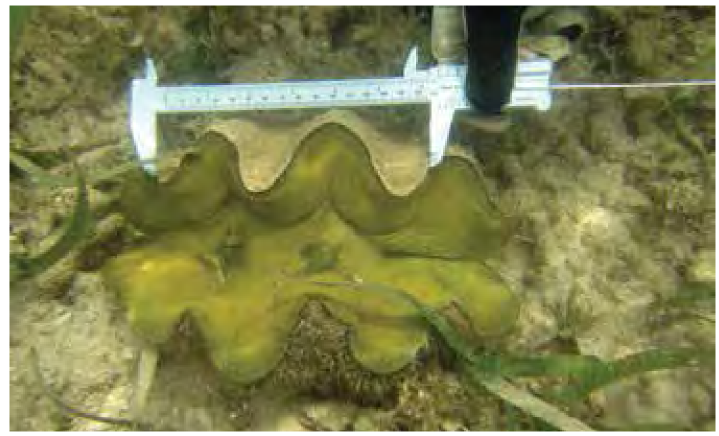
Since 2010, the hatchery laboratory has produced 5,678 T. gigas juveniles, of which, 806 have been reseeded in the Tabunan reefs.

Local species of the giant clams are also being spawned, with the laboratory producing a total of 98,276 since 2011. This raises hopes that the giant clams can be delisted as endangered species in Semirara.

Your Company is encouraged by the results of efforts in Tabunan and a paralleling 5Es project that protects and develops mangrove areas all over the island as there is marked improvement in the volume of fish catch nearer the shore and in biodiversity especially at the marine sanctuary.

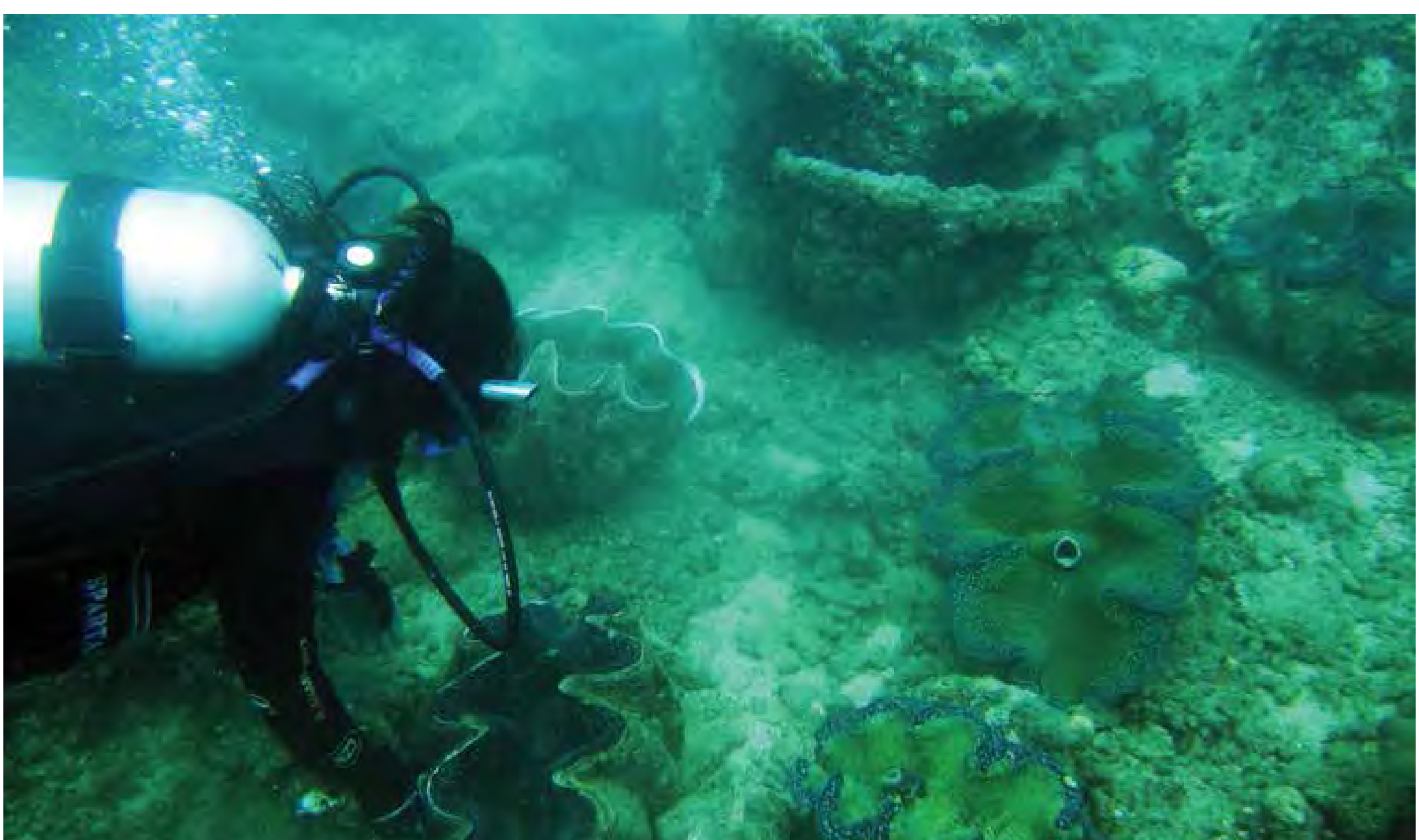
Abalone is another marine animal that the laboratory in Tabunan is studying as a potential product for the local communities. This sea snail grows to marketable size in Semirara waters, responding well to natural feeding.

The Tabunan Marine Hatchery Laboratory continues to grow abalone but stopped spawning of the species in 2013, pending the local availability of gracilaria seaweeds, abalone's natural food.



**SEMIRARA GIANT CLAMS PRODUCTION**

| Location | Tridacna gigas | Tridacna squamosa | Tridacna derasa | Hippopus hippopus | Total |
|---|---|---|---|---|---|
| Raceway tanks | 2,875 | 40,000 | 200 | 400 | 43,475 |
| Ocean nursery cages | 1,997 | 17,601 | 1,766 | 9,014 | 30,378 |
| Ocean nursery garden | | 180 | 120 | 160 | 460 |
| Marine Sanctuary (reseeded) | 806 | 2,371 | 530 | 16,484 | 20,191 |
| **TOTAL** | **5,678** | **60,152** | **2,616** | **26,058** | **94,504** |



**Greening Semirara Island: rehabilitating as we mine**
Long before the current Panian mine, there was Unong.

Your Company took on the responsibility of rehabiliting Unong Mine, which it closed in 2000, after it produced about 12 million metric tons of coal.

Your Company initially grew ipil-ipil along the barren rim to stabilize the soil, encourage grasses to grow and enable the trees to act as windbreaker.

Over the years, the pit has filled with water to become Unong Lake that now hosts meter-long eels, tilapia and some hawkbill sea turtles that were released in the body of water. Today, on the rim of the lake, high-value trees, ornamental plants and grasses grow.

A three-kilometer road goes around the lake, which would soon be developed as a recreation area for island residents. Even today, the road is being enjoyed by bikers and weekend strollers.

Almost 1.2 million trees were planted all over the island in 2013 alone . Of the 1.2 million trees, 470,730 were planted to expand the rehabilitated area in Panian to 315 hectares (up from 200 hectares in 2102), while 412,586 were planted around Unong Lake to continue rehabilitation in the mined-out site in Barangay Tinogboc.

| SPECIES | SCIENTIFIC NAME | NUMBER OF TREES |
|---|---|---|
| BALETE | *Ficus stipulosa Miq.* | 21 |
| BALISAYON | *Terminalia augustifolia blanca* | 3,003 |
| BALISING | *Clerodendrum inerme* | 421 |
| BAMBOO | *Bambusa spinosa* | 6,985 |
| BANI | *Pongamia pinnata L. Pierre* | 1,779 |
| BEACH AGOHO | *Casuarina equisetifolia* | 1,056,994 |
| BITAOG | *Calophyllum inophyllum* | 3,390 |
| BITOON | *Barringtonia asiatica* | 53 |
| BUTTERFLY TREE | *Bauhinia malabarica* | 57 |
| CABALLERO | *Caesalpinia pulcherrima* | 840 |
| MOLAVE | *Vitex parviflora* | 42,986 |
| NARRA | *Pterocarpus indicus* | 42,909 |
| PILI NUT | *Canarium ovatum* | 32 |
| RAIN TREE | *Albizia lebbeck* | 10,866 |
| TALISAY | *Terminalia catappa* | 9,077 |
| TALISAY GUBAT | *Terminalia Griffith* | 4,341 |
| **TOTAL NUMBER OF TREES PLANTED IN 2013** | | **1,183,754** |


Your Company's vision is to turn the island into a green sanctuary that would provide protection from heat, dust and gusty wind, and give food and shelter for birds, monkeys and other wildlife.

In all, Semirara's reforestation team has planted more than 2.2 million trees on the island in the past 13 years.  More than 66,000 fruit-bearing trees were also planted, and more than 192 hectares were developed for mangroves, during this period.

**Mitigating impact of furnace bottom ash of power units**

Sem-Calaca Power Corporation steps up environmental mitigation when it converted its furnace Bottom Ash Handling Systems from the Wet System to Dry System, during the rehabilitation of the Units 1 and 2 of the power plants in Calaca, Batangas. Unit 1 has a water Impounded Hopper System while Unit 2 has a Submerged Scraper Conveyor System.

The conversion minimizes the environmental impact of the plant operation and makes the plant more eco-friendly.

Conversion eliminates the use of water—both seawater and freshwater—for the transport of the bottom ash. It reduces the carbon content of the bottom ash. It recovers the energy from the ash—the energy that is locked in the unburned carbon—and refunds to the boiler.

Another benefit is the potential commercial use of the dry low-carbon ash, which can be used as back-filling materials for road construction and alternative material for concrete hollow blocks (CHB) in lieu of sand and gravel. This will augment the recoverability of the waste product of burned coal at the power plant.

## SELF-SUSTAINING COMMUNITY

Giving back and paying forward

Your Company works with local development partners in building a self-sustaining community in Semirara. It continuously seek ways and opportunities to strengthen its 5Es program, its relationships with stakeholders and even its capability to deliver services to its host communities.

**Localizing employment**

Your Company is the single biggest employer of Semirara Island. Of the mining operations workforce, approximately 54% are from Semirara Island/Caluya, 7% from Panay and 39% from other regions in the Philippines.

Meanwhile, of the total workforce of the power plants in Calaca Batangas, 40% are from Calaca, 11% are from Balayan, 20% are from other municipalities of Batangas and 29% are from Manila and other regions in the Philippines.

**Reaping economic empowerment**

Fishing and farming are the island residents' main means of income. Since 1999, Semirara has supported farming and fishing organizations to ensure their livelihood, especially those who have been affected by mining operations.

For example, your Company helped establish and continues supporting the Semirara Fishing Association (SEMFA) and Community Relations (ComRel) fishing groups. SEMFA, since its organization in 1999, has supplied the island and neighboring island markets a total of about 432 metric tons.

In 2013, total catch reached around 133 metric tons of fish using a total of nine boats.

Four indigent families planted summer and main crops in 3.1 hectares of land in Bagong Barrio, Barangay Semirara. This yielded a total of 111.42 cavans of rice in 2013.

The ComRel group continued to campaign for backyard vegetable growing in the villages. By the end of 2013, around 200 households were growing vegetables in their backyards. Semirara provided the seeds and seedlings for this campaign.

In 2013, Semirara built a food court with stalls for various consumer goods in Barangay Semirara. The objective is to provide employees' families and local residents means to serve the island community while augmenting their income.

One Network Bank, which handles the payroll at the minesite, opened a branch at the Semirara Commercial Center on the island in June 2013, complete with automatic teller machines to facilitate banking transactions.

Other support were extended to the local chapels and structures like footbridges were constructed for the benefit of the community. Free clinic and tree planting activities, where seedlings were provided to the people, were conducted in 2013.

### Education

Your Company believes that education will secure a better future for the communities' youth and their families.

The vision for quality education is not limited to the families of Semirara's employees. Your Company continues to lend support to various schools in Semirara island, as well as in Batangas, for the benefit of its residents. This is in the form of facilities, equipment and services. In 2013, your Company donated roofing materials and entire classrooms altogether for the schools in the communities in Semrirara island and in Batangas. Computers were also donated to different schools and computer literacy trainings were offered to ensure that the students are up-to-date with current technology tools.

Students of DWSII and Semirara National High School graduating at the top of their class are given college scholarships. They pursue their college education in schools in Metro Manila and other major cities of the Philippines. For school year 2013-2014, 39 scholars were supported by your Company in the form of tuition and fees. Monthly allowances are also given to those who need further support. Workers' dependents who are studying in Mindoro Occidental are given housing support.

The Semirara Training Center, Inc. (STCI) is a non-stock corporation established in 2006 to support the manpower requirements of your Company and to give locals and workers' dependents opportunities to acquire marketable skills.

STCI is a TESDA-accredited technical and vocational school that offers certificate courses on automotive servicing (NCII), industrial electricity, machining (NCII), metal welding technology (NCI), mobile equipment technology, and industrial equipment technology.

Applicants who are accepted into STCI receive free skills training and meal allowance for the duration of their course. Performing students receive apprenticeship and job offers when there are vacant positions in your Company.

From its establishment in 2006 until end-December 2013, STCI has had 1,099 enrollees, of which, 753 have graduated.

Still on skills training, the Sem-Calaca management team in Batangas provided computer literacy training as well as carpentry skills and pipefitting to members of the community.

In 2012 to 2013, your Company sponsored Science Sparks, an exhibit on energy developed by the Philippine Science Centrum, that travelled major cities in the country. The exhibit had 35 interactive displays that showed the nature and forms of energy, its transformation, generation and impact on the planet.

Science Sparks received more than 2,000 guests in the ten days it was in Semirara island in January 2013. All the schools on the island had the chance to send their students to learn from the displays.

The Science Sparks exhibit was also brought to Calaca, giving elementary students the opportunity to appreciate how science works in everyday life.

Your Company recognizes that arts, music and sports are important in building an enriching and healthy community life. Thus, it supports Maligayang Semirara, which was in its second year of operation in 2013, that offers training in badminton, baseball/softball, boxing, lawn tennis, running, soccer, volleyball, pottery and terracotta art, brass band and rondalla music and choir singing.

The 2013 Summer Camp attracted 413 participants from the islands of Semirara and Caluya. It ran with the motto, "Ako ay taong may disiplina sa sarili (I am a disciplined person). I am here to train, have fun and excel."

The year-long training of budding athletes by Maligayang Semirara seems to be paying off. Several students from Semirara Island have won trophies and medals in various sports competitions like the district and provincial games, even qualifying in the regional and national games.

As of December 2013, Maligayang Semirara has 858 active members from various schools on the island.

**Emergency preparedness and the bayanihan spirit**
Super typhoon Yolanda (international code name Haiyan) hit the Philippines on 08 November 2013, causing untold damage to numerous provinces and affectiing millions of Filipinos.

Although Semirara Island was in the direct path of the typhoon, it was not hit as hard as other areas in the Visayas. There were no recorded casualties in the island community, and damage to housing and infrastructure was minimal. This was largely due to the early evacuation of communities, with the local governments calling the residents to safety two nights before the storm made landfall. Your Company's covered courts, as well as the school buildings your Company helped build for the communities in the island's three barangays, served as evacuation sites for the residents.

Your Company donated light housing materials to families whose houses sustained damage from Yolanda. Beneficiaries included 18 families in Bgy. Alegria and 20 families in Bgy. Tinogboc. Your Company also repaired the damaged school buildings of Tinogboc National High School to ensure that the students would have a safe place to learn and study in the aftermath of the storm.

Your Company made cash donations and gave two satellite phones to communities in neighboring islands. It partnered with the government and other stakeholders in long-term infrastructure rebuilding and rehabilitation, lending its planes and helicopter to speed up response to the disaster that struck the country.

Residents of Semirara island are not strangers to disaster. They recall typhoons Nitang and Ondang (1984), Senyang (2006) and Frank (2008) and a 5.6-magnitude earthquake in 2006 that affected their communities.

Storm surges in some parts of the island have also become an increasing concern in the recent years. As a result, the island's community leaders know only too well that the Philippines is prone to erratic weather patterns and natural disasters, and that to ensure the safety of their lives and livelihood, they need to be proactive in terms of adaptation.

Together with the Office of the Mayor of the Municipality of Caluya and Barangay Semirara, your Company co-organized a comprehensive, island-wide training on emergency response that was held on 19 February to 02 March 2013.

The Provincial Disaster and Risk Reduction and Managemement Office of Antique was invited to train local government officials and their counterparts in the communities on emergency management, and 89 community members on search and rescue.

The module on emergency management focused on the concept of Disaster and Risk Reduction Management and Incident Management System. The First Responders Training included lectures, demonstrations on and applications of First Aid, Basic Life Support, Ropemanship, roles in the Incident Management System, Water Search and Rescue and Swift Water Search and Rescue.

**Electricity**

In 1999, your Company worked with the Antique Electric Cooperative (ANTECO) to install power lines and provide electricity to the communities of Semirara Island. Prior to that, only the mine site and the employees' village had electricity.

While each household of company employees enjoy at least 300 kwh of free electricity every month, the local government of Barangay Semirara has been providing its constituents P200 worth of free electric utility in the last five years.

Power on Semirara Island is generated by 2 x 7.5 MW coal-fired power plant and the two 2 x 4.8 MW Mirrlees Blackstone bunker engines.

As power requirements of mine and support operations on the island continue to increase, and as the old coal-fired power plant has become high

maintenance and the diesel power generators remain expensive to run, your Company in 2013 started building a new 15MW coal-fired power plant using the modern Circulating Fluidized Bed (CFB) technology that shall have significantly reduced sulfur and nitrous oxides and particulate emissions compared to traditional power plants. Moreover, the CFB technology can also utilize low-grade coal as fuel and thereby maximize the island's coal resources.

The commissioning of the new power plant is targetted in the third quarter of 2014.

A consumer on the island pays only P5.10/kWh. This low cost of energy on the island is made possible by your Company, which allows ANTECO to buy electric supply at a price way below generation cost.

**Water supply**

Bunlao Spring in Barangay Alegria and Sanglay and Casay man-made lakes in Barangay Semirara with a combined holding capacity of 1.59 million cubic meters, serve as the main sources of water for domestic use in Barangay Semirara. It feeds into a P40 million filtration and refilling system that started operating in June 2012.

Average household consumption in 2013 was 98 cubic meters per hour, while industrial consumption was at an average of 115 cubic meters per hour.

From 13 nephelometric turbidity units (NTU) per 2011 surveys, raw water quality as of end-December 2013 stands at 1.155 NTU, and filtered water 0.0185 NTU.


Tree Planting
Activity


SEM-CALACA POWER CORPORATION
KNIGHTS OF COLUMBUS
KAP. HENRY GARCIA
December 17, 2013


BALAYAN WEST CENTRAL SCHOOL

# SHAREHOLDER and INVESTOR INQUIRIES



**OFFICE OF THE CHIEF FINANCE OFFICER**

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**INVESTOR RELATIONS**

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email: sepadilla@semiraraminingmkti.net
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**STOCK EXCHANGE LISTING**: Philippine Stock Exchange

**COMMON STOCK SYMBOL**: SCC

**STOCK TRANSFER AGENT**

Rizal Commercial Banking Corp.
Ground Flr, Grepalife Building
No. 221 Sen. Gil Puyat Avenue
Makati City, Philippines 1231
Tel : +632 892-7566
Fax: +632 892-3139

**ANNUAL GENERAL MEETING OF SHAREHOLDERS**

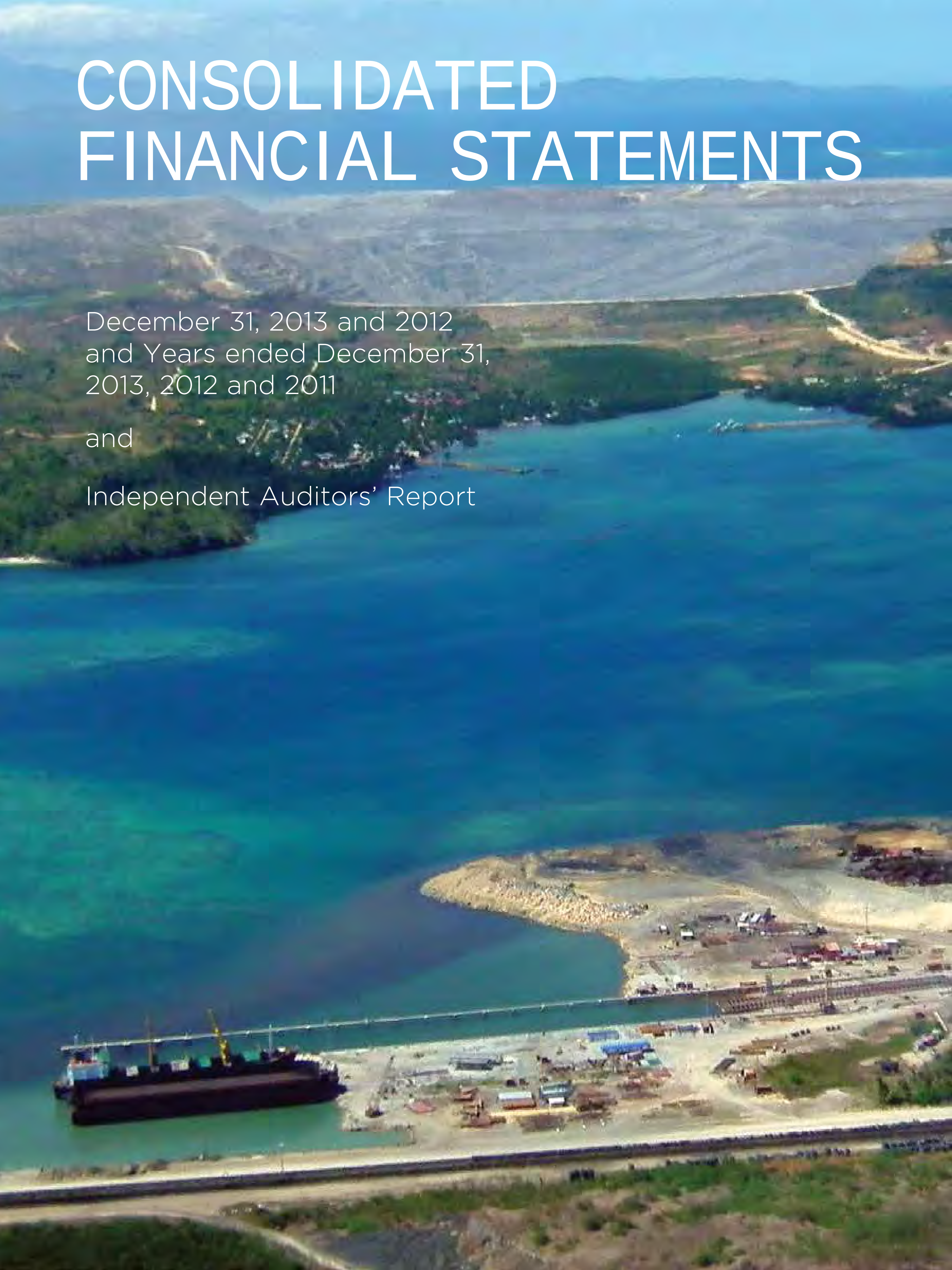
The Annual General Meeting of Shareholders will be held on 5 May 2014

# CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2013 and 2012
and Years ended December 31,
2013, 2012 and 2011

and

Independent Auditors' Report



SEMIRARA MINING CORPORATION

# STATEMENT OF BOARD OF DIRECTORS' RESPONSIBILITY FOR CONTROL & RISK MANAGEMENT SYSTEM

The Board of Directors ("Board") of SEMIRARA MINING CORPORATION and its subsidiaries ("the Group") is responsible for the internal control and risk management system of the Group. It ensures that organizational and procedural controls are supported by an effective management information and risk management reporting system.

During the year, Management has established and maintained an adequate system of internal controls to provide reasonable assurance that assets are safeguarded against loss for unauthorized use or disposition, and transactions are properly authorized and recorded as necessary to enable the preparation of accurate financial statements in accordance with the Philippine Financial Reporting Standards. The Internal Audit focused in providing risk-based assurance review of significant processes based on risk assessments and consistent with the organization's strategic objectives. The Audit Committee has reported to the Board on its oversight of the internal control environment, risk management, financial reporting process, internal audit, external audit and compliance functions in its separate report to the Board.

Based on the abovementioned assurance activities, the Board is of the opinion that an adequate control and risk system is in place and working effectively.

March 19, 2014

David M. Consunji
Chairman

Isidro A. Consunji
Vice Chairman and Chief Executive Officer

SEMIRARA MINING CORPORATION

# AUDIT COMMITTEE REPORT
# TO THE BOARD OF DIRECTORS
For the Year Ended December 31, 2013

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

- Financial reporting process and integrity of the financial statements,
- Internal control environment,
- external audit performance,
- internal audit performance,
- risk management process, and
- compliance with applicable legal and regulatory requirements.

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

In 2013, the Audit Committee had eight (8) meetings, all of which were in-person meetings with Management, external auditor SGV & Co., Internal Audit, Corporate Counsel, Chief Governance Officer/Compliance Officer and Compliance Committee members. Meetings were presided by the Committee Chairman with attendance by all its Members, except in June 26, 2013 and December 11, 2013 when said meetings were held with a quorum of two Members.

In compliance with its Charter, the Audit Committee confirms that:

- *The Committee reviewed and discussed with Management and SGV & Co. the quarterly and annual audited consolidated financial statements of Semirara Mining Corporation and Subsidiaries as of and for the year ended December 31, 2013. It also reviewed significant related party transactions to ensure a transparent and fair view that meet shareholder needs. These activities were done in the context that Management has the primary responsibility for the financial statements and the reporting process, and that SGV & Co. is responsible for expressing an opinion on the conformity of the Company's audited consolidated financial statements with Philippine Financial Reporting Standards;*

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

- *The Committee reviewed and approved SGV & Co.'s overall audit scope, plan and audit-related services, fees and terms of engagements. It recommended to the Board the re-appointment of SGV & Co. as the Company's independent external auditor for 2014 based on its review of SGV's performance, independence, qualifications and with due regard of Management's feedback;*

- *The Committee reviewed and discussed with Management, SGV & Co., Internal Audit and Compliance Committee the results of assurance reviews on controls and compliance issues, and ensured Management responded appropriately for the continual improvement of processes. The oversight is done in the context that Management has the responsibility and accountability for addressing internal control and compliance with legal and regulatory matters;*

- *The Committee reviewed and approved Internal Audit's 2013 plan and scope based on a risk-based approach and ensured Management provided adequate resources to support the function and maintain its independence. It met in executive sessions with Internal Audit to review and discuss its performance of assurance and advisory activities during the year;*

- *The Committee discussed with Management and Internal Audit the results of risk reviews and identified key risks to the Company's mission and strategic objectives, ensuring the adequacy of the Company's Enterprisewide Risk Management framework, risk management processes, systems, risk mitigation measures, monitoring and reporting. The oversight is done in the context that Management has the primary responsibility for the risk management process;*

- *The Committee reviewed and discussed with the Compliance Committee significant updates and Management actions on SEC, PSE, legal, tax, claims, litigations, environmental, safety and other regulatory matters;*

- *The Committee conducted an assessment of its own performance which indicated an overall compliance level in consonance with SEC's Audit Committee performance assessment guidelines for publicly-listed companies;*

- *The Committee Chair and Members attended the Annual Stockholders' Meeting on May 6, 2013 to address possible shareholder queries on Committee matters; and*

- *The Committee continued to support the Company's governance framework through continual review and endorsement to the Board of good governance policies and best practices.*



Based on the reviews and discussions referred to above, and subject to the limitations on the Committee's roles and responsibilities referred to above, the Audit Committee recommends to the Board of Directors the inclusion of the Company's audited consolidated financial statements as of and for the year ended December 31, 2013 in the Company's Annual Report to the Stockholders and for filing with the Securities and Exchange Commission.

March 19, 2014

| | | |
|---|---|---|
| **Victor C. Macalincag**<br>*Committee Chair*<br>*Independent Director* | **Federico E. Puno**<br>*Member*<br>*Independent Director* | **Victor A. Consunji**<br>*Member* |

# STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR CONSOLIDATED FINANCIAL STATEMENTS

The management of **SEMIRARA MINING CORPORATION** is responsible for the preparation and fair presentation of the consolidated financial statements for the years ended December 31, 2013 and 2012, 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 19th day of March 2014.

DAVID M. CONSUNJI
Chairman of the Board

ISIDRO A. CONSUNJI
Chief Executive Officer

JUNALINA S. TABOR
Chief Finance Officer

The Stockholders and the Board of Directors
Semirara Mining Corporation

We have audited the accompanying consolidated financial statements of Semirara Mining Corporation and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2013 and 2012, 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, 2013, 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 Corporation and its subsidiaries as at December 31, 2013 and 2012, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2013 in accordance with Philippine Financial Reporting Standards.



SYCIP GORRES VELAYO & CO.

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. 4225226, January 2, 2014, Makati City

March 19, 2014

# CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Amounts in Thousands)



| | December 31 | | January 1 |
|---|---|---|---|
| | **2013** | 2012 As restated (see Note 2) | 2012 As restated (see Note 2) |
| **ASSETS** | | | |
| **Current Assets** | | | |
| Cash and cash equivalents (Notes 4, 29 and 30) | **₱4,819,307,265** | ₱534,390,774 | ₱5,005,240,275 |
| Receivables (Notes 5, 18, 29 and 30) | **4,031,651,937** | 3,581,843,715 | 3,215,781,247 |
| Inventories (Notes 6 and 8) | **4,629,560,568** | 5,659,589,353 | 4,592,835,539 |
| Other current assets (Notes 7 and 31) | **1,319,685,738** | 1,935,930,078 | 1,310,428,666 |
| Total Current Assets | **14,800,205,508** | 11,711,753,920 | 14,124,285,727 |
| **Noncurrent Assets** | | | |
| Property, plant and equipment (Note 8) | **27,286,155,824** | 22,724,754,817 | 20,737,333,275 |
| Investment in sinking fund (Notes 9, 13, 29 and 30) | **517,603,224** | 508,041,189 | 490,789,157 |
| Exploration and evaluation asset (Note 10) | **348,152,638** | – | – |
| Deferred tax assets (Notes 25 and 33) | **139,957,352** | 10,748,143 | 19,747,094 |
| Other noncurrent assets (Notes 11, 29, 30 and 31) | **1,635,316,348** | 1,240,033,021 | 257,380,474 |
| Total Noncurrent Assets | **29,927,185,386** | 24,483,577,170 | 21,505,250,000 |
| | **₱44,727,390,894** | ₱36,195,331,090 | ₱35,629,535,727 |
| **LIABILITIES AND EQUITY** | | | |
| **Current Liabilities** | | | |
| Trade and other payables (Notes 14, 18, 29 and 30) | **₱6,184,656,544** | ₱6,813,145,215 | ₱7,299,028,784 |
| Short-term loans (Notes 12, 29 and 30) | **1,655,079,934** | 175,646,271 | 1,010,692,002 |
| Current portion of long-term debt (Notes 13, 29 and 30) | **2,151,158,019** | 5,182,961,376 | 2,992,660,795 |
| Total Current Liabilities | **9,990,894,497** | 12,171,752,862 | 11,302,381,581 |
| **Noncurrent Liabilities** | | | |
| Long-term debt - net of current portion (Notes 13, 29 and 30) | **13,657,488,332** | 6,996,312,300 | 9,469,150,099 |
| Deferred tax liabilities (Note 25) | **–** | – | 565,480 |
| Provision for decommissioning and site rehabilitation (Note 15) | **196,504,051** | 62,448,101 | 47,582,228 |
| Pension liabilities (Note 19) | **31,645,362** | 36,547,475 | 6,772,120 |
| Other noncurrent liabilities (Notes 11 and 18) | **723,346,948** | 57,938,954 | – |
| Total Noncurrent Liabilities | **14,608,984,693** | 7,153,246,830 | 9,524,069,927 |
| Total Liabilities | **24,599,879,190** | 19,324,999,692 | 20,826,451,508 |
| **Equity** | | | |
| Capital stock (Notes 16 and 29) | **356,250,000** | 356,250,000 | 356,250,000 |
| Additional paid-in capital (Notes 16 and 29) | **6,675,527,411** | 6,675,527,411 | 6,675,527,411 |
| Remeasurement gains (losses) on pension plan (Notes 2, 19 and 29) | **(5,876,670)** | (18,465,694) | (2,072,866) |
| Retained earnings (Notes 17 and 29) | | | |
| Unappropriated | **10,801,610,963** | 9,157,019,681 | 7,073,379,674 |
| Appropriated | **2,300,000,000** | 700,000,000 | 700,000,000 |
| Total Equity | **20,127,511,704** | 16,870,331,398 | 14,803,084,219 |
| | **₱44,727,390,894** | ₱36,195,331,090 | ₱35,629,535,727 |

*See accompanying Notes to Consolidated Financial Statements.*

# CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME



| | Years Ended December 31 | | |
|---|---|---|---|
| | **2013** | 2012 As restated (see Note 2) | 2011 As restated (see Note 2) |
| **REVENUE** (Note 33) | | | |
| Coal | **₱12,573,569,245** | ₱14,450,155,334 | ₱16,201,880,411 |
| Power | **14,757,590,738** | 9,700,092,214 | 9,611,704,378 |
| | **27,331,159,983** | 24,150,247,548 | 25,813,584,789 |
| **COST OF SALES** (Notes 18, 20 and 33) | | | |
| Coal | **8,664,871,498** | 9,825,154,753 | 11,101,153,958 |
| Power | **5,445,624,630** | 4,818,786,103 | 5,559,465,504 |
| | **14,110,496,128** | 14,643,940,856 | 16,660,619,462 |
| **GROSS PROFIT** | **13,220,663,855** | 9,506,306,692 | 9,152,965,327 |
| **OPERATING EXPENSES** (Notes 21 and 33) | **(5,264,517,633)** | (3,398,375,301) | (2,856,258,209) |
| **INCOME FROM OPERATIONS** | **7,956,146,222** | 6,107,931,391 | 6,296,707,118 |
| **OTHER INCOME (CHARGES)** | | | |
| Finance income (Notes 23 and 33) | **26,804,566** | 82,144,317 | 134,876,681 |
| Finance costs (Notes 22 and 33) | **(381,229,343)** | (501,280,033) | (483,287,781) |
| Foreign exchange gains (losses) - net (Note 33) | **(481,177,225)** | 391,000,330 | (38,318,119) |
| Other income (Notes 24 and 33) | **281,208,758** | 318,448,268 | 99,905,297 |
| | **(554,393,244)** | 290,312,882 | (286,823,922) |
| **INCOME BEFORE INCOME TAX** | **7,401,752,978** | 6,398,244,273 | 6,009,883,196 |
| **PROVISION FOR (BENEFIT FROM) INCOME TAX** (Notes 25 and 33) | **(117,838,304)** | 39,604,266 | (21,894,514) |
| **NET INCOME** | **7,519,591,282** | 6,358,640,007 | 6,031,777,710 |
| **OTHER COMPREHENSIVE INCOME** | | | |
| **Items not to be reclassified to profit or loss in subsequent periods** | | | |
| Remeasurement gains (losses) on pension plan (Notes 2 and 19) | **17,984,320** | (23,418,326) | (2,961,237) |
| Income tax effect | **(5,395,296)** | 7,025,498 | 888,371 |
| **TOTAL COMPREHENSIVE INCOME** | **₱7,532,180,306** | ₱6,342,247,179 | ₱6,029,704,844 |
| **Basic/Diluted Earnings per Share** (Note 26) | **₱21.11** | ₱17.85 | ₱16.93 |

*See accompanying Notes to Consolidated Financial Statements.*

# 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 2) | Total |
|---|---|---|---|---|---|---|
| | | | **For the Year Ended December 31, 2013** | | | |
| **Balances as of December 31, 2012, as previously stated** | **₱356,250,000** | **₱6,675,527,411** | **₱9,160,044,218** | **₱700,000,000** | **₱–** | **₱16,891,821,629** |
| Effect of the adoption of Revised PAS 19 (Note 2) | **–** | **–** | **(3,024,537)** | **–** | **(18,465,694)** | **(21,490,231)** |
| **Balances as of December 31, 2012, as restated** | **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** | **–** | **–** |
| 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** |
| | | | For the Year Ended December 31, 2012 | | | |
| **Balances as of January 1, 2012, as previously stated** | ₱356,250,000 | ₱6,675,527,411 | ₱7,076,762,346 | ₱700,000,000 | ₱– | ₱14,808,539,757 |
| Effect of the adoption of Revised PAS 19 (Note 2) | – | – | (3,382,672) | – | (₱2,072,866) | (5,455,538) |
| **Balances as of January 1, 2012, as restated** | 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, as previously stated | – | – | 6,358,281,872 | – | – | 6,358,281,872 |
| Effect of the adoption of Revised PAS 19 (Note 2) | – | – | 358,135 | – | – | 358,135 |
| Net income, as restated | – | – | 6,358,640,007 | – | – | 6,358,640,007 |
| Other comprehensive income, as previously stated | – | – | | – | – | – |

(Forward)

| | 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 2) | Total |
|---|---|---|---|---|---|---|
| Effect of the adoption of Revised PAS 19 (Note 2) | ₱– | ₱– | ₱– | ₱– | (₱16,392,828) | (₱16,392,828) |
| Other comprehensive income, as restated | – | – | – | – | (16,392,828) | (16,392,828) |
| Total comprehensive income, as restated | – | – | 6,358,640,007 | – | (16,392,828) | 6,342,247,179 |
| Dividends declared | – | – | (4,275,000,000) | – | – | (4,275,000,000) |
| **Balances as of December 31, 2012, as restated** | ₱356,250,000 | ₱6,675,527,411 | ₱9,157,019,681 | ₱700,000,000 | (₱18,465,694) | ₱16,870,331,398 |
| | | | For the Year Ended December 31, 2011 | | | |
| **Balances as of January 1, 2011, as previously stated** | ₱356,250,000 | ₱6,675,527,411 | ₱4,608,125,771 | ₱700,000,000 | ₱– | ₱12,339,903,182 |
| Effect of the adoption of Revised PAS 19 (Note 2) | – | – | (4,023,807) | – | – | (4,023,807) |
| **Balances as of January 1, 2011, as restated** | 356,250,000 | 6,675,527,411 | 4,604,101,964 | 700,000,000 | – | 12,335,879,375 |
| Comprehensive income | | | | | | |
| Net income, as previously stated | – | – | 6,031,136,575 | – | – | 6,031,136,575 |
| Effect of the adoption of Revised PAS 19 (Note 2) | – | – | 641,135 | – | – | 641,135 |
| Net income, as restated | – | – | 6,031,777,710 | – | – | 6,031,777,710 |
| Other comprehensive income, as previously stated | – | – | | – | – | – |
| Effect of the adoption of Revised PAS 19 (Note 2) | – | – | – | – | (2,072,866) | (2,072,866) |
| Other comprehensive income, as restated | – | – | – | – | (2,072,866) | (2,072,866) |
| Total comprehensive income, as restated | – | – | 6,031,777,710 | – | (2,072,866) | 6,029,704,844 |
| Dividends declared | – | – | (3,562,500,000) | – | – | (3,562,500,000) |
| **Balances as of December 31, 2011, as restated** | ₱356,250,000 | ₱6,675,527,411 | ₱7,073,379,674 | ₱700,000,000 | (₱2,072,866) | ₱14,803,084,219 |

*See accompanying Notes to Consolidated Financial Statements.*

# CONSOLIDATED STATEMENTS OF CASH FLOWS



| | Years Ended December 31 | | |
|---|---|---|---|
| | **2013** | 2012 As restated (see Note 2) | 2011 As restated (see Note 2) |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Income before income tax | **₱7,401,752,978** | ₱6,398,244,273 | ₱6,009,883,196 |
| Adjustments for: | | | |
| Depreciation and amortization (Notes 8, 11, 20 and 21) | **3,901,422,138** | 2,864,685,264 | 2,673,265,190 |
| Loss on disposal and writedown of property, plant and equipment (Notes 8 and 21) | **449,910,879** | 341,146,346 | – |
| Provision for (reversal of) allowance for doubtful accounts (Notes 5, 21 and 24) | **443,650,080** | (9,552,129) | (2,887,831) |
| Finance costs (Note 22) | **381,229,343** | 501,280,033 | 483,287,781 |
| Net unrealized foreign exchange losses (gains) | **309,119,279** | (222,718,411) | 37,939,453 |
| Pension expense (Note 19) | **19,939,843** | 8,286,117 | 6,530,366 |
| Gain on sale of equipment (Notes 8 and 24) | **(135,073)** | (127,491,090) | (53,547,507) |
| Finance income (Note 23) | **(26,804,566)** | (82,144,317) | (134,876,681) |
| 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 | **12,818,535,537** | 9,718,886,803 | 9,019,593,967 |
| Changes in operating assets and liabilities: | | | |
| Decrease (increase) in: | | | |
| Receivables | **(894,499,145)** | (1,153,130,701) | (70,265,227) |
| Inventories | **1,102,438,628** | (871,624,332) | (3,468,381,792) |
| Other current assets | **604,555,167** | (706,604,467) | (697,662,177) |
| Increase (decrease) in trade and other payables | **(635,524,320)** | 345,413,475 | 2,206,216,109 |
| Cash generated from operations | **12,995,505,867** | 7,332,940,778 | 6,989,500,880 |
| Contributions to pension plan (Note 19) | **–** | – | (28,464,526) |
| Benefits paid (Note 19) | **(6,857,636)** | (1,929,088) | – |
| Interest received | **26,801,810** | 76,576,301 | 134,757,554 |
| Interest paid | **(355,711,778)** | (468,137,685) | (457,767,190) |
| Income taxes paid | **(5,074,275)** | (5,248,207) | (23,036,319) |
| Net cash provided by operating activities | **12,654,663,988** | 6,934,202,099 | 6,614,990,399 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Additions to property, plant and equipment (including borrowing cost) (Notes 8 and 32) | **(8,897,742,645)** | (5,369,645,794) | (2,454,376,480) |
| Additions to computer software (Note 11) | **(4,936,722)** | (1,052,066) | (4,712,460) |
| Additions to investment in sinking fund (Note 9) | **(10,812,036)** | (17,252,032) | (180,559,599) |
| Decrease (increase) in other noncurrent assets (Note 11) | **(332,430,801)** | (1,033,157,655) | 54,422,078 |
| Proceeds from sale of equipment (Note 8) | **135,073** | 127,491,109 | 56,175,636 |
| Additions to exploration and evaluation asset (Note 10) | **(298,731,356)** | – | – |
| Increase in other noncurrent liabilities (Note 11) | **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 | **(8,877,860,493)** | (6,235,677,484) | (2,529,050,825) |

(Forward)

| | Years Ended December 31 | | |
|---|---|---|---|
| | **2013** | 2012 As restated (see Note 2) | 2011 As restated (see Note 2) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Proceeds from loans | **₱15,522,112,961** | ₱4,466,523,614 | ₱4,895,811,758 |
| Payments of: | | | |
| Dividends (Note 17) | **(4,275,000,000)** | (4,275,000,000) | (3,562,500,000) |
| Loans | **(10,748,643,259)** | (5,297,823,378) | (4,234,947,419) |
| Net cash (used in) provided by financing activities | **498,469,702** | (5,106,299,764) | (2,901,635,661) |
| **EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS** | **9,643,294** | (63,074,352) | 7,652,845 |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | **4,284,916,491** | (4,470,849,501) | 1,191,956,758 |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR** | **534,390,774** | 5,005,240,275 | 3,813,283,517 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** (Note 4) | **₱4,819,307,265** | ₱534,390,774 | ₱5,005,240,275 |

*See accompanying Notes to Consolidated Financial Statements.*

## 1. Corporate Information

Semirara Mining 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).

The consolidated financial statements as of December 31, 2013 and 2012 and for each of the three years in the period ended December 31, 2013 were endorsed for approval by the Audit Committee on March 3, 2014 and were authorized for issue by the Executive Committee of the Board of Directors (BOD) on March 19, 2014.

## 2. Summary of Significant Accounting Policies

<u>Basis of Preparation</u>
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.

The consolidated financial statements provide comparative information in respect of the previous period. In addition, the Group presents an additional statement of financial position at the beginning of the earliest period presented when there is a retrospective application of an accounting policy, a retrospective restatement, or a reclassification of items in financial statements. An additional statement of financial position as at January 1, 2012 is presented in these consolidated financial statements due to retrospective application of Philippine Accounting Standards (PAS) 19, *Employee Benefits* (Revised 2011).

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, 2013 and 2012, and for each of the three years in the period ended December 31, 2013.

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** | | |
|---|---|---|---|
| | **2013** | 2012 | 2011 |
| 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 | – |
| Semirara Energy Utilities, Inc. (SEUI) | **100.00** | – | – |
| St. Raphael Power Generation Corporation (SRPGC) | **100.00** | – | – |
| SEM-Balayan Power Generation Corporation (SBPGC) | **100.00** | – | – |
| Sem-Calaca RES Corporation (SCRC)* | **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, 2013.

*SCPC*

On July 8, 2009, Power Sector Assets and Liabilities Management Corporation (PSALM) selected DMCI-HI as the 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.

On December 1, 2009, the Parent Company was authorized by the Board of Directors (BOD) to advance the amount of ₱7.16 billion for purchase of the Power Plant from PSALM, through its wholly owned subsidiary in order to meet SCPC's financial obligation under Asset Purchase Agreement (APA) and Land Lease Agreement (LLA). On March 7, 2011, the said advances were converted by the Parent Company into SCPC's common shares of 7,998.75 million.

Pursuant to the provision of the APA, PSALM, agreed to sell and transfer to DMCI-HI the Power Plant on an "as is where is" basis on December 2, 2009. The agreed Purchase Price amounted to $368.87 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 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 as of December 31, 2013.

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 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.

<u>Changes in Accounting Policies</u>
The accounting policies adopted are consistent with those of the previous financial year except for the following new and amended PFRS, PAS and Philippine Interpretations of International Financial Reporting Interpretations Committee (IFRIC) which became effective on January 1, 2013. Adoption of these changes in PFRS constitutes an additional statement of financial position at the beginning of the earliest period due to retrospective application of such amendments. 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:

- PFRS 7, *Financial instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities* (Amendments)
  These amendments require an entity to disclose information about rights of set-off and related arrangements (such as collateral agreements). The new disclosures are required for all recognized financial instruments that are set off in accordance with PAS 32. These disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or 'similar agreement', irrespective of whether they are set-off in accordance with PAS 32. The amendments require entities to disclose, in a tabular format, unless another format is more appropriate, the following minimum quantitative information. This is presented separately for financial assets and financial liabilities recognized at the end of the reporting period:
    a) The gross amounts of those recognized financial assets and recognized financial liabilities;
    b) The amounts that are set off in accordance with the criteria in PAS 32 when determining the net amounts presented in the statement of financial position;
    c) The net amounts presented in the statement of financial position;
    d) The amounts subject to an enforceable master netting arrangement or similar agreement that are not otherwise included in (b) above, including:

i. Amounts related to recognized financial instruments that do not meet some or all of the offsetting criteria in PAS 32; and
ii. Amounts related to financial collateral (including cash collateral); and

e) The net amount after deducting the amounts in (d) from the amounts in (c) above.

- PFRS 10, *Consolidated Financial Statements*
  PFRS 10 replaced the portion of PAS 27, *Consolidated and Separate Financial Statements*, that addressed the accounting for consolidated financial statements. It also included the issues raised in SIC 12, *Consolidation - Special Purpose Entities*. PFRS 10 established a single control model that applied to all entities including special purpose entities. The changes introduced by PFRS 10 require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in PAS 27. A reassessment of control was performed by the Parent Company on all its interest in other entities and has determined that there are no additional entities that need to be consolidated or entities to be deconsolidated.



- PFRS 11, *Joint Arrangements*
  PFRS 11 replaced PAS 31, *Interests in Joint Ventures*, and SIC 13, *Jointly Controlled Entities - Non-Monetary Contributions by Venturers*. PFRS 11 removed the option to account for jointly controlled entities using proportionate consolidation. Instead, jointly controlled entities that meet the definition of a joint venture must be accounted for using the equity method. The new standard is effective for periods beginning on or after January 1, 2013 and has no impact on the Group's financial position or performance.

- PFRS 12, *Disclosure of Interests in Other Entities*
  PFRS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. The requirements in PFRS 12 are more comprehensive than the previously existing disclosure requirements for subsidiaries (for example, where a subsidiary is controlled with less than a majority of voting rights). The new standard is effective for periods beginning on or after January 1, 2013 and has no impact on the Group's financial position or performance.

- PFRS 13, *Fair Value Measurement*
  PFRS 13 establishes a single source of guidance under PFRSs for all fair value measurements. PFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under PFRS. PFRS 13 defines fair value as an exit price. PFRS 13 also requires additional disclosures.

  As a result of the guidance in PFRS 13, the Group re-assessed its policies for measuring fair values. Additional disclosures, where required, are provided in Note 30. The new standard is effective for periods beginning on or after January 1, 2013.

- PAS 1, *Presentation of Financial Statements - Presentation of Items of Other Comprehensive Income or OCI* (Amendments)
  The amendments to PAS 1 introduced a grouping of items presented in OCI. Items that will be reclassified (or "recycled") to profit or loss at a future point in time (for example, upon derecognition or settlement) will be presented separately from items that will never be

recycled. The amendments affect presentation only and have no impact on the Group's financial position or performance. The amendments are effective for periods beginning on or after July 1, 2012.

- PAS 19, *Employee Benefits* (Revised)
  On January 1, 2013, the Group adopted the Revised PAS 19.

  For defined benefit plans, the Revised PAS 19 requires all actuarial gains and losses to be recognized in OCI and unvested past service costs previously recognized over the average vesting period to be recognized immediately in profit or loss when incurred.

  Prior to adoption of the Revised PAS 19, the Group recognized actuarial gains and losses as income or expense when the net cumulative unrecognized gains and losses for each individual plan at the end of the previous period exceeded 10% of the higher of the defined benefit liability and the fair value of the plan assets and recognized unvested past service costs as an expense on a straight-line basis over the average vesting period until the benefits become vested. Upon adoption of the Revised PAS 19, the Group changed its accounting policy to recognize all actuarial gains and losses in OCI and all past service costs in profit or loss in the period they occur.

  The Revised PAS 19 replaced the interest cost and expected return on plan assets with the concept of net interest on defined benefit liability or asset which is calculated by multiplying the net balance sheet defined benefit liability or asset by the discount rate used to measure the employee benefit liability, each as at the beginning of the annual period.

  The Revised PAS 19 also amended the definition of short-term employee benefits and requires employee benefits to be classified as short-term based on expected timing of settlement rather than the employee's entitlement to the benefits. In addition, the Revised PAS 19 modifies the timing of recognition for termination benefits. The modification requires the termination benefits to be recognized at the earlier of when the offer cannot be withdrawn or when the related restructuring costs are recognized.

  Changes to definition of short-term employee benefits and timing of recognition for termination benefits do not have any impact to the Group's financial position and financial performance.

  The changes in accounting policies have been applied retrospectively. The effects of the adoption in the consolidated financial statements are as follows:

| | As at December 31, 2013 | As at December 31, 2012 (As restated) | As at January 1, 2012 (As restated) |
|---|---|---|---|
| Increase (decrease) in: | | | |
| Consolidated Statements of Financial Position | | | |
| Net defined benefit liability | ₱12,716,015 | ₱30,700,336 | ₱7,793,626 |
| Deferred tax assets | (3,814,808) | (9,210,105) | (2,338,088) |
| Remeasurement losses on pension plan | (5,876,670) | (18,465,694) | (2,072,866) |
| Retained earnings | (3,024,537) | (3,024,537) | (3,382,672) |

| | 2013 | 2012 (As restated) | 2011 (As restated) |
|---|---|---|---|
| Consolidated Statements of Comprehensive Income | | | |
| General and administrative expenses | (₱171,175) | (₱511,604) | (₱915,907) |
| Income before income tax | 171,175 | 511,604 | 915,907 |
| Provision for income tax | 51,352 | 153,481 | 274,772 |
| Net income for the year | 119,823 | 358,123 | 641,135 |
| Other comprehensive income | | | |
| Remeasurement losses (gains) of defined benefit obligation (Note 19) | (17,984,320) | 23,418,326 | 2,961,237 |
| Income tax effects | 5,395,296 | (7,025,498) | (888,371) |
| Other comprehensive income for the year, net of tax | 12,589,024 | (16,392,828) | (2,072,866) |
| Total comprehensive income for the year | ₱12,708,847 | (₱16,034,705) | (₱1,431,731) |

The adoption did not have an impact on statement of cash flows.

- PAS 27, *Separate Financial Statements* (as revised in 2011)
  As a consequence of the issuance of the new PFRS 10 and PFRS 12, what remains of PAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in the separate financial statements. The adoption of the amended PAS 27 did not have a significant impact on the separate financial statements of the entities in the Group. The revised standard is effective for periods beginning on or after January 1, 2013.

- PAS 28, *Investments in Associates and Joint Ventures* (as revised in 2011)
  As a consequence of the issuance of the new PFRS 11, *Joint Arrangements*, and PFRS 12, *Disclosure of Interests in Other Entities*, PAS 28 has been renamed PAS 28, *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates. The revised standard is effective for periods beginning on or after January 1, 2013.

- Philippine Interpretation IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine*
  This interpretation applies to waste removal (stripping) costs incurred in surface mining activity, during the production phase of the mine. The interpretation addresses the accounting for the benefit from the stripping activity. Management has assessed the impact of the interpretation on its coal mining activities both for the open pit mining and the one under exploration and evaluation. Management has concluded that its existing accounting policy is consistent with the requirements of the new interpretation and therefore the adoption did not impact both the financial position and performance of the Group.

- PFRS 1, *First-time Adoption of International Financial Reporting Standards - Government Loans* (Amendments)
  The amendments to PFRS 1 require first-time adopters to apply the requirements of PAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*, prospectively to government loans existing at the date of transition to PFRS. However, entities may choose to apply the requirements of PAS 39, *Financial Instruments*: *Recognition and Measurement*, and PAS 20 to government loans retrospectively if the information needed to do so had been obtained at the time of initially accounting for those loans. These amendments are not relevant to the Group and effective for the periods beginning on or after January 1, 2013.

*Annual Improvements to PFRSs* (2009-2011 cycle)
The *Annual Improvements to PFRSs* (2009-2011 cycle) contain non-urgent but necessary amendments to PFRSs. The Group adopted these amendments for the current year. These amendments are not relevant to the Group and effective for the periods beginning on or after January 1, 2013.



- PFRS 1, *First-time Adoption of PFRS - Borrowing Costs*
  The amendment clarifies that, upon adoption of PFRS, an entity that capitalized borrowing costs in accordance with its previous generally accepted accounting principles, may carry forward, without any adjustment, the amount previously capitalized in its opening statement of financial position at the date of transition. Subsequent to the adoption of PFRS, borrowing costs are recognized in accordance with PAS 23, *Borrowing Costs*. The amendment does not apply to the Group as it is not a first-time adopter of PFRS.

- PAS 1, *Presentation of Financial Statements - Clarification of the requirements for comparative information*
  These amendments clarify the requirements for comparative information that are disclosed voluntarily and those that are mandatory due to retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The additional comparative period does not need to contain a complete set of financial statements. On the other hand, supporting notes for the third balance sheet (mandatory when there is a retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements) are not required. As a result, the Group has not included comparative information in respect of the opening statement of financial position as at January 1, 2012. The amendments affect disclosures only and have no impact on the Group's financial position or performance.

- PAS 16, *Property, Plant and Equipment - Classification of servicing equipment*
  The amendment clarifies that spare parts, stand-by equipment and servicing equipment should be recognized as property, plant and equipment when they meet the definition of property, plant and equipment and should be recognized as inventory if otherwise. The amendment does not have any significant impact on the Group's financial position or performance.

- PAS 32, *Financial Instruments: Presentation - Tax effect of distribution to holders of equity instruments*
  The amendment clarifies that income taxes relating to distributions to equity holders and to transaction costs of an equity transaction are accounted for in accordance with PAS 12, *Income Taxes*. The amendment does not have any significant impact on the Group's financial position or performance.

- PAS 34, *Interim Financial Reporting - Interim financial reporting and segment information for total assets and liabilities*
  The amendment clarifies that the total assets and liabilities for a particular reportable segment need to be disclosed only when the amounts are regularly provided to the chief operating decision maker and there has been a material change from the amount disclosed in the entity's previous annual financial statements for that reportable segment. The amendment affects disclosures only and has no impact on the Group's financial position or performance.

New Standards and Interpretations Issued but not yet Effective

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.

- PAS 36, *Impairment of Assets - Recoverable Amount Disclosures for Non-Financial Assets* (Amendments)
  These amendments remove the unintended consequences of PFRS 13 on the disclosures required under PAS 36. In addition, these amendments require disclosure of the recoverable amounts for the assets or cash-generating units (CGUs) for which impairment loss has been recognized or reversed during the period. These amendments are effective retrospectively for annual periods beginning on or after January 1, 2014 with earlier application permitted, provided PFRS 13 is also applied. The amendments affect disclosures only and have no impact on the Group's financial position or performance.

- Investment Entities (Amendments to PFRS 10, PFRS 12 and PAS 27)
  These amendments are effective for annual periods beginning on or after January 1, 2014. They 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 (FVPL). The Group does not expect that this amendment would have significant financial impact in the future 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. IFRIC 21 is effective for annual periods beginning on or after January 1, 2014. The Group does not expect that IFRIC 21 will have significant financial impact in future financial statements.

- 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. These amendments are effective for annual periods beginning on or after January 1, 2014. The Group does not expect that this amendment would have significant financial impact in the future financial statements.

- PAS 32, *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities* (Amendments)
  The amendments clarify the meaning of "currently has a legally enforceable right to set-off" and also clarify the application of the PAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments affect presentation only and have no impact on the Group's financial position or performance. The amendments to PAS 32 are to be retrospectively applied for annual periods beginning on or after January 1, 2014.

- PAS 19, *Employee Benefits - Defined Benefit Plans: Employee Contributions* (Amendments)
  The amendments apply to contributions from employees or third parties to defined benefit plans. Contributions that are set out in the formal terms of the plan shall be accounted for as

reductions to current service costs if they are linked to service or as part of the remeasurements of the net defined benefit asset or liability if they are not linked to service. Contributions that are discretionary shall be accounted for as reductions of current service cost upon payment of these contributions to the plans. The amendments to PAS 19 are to be retrospectively applied for annual periods beginning on or after July 1, 2014.

*Annual Improvements to PFRSs* (2010-2012 cycle)
The *Annual Improvements to PFRSs* (2010-2012 cycle) contain non-urgent but necessary amendments to the following standards:



- PFRS 2, *Share-based Payment - Definition of Vesting Condition*
  The amendment revised the definitions of vesting condition and market condition and added the definitions of performance condition and service condition to clarify various issues. This amendment shall be prospectively applied to share-based payment transactions for which the grant date is on or after July 1, 2014. This amendment does not apply to the Group as it has no share-based payments.

- PFRS 3, *Business Combinations - Accounting for Contingent Consideration in a Business Combination*
  The amendment clarifies that a contingent consideration that meets the definition of a financial instrument should be classified as a financial liability or as equity in accordance with PAS 32. 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 PFRS 9 (or PAS 39, if PFRS 9 is not yet adopted). The amendment shall be prospectively applied to business combinations for which the acquisition date is on or after July 1, 2014. 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 require entities to disclose the judgment made by management in aggregating two or more operating segments. This disclosure should include a brief description of the operating segments that have been aggregated in this way and the economic indicators that have been assessed in determining that the aggregated operating segments share similar economic characteristics. The amendments also clarify that an entity shall provide reconciliations of the total of the reportable segments' assets to the entity's assets if such amounts are regularly provided to the chief operating decision maker. These amendments are effective for annual periods beginning on or after July 1, 2014 and are applied retrospectively. The amendments have no impact on the Group's financial position or performance.

- PFRS 13, *Fair Value Measurement - Short-term Receivables and Payables*
  The amendment clarifies that short-term receivables and payables with no stated interest rates can be held at invoice amounts when the effect of discounting is immaterial.

- PAS 16, *Property, Plant and Equipment - Revaluation Method - Proportionate Restatement of Accumulated Depreciation*
  The amendment clarifies that, upon revaluation of an item of property, plant and equipment, the carrying amount of the asset shall be adjusted to the revalued amount, and the asset shall be treated in one of the following ways:
  a. The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. The accumulated depreciation at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account any accumulated impairment losses.

b. The accumulated depreciation is eliminated against the gross carrying amount of the asset.

The amendment is effective for annual periods beginning on or after July 1, 2014. The amendment shall apply to all revaluations recognized in annual periods beginning on or after the date of initial application of this amendment and in the immediately preceding annual period. The amendment has no impact on the Group's financial position or performance.



- PAS 24, *Related Party Disclosures - Key Management Personnel*
  The amendments clarify that an entity is a related party of the reporting entity if the said entity, or any member of a group for which it is a part of, provides key management personnel services to the reporting entity or to the parent company of the reporting entity. The amendments also clarify that a reporting entity that obtains management personnel services from another entity (also referred to as management entity) is not required to disclose the compensation paid or payable by the management entity to its employees or directors. The reporting entity is required to disclose the amounts incurred for the key management personnel services provided by a separate management entity. The amendments are effective for annual periods beginning on or after July 1, 2014 and are applied retrospectively. The amendments affect disclosures only and have no impact on the Group's financial position or performance.

- PAS 38, *Intangible Assets - Revaluation Method - Proportionate Restatement of Accumulated Amortization*
  The amendments clarify that, upon revaluation of an intangible asset, the carrying amount of the asset shall be adjusted to the revalued amount, and the asset shall be treated in one of the following ways:
  a. The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. The accumulated amortization at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account any accumulated impairment losses.
  b. The accumulated amortization is eliminated against the gross carrying amount of the asset.

  The amendments also clarify that the amount of the adjustment of the accumulated amortization should form part of the increase or decrease in the carrying amount accounted for in accordance with the standard.

  The amendments are effective for annual periods beginning on or after July 1, 2014. The amendments shall apply to all revaluations recognized in annual periods beginning on or after the date of initial application of this amendment and in the immediately preceding annual period. The amendments have no impact on the Group's financial position or performance.

*Annual Improvements to PFRSs* (2011-2013 cycle)
The *Annual Improvements to PFRSs* (2011-2013 cycle) contain non-urgent but necessary amendments to the following standards:

- PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards - Meaning of 'Effective PFRSs'*
  The amendment clarifies that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but that permits early application, provided either standard

is applied consistently throughout the periods presented in the entity's first PFRS financial statements. This amendment is not applicable to the Group as it is not a first-time adopter of PFRS.

- PFRS 3, *Business Combinations - Scope Exceptions for Joint Arrangements*
  The amendment clarifies that PFRS 3 does not apply to the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself. The amendment is effective for annual periods beginning on or after July 1, 2014 and is applied prospectively.

- PFRS 13, *Fair Value Measurement - Portfolio Exception*
  The amendment clarifies that the portfolio exception in PFRS 13 can be applied to financial assets, financial liabilities and other contracts. The amendment is effective for annual periods beginning on or after July 1, 2014 and is applied prospectively. The amendment has no significant impact on the Group's financial position or performance.

- PAS 40, *Investment Property*
  The amendment clarifies the interrelationship between PFRS 3 and PAS 40 when classifying property as investment property or owner-occupied property. The amendment stated that judgment is needed when determining whether the acquisition of investment property is the acquisition of an asset or a group of assets or a business combination within the scope of PFRS 3. This judgment is based on the guidance of PFRS 3. This amendment is effective for annual periods beginning on or after July 1, 2014 and is applied prospectively. The amendment has no significant impact on the Group's financial position or performance.

- PFRS 9, *Financial Instruments*
  PFRS 9, as issued, reflects the first and third phases of the project to replace PAS 39 and applies to the classification and measurement of financial assets and liabilities and hedge accounting, respectively. Work on the second phase, which relate to impairment of financial instruments, and the limited amendments to the classification and measurement model is still ongoing, with a view to replace PAS 39 in its entirety. 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 liabilities designated as at FVPL using the fair value option, 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 relating to the entity's own 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 to PFRS 9, including the embedded derivative bifurcation rules and the criteria for using the FVO. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will potentially have no impact on the classification and measurement of financial liabilities.

On hedge accounting, 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 financial instrument as the hedging instrument and accounted for as costs of hedging. PFRS 9 also requires more extensive disclosures for hedge accounting.

PFRS 9 currently has no mandatory effective date. PFRS 9 may be applied before the completion of the limited amendments to the classification and measurement model and impairment methodology. The Group will not adopt the standard before the completion of the limited amendments and the second phase of the project.

In compliance with SEC Memorandum Circular No. 3, Series of 2012, the Group has conducted a study on the impact of an early adoption of PFRS 9. After careful consideration of the results on the impact evaluation, the Group has decided not to early adopt PFRS 9 for its 2013 annual financial reporting. Therefore, these consolidated financial statements do not reflect the impact of the said standard.

- 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 Financial Reporting Standards Council have deferred the effectivity of this interpretation until the final Revenue standard is issued by the International Accounting Standards Board 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.

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, 2013 and 2012, 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. The losses arising from impairment are recognized in the consolidated statement of comprehensive income as "Finance costs".

*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.

Derecognition of Financial Instruments

*Financial assets*

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily 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 a subcategory of '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 outlined above).

Stripping costs incurred during the production phase are generally considered to create two benefits, being either the production of inventory or improved access to the coal body to be mined in the future.  Where the benefits are realized in the form of inventory produced in the period, the production stripping costs are accounted for as part of the cost of producing those inventories. Where the benefits are realized in the form of improved access to ore to be mined in the future, the costs are recognized as a noncurrent asset, referred to as a stripping activity asset, if the following criteria are met:

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

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

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

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

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

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

<u>Intangible Assets</u>
Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition.

Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Internally generated intangibles, excluding capitalized development costs, are not capitalized and the related expenditure is reflected in the consolidated statement of comprehensive income in the period in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting date. Changes in the 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.

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.

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.

Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date. It requires consideration as to whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

a. There is a change in contractual terms, other than a renewal or extension of the arrangement;
b. A renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;
c. There is a change in the determination of whether fulfillment is dependent on a specified asset; or
d. There is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for scenarios (a), (c) or (d) and at the date of the renewal or extension period for scenario (b).

A lease is classified as an operating lease if it does not transfer substantially all of the risks and rewards incidental to ownership. Operating lease payments are recognized in cost of coal sales under "Outside Services" in the consolidated statement of comprehensive income on a straight line basis over the lease term.

Foreign Currency Transactions and Translation
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.

Equity
The Group records common stocks at par value and amount of contribution in excess of par value is accounted for as an additional paid-in capital. Incremental costs incurred directly attributable to the issuance of new shares are deducted from proceeds.

Retained earnings represent accumulated earnings of the Group less dividends declared, if any. Dividends on common stocks are recognized as a liability and deducted from equity when they are declared. Dividends for the year that are approved after reporting date are dealt with as an event after reporting date. Retained earnings may also include effect of changes in accounting policy as may be required by the standard's transitional provisions.

Earnings per Share
Basic earnings per share (EPS) is computed by dividing the net income for the year attributable to common shareholders (net income for the period 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 space, and mining and transportation equipment. 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 31).

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 using American Standards for Testing Materials.

   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 33.

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 and reversal of ₱9.56 million in 2012.

   The allowance for doubtful accounts for Receivables is disclosed in Notes 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 3%. 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. 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 mining 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 Unit 2 of its power plant will have to be dismantled and repaired in the first quarter of 2014. These components have original useful 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, 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 in each jurisdiction. 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 2013 and 2012, the Group has various deductible temporary differences from which no deferred tax assets have been recognized as these are expected to be reversed within the period of the operating activities (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:

| | 2013 | 2012 |
|---|---|---|
| Cash on hand and in banks | **₱3,302,824,538** | ₱520,098,757 |
| Cash equivalents | **1,516,482,727** | 14,292,017 |
| | **₱4,819,307,265** | ₱534,390,774 |

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 4.63% in 2013 and 2012, respectively.

In 2013, 2012 and 2011, total interest income earned from cash and cash equivalents amounted to ₱13.77 million, ₱63.70 million and ₱123.35 million, respectively (see Note 23).

## 5. Receivables

This account consists of:

| | 2013 | 2012 |
|---|---|---|
| Trade receivables - outside parties | **₱4,393,716,197** | ₱3,447,400,981 |
| Trade receivables - related parties (Note 18) | **75,553,612** | 90,003,952 |
| Others | **65,371,369** | 103,777,943 |
| | **4,534,641,178** | 3,641,182,876 |
| Less allowance for doubtful accounts | **502,989,241** | 59,339,161 |
| | **₱4,031,651,937** | ₱3,581,843,715 |

*Trade receivables - outside parties*
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:

| | **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** |
| Individual impairment | **₱497,173,882** | **₱5,815,359** | **₱502,989,241** |
| Gross amounts of individually impaired receivables | **₱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).

| | 2012 | | |
|---|---|---|---|
| | Trade receivables - outside parties | Other Receivables | Total |
| At January 1 | ₱53,523,802 | ₱15,367,488 | ₱68,891,290 |
| Reversals (Note 24) | – | (9,552,129) | (9,552,129) |
| At December 31 | ₱53,523,802 | ₱5,815,359 | ₱59,339,161 |
| Individual impairment | ₱53,523,802 | ₱5,815,359 | ₱59,339,161 |
| Gross amounts of individually impaired receivables | ₱53,523,802 | ₱5,815,359 | ₱59,339,161 |

In 2012, the Group directly wrote-off trade receivables amounting to ₱59.36 million and recorded this as part of provision for doubtful accounts (see Note 21).

## 6. **Inventories**

This account consists of:

| | **2013** | 2012 |
|---|---|---|
| Coal pile inventory at cost | **₱1,938,051,785** | ₱2,404,009,092 |
| Spare parts and supplies at NRV | **2,691,508,783** | 3,255,580,261 |
| | **₱4,629,560,568** | ₱5,659,589,353 |

During 2013, the Group provided allowance for inventory obsolescence for nonmoving spare parts and supplies amounting to ₱4.12 million. None was recorded in 2012. As of December 31, 2013 and 2012, allowance for inventory obsolescence amounted to ₱57.41 million and ₱53.27 million, respectively. Provision for inventory obsolescence is recorded under “Materials and supplies” of cost of coal sales (see Note 20).

Coal pile inventory are stated at cost, which is lower than NRV. The cost of coal inventories recognized as cost of goods sold in the consolidated statements of comprehensive income amounted to ₱8.66 billion, ₱9.83 billion and ₱11.10 billion for each of the three years for the period ended December 31, 2013, 2012 and 2011, respectively (see Note 20).



Spare parts and supplies transferred to Construction in Progress under “Property, plant and equipment” in the consolidated statements of financial position amounted to nil and ₱0.22 billion in 2013 and 2012, respectively (see Note 8). Coal pile inventory at cost included capitalized depreciation of ₱0.12 billion and ₱0.19 billion in 2013 and 2012, respectively (see Note 8).

## 7. Other Current Assets

This account consists of:

| | **2013** | 2012 |
|---|---|---|
| Advances to suppliers | **₱743,277,544** | ₱1,378,306,258 |
| Creditable withholding tax | **505,361,225** | 495,459,369 |
| Prepaid rent (Notes 11 and 31) | **4,544,839** | 4,510,890 |
| Others | **66,502,130** | 57,653,561 |
| | **₱1,319,685,738** | ₱1,935,930,078 |

*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 taxes.

## 8. Property, Plant and Equipment

The rollforward of this account follow:

| | 2013 | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Land** | **Mining, Tools and Other Equipment** | **Power Plant and Buildings** | **Roads and Bridges** | **Equipment in Transit and Construction in Progress** | **Mine Properties** (Note 15) | **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 | **206,369** | **1,107,543,469** | **166,401,954** | **–** | **7,623,590,853** | **133,188,944** | **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** | **15,804,043,338** | **19,998,004,172** | **827,359,725** | **10,810,033,880** | **133,188,944** | **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** | **₱1,549,764,537** | **₱13,888,703,231** | **₱527,653,763** | **₱10,810,033,880** | **₱133,188,944** | **₱27,286,155,824** |

| | 2012 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Land | Mining, Tools and Other Equipment | Power Plant and Buildings | Roads and Bridges | Equipment in Transit and Construction in Progress | Mine Properties | Total |
| **At Cost** | | | | | | | |
| At January 1 | ₱376,605,100 | ₱14,741,953,648 | ₱18,454,308,321 | ₱365,683,504 | ₱2,140,165,382 | ₱– | ₱36,078,715,955 |
| Additions | – | 1,153,680,202 | 14,217,004 | – | 3,986,206,931 | – | 5,154,104,137 |
| Transfers from Construction in Progress | – | 353,719,808 | 237,538,046 | – | (591,257,854) | – | – |
| Transfers from inventory (Note 32) | – | – | – | – | 223,519,372 | – | 223,519,372 |
| Writedown (Note 21) | – | – | (420,699,160) | – | – | – | (420,699,160) |
| Disposals (Note 21) | – | (1,219,504,375) | – | – | – | – | (1,219,504,375) |
| At December 31 | 376,605,100 | 15,029,849,283 | 18,285,364,211 | 365,683,504 | 5,758,633,831 | – | 39,816,135,929 |
| **Accumulated Depreciation** | | | | | | | |
| At January 1 | – | 11,907,508,407 | 3,151,492,494 | 282,381,779 | – | – | 15,341,382,680 |
| Depreciation (Notes 20 and 21) | – | 2,092,772,215 | 947,621,314 | 8,662,092 | – | – | 3,049,055,621 |
| Writedown (Note 21) | – | – | (79,552,814) | – | – | – | (79,552,814) |
| Disposals (Note 21) | – | (1,219,504,375) | – | – | – | – | (1,219,504,375) |
| At December 31 | – | 12,780,776,247 | 4,019,560,994 | 291,043,871 | – | – | 17,091,381,112 |
| **Net Book Value** | ₱376,605,100 | ₱2,249,073,036 | ₱14,265,803,217 | ₱74,639,633 | ₱5,758,633,831 | ₱– | ₱22,724,754,817 |

Equipment in transit and construction in progress accounts mostly contains purchased mining equipments that are in transit and various buildings and structures that are under construction as of December 31, 2013 and 2012. In 2013 and 2012, 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 is expected to be completed in the first quarter of 2014.

The capitalized borrowing cost included in the construction in progress account amounted to ₱101.38 million and ₱11.01 million on December 31, 2013 and 2012, respectively. The average capitalization rate is 3.36% and 3.50% in 2013 and 2012 (see Note 13).

Mine properties pertain to the expected decommissioning and site rehabilitation costs of Panian minesite and dismantling of mining machineries and conveyor belts at the end of its life (see Note 15).

In 2013, 2012 and 2011, the Group sold various equipment at a gain amounting to ₱0.14 million, ₱127.49 million and ₱53.55 million, respectively (see Note 24).



The Group incurred a loss from property, plant and equipment writedown due to the replacement of generation units and retirement of mining equipment amounting to ₱0.45 billion and ₱0.34 billion in 2013 and 2012, respectively (see Note 21).

The cost of fully depreciated assets that are still in use amounted to ₱11.30 billion and ₱7.59 billion as of December 31, 2013 and 2012, 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 ₱14.72 billion and ₱16.46 billion as of December 31, 2013 and 2012, respectively.

The construction of SLPGC's coal-fired power plant commenced in the early part of 2012. As of December 31, 2013, the Group expects to spend ₱17.70 billion to complete the power plant in the early part of 2015.

Depreciation and amortization follow:

| | **2013** | 2012 | 2011 |
|---|---|---|---|
| Included under: | | | |
| Inventories | **₱121,831,125** | ₱188,777,615 | ₱398,219,957 |
| Cost of coal sales (Note 20): | | | |
| Depreciation and amortization | **1,114,654,804** | 1,322,458,941 | 1,299,404,980 |
| Hauling and shiploading costs | **114,636,458** | 120,679,537 | 208,060,216 |
| Cost of power sales (Note 20): | | | |
| Cost of coal | | | |
| Depreciation and amortization | **470,558,388** | 413,387,676 | 300,677,228 |
| Hauling and shiploading costs | **23,554,054** | 34,267,091 | 50,302,452 |
| Depreciation | **1,015,838,969** | 928,981,130 | 776,589,421 |
| Operating expenses (Notes 3 and 21) | **1,162,179,465** | 44,910,889 | 38,230,893 |
| | **₱4,023,253,263** | ₱3,053,462,879 | ₱3,071,485,147 |

| | | | |
|---|---|---|---|
| Depreciation and amortization of: | | | |
| Property, plant and equipment | **₱4,019,619,703** | ₱3,049,055,621 | ₱3,066,159,791 |
| Computer software (Note 11) | **3,633,560** | 4,407,258 | 5,325,356 |
| | **₱4,023,253,263** | ₱3,053,462,879 | ₱3,071,485,147 |

## 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 Omnibus Agreement provided that the Security Trustee shall invest and reinvest the monies on deposit in 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 ₱517.60 million and ₱508.04 million as of December 31, 2013 and 2012, respectively.

Interest from sinking fund amounted to ₱12.17 million, ₱17.21 million and ₱5.53 million in 2013, 2012 and 2011, respectively (see Note 23).

## 10. Exploration and Evaluation Asset

In 2013, the Parent Company incurred costs related to exploratory drilling and activities in Bobog minesite amounting to ₱348.15 million.

## 11. Other Noncurrent Assets and Other Noncurrent Liabilities

Other Noncurrent Assets

| | **2013** | 2012 |
|---|---|---|
| Input VAT | **₱974,897,425** | ₱180,511,524 |
| Advances to contractors (Note 18) | **354,321,064** | 826,341,454 |
| Five percent (5%) input value-added tax (VAT) withheld - net of allowance for impairment losses of ₱25.98 million in 2013 and ₱87.52 million in 2012 | **164,526,094** | 102,976,730 |
| Prepaid rent (Note 31) | **94,450,487** | 98,930,629 |
| Capitalized development costs | **37,962,843** | – |
| Computer software - net | **3,680,929** | 2,377,767 |
| Environmental guarantee fund | **1,500,000** | 1,500,000 |
| Others | **8,522,345** | 31,905,807 |
| | **1,639,861,187** | 1,244,543,911 |
| Less current portion of prepaid rent (Note 7) | **4,544,839** | 4,510,890 |
| | **₱1,635,316,348** | ₱1,240,033,021 |

*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 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 a total claim for refund of ₱190.50 million from the BIR representing VAT erroneously withheld by NPC from December 2005 to March 2007, which eventually was elevated to the Court of Tax Appeals (CTA). On October 13, 2009, CTA granted the Parent Company's petition for a refund on erroneously withheld VAT initially on December 2005 sales amounting to ₱11.85 million. The Commissioner of BIR moved for reconsideration of the CTA's Decision. On November 21, 2009, the Parent Company filed its comment thereon. On August 10, 2010, the CTA issued a Writ of Execution on its decision dated October 13, 2009 and was served to BIR on August 13, 2010.



In 2011, the CTA rendered a decision granting the Parent Company's petition for refund or issuance of tax credit certificate (TCC) in the total amount of ₱178.65 million. The Commissioner of BIR filed a motion for reconsideration which was denied in a Resolution executed by the CTA. The Commissioner of BIR filed for a Petition for Review with the CTA En Banc.

In 2012, CTA En Banc rendered a decision dismissing the petition for review for the lack of merit on ₱163.36 million refund.

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).

On January 30, 2013, the Supreme Court denied the BIR Commissioner's Petition for Review. Subsequently, the latter filed a Motion for Reconsideration with the Supreme Court.
On June 19, 2013, the Supreme Court denied such petition of Motion for Consideration with finality. On September 18, 2013, Entry of Judgment was issued by the Supreme Court in GR No. 203621. On January 21, 2014, a "Notice of Resolution" was received from the Court of Tax Appeals citing that "It is appearing that the Resolution of the Supreme Court dated January 30, 2013 has already become final and executory and Entry of Judgment was already issued by the Supreme Court on September 19, 2013, herein the Parent Company is entitled as a matter of right to a writ of execution. It, therefore, becomes the ministerial duty of CTA to issue a writ of execution".

Because of the above developments, 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 loss reflected as "Other income" in the consolidated statements of comprehensive income (see Note 24.)

Movements in allowance for impairment losses of the 5% input VAT withheld:

| | **2013** | 2012 |
|---|---|---|
| At January 1 | **₱87,525,052** | ₱40,374,335 |
| Provision (Note 21) | **–** | 47,150,717 |
| Reversal (Note 24) | **(61,549,364)** | – |
| At December 31 | **₱25,975,688** | ₱87,525,052 |

*Capitalized development costs*
In 2013, SCI has capitalized development expenditures amounting to ₱37.96 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 ₱89.91 million and ₱94.42 million in 2013 and 2012, respectively (see Note 31).

*Computer software - net*
Movements in computer software account follow:

| | **2013** | 2012 |
|---|---|---|
| **At Cost** | | |
| At January 1 | **₱24,847,737** | ₱23,795,671 |
| Additions | **4,936,722** | 1,052,066 |
| At December 31 | **29,784,459** | 24,847,737 |
| **Accumulated Amortization** | | |
| At January 1 | **22,469,970** | 18,062,712 |
| Amortization (Note 20) | **3,633,560** | 4,407,258 |
| At December 31 | **26,103,530** | 22,469,970 |
| **Net Book Value** | **₱3,680,929** | ₱2,377,767 |

*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, 2013 and 2012, retention payable amounted to ₱723.35 million and ₱57.94 million, respectively.

## 12. Short-term Loans

Short-term loans represent various unsecured promissory notes from local banks with interest rates ranging from 1.17% to 3.00% and 1.04% to 1.18% in 2013 and 2012, respectively, and are payable within one year.

The carrying amount of these short-term loans as of December 31, 2013 and 2012 amounted to ₱1.66 billion and ₱0.18 billion, respectively.

The interest expense on these short-term loans recognized under "Finance Cost" amounted to ₱101.83 million, ₱30.14 million and ₱30.48 million in 2013, 2012 and 2011, respectively (see Note 22).

13. **Long-term Debt**

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

| | **2013** | 2012 |
|---|---|---|
| Mortgage payable | **₱11,017,948,783** | ₱7,404,190,124 |
| Bank loans | **4,790,697,568** | 4,775,083,552 |
| | **15,808,646,351** | 12,179,273,676 |
| Less current portion of: | | |
| Mortgage payable | **1,519,639,144** | 1,514,248,417 |
| Bank loans | **631,518,875** | 3,668,712,959 |
| | **2,151,158,019** | 5,182,961,376 |
| | **₱13,657,488,332** | ₱6,996,312,300 |

<u>Mortgage Payable</u>
*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. As of December 31, 2013 and 2012, amortization of debt issuance cost recognized as part of "Property, plant and equipment" account in the consolidated statements of financial position amounted to ₱2.33 million and ₱0.24 million, respectively.

Rollforward of debt issuance cost follows:

| | **2013** | 2012 |
|---|---|---|
| At January 1 | **₱2,505,839** | ₱– |
| Additions | **25,757,187** | 2,750,000 |
| Amortization | **(2,326,784)** | (244,161) |
| At December 31 | **₱25,936,242** | ₱2,505,839 |



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, 2013 and 2012.

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 month. As of December 31, 2013 and 2012, SLPGC has paid commitment fee amounting to ₱6.99 million and ₱2.30 million, respectively and these were recognized under the "Finance costs" account in the consolidated statements of comprehensive income.

The amount of undrawn borrowing facilities that maybe available in the future amounts to ₱5.80 billion.

*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 Guarantor, 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:

| | **2013** | 2012 |
|---|---|---|
| At January 1 | **₱55,304,037** | ₱82,427,224 |
| Amortization | **(21,751,583)** | (27,123,187) |
| At December 31 | **₱33,552,454** | ₱55,304,037 |

Amortization of debt finance cost recognized under "Finance cost" account in the consolidated statements of comprehensive income amounted to ₱21.75 million, ₱27.12 million and ₱22.42 million for the years 2013, 2012 and 2011, respectively (see Note 22).

As of December 31, 2013, there is no more available borrowing facility that can be drawn.

Local Bank Loans

*Parent Company*

| Loan Type | Dates of Availment | Outstanding Balance 2013 (In Millions) | 2012 | Maturity | Interest Rate | Payment Terms | Covenants/Collaterals |
|---|---|---|---|---|---|---|---|
| Loan 1 | Various availments in 2010, 2011 and 2013 | **₱341.68** | ₱947.54 | Various maturities in 2012, 2013 and 2015 | Floating rate payable quarterly and in arrears, to be repriced every 90 days | Interest payable quarterly and in arrears, subject to quarterly setting and principal repayable in bullet at the end of three (3) years from drawdown date | Proceeds of the loans were restricted for the purchase of mining equipment; Unsecured loan |
| Loan 2 | July 2011 | – | 230.40 | July 2013 | Floating rate, to be repriced every 30 to 180 days | Interest shall be payable on the last day of the current interest period or the 90th day of said period whichever occurs earlier and full payment of principal at maturity. | Unsecured loan |
| Loan 3 | Various availments in 2010, 2011 and 2013 | **2,743.31** | 2,556.86 | Various maturities in 2012, 2013 2014 and 2016 | Floating rate to be repriced every 90 days | Interest payable in 90 days; not deducted from proceeds of loans and principal repayable in maturity. | Proceeds of the loan will be used to finance capital expenditures and general corporate purposes<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 2013 | 2012 | Maturity | Interest Rate | Payment Terms | Covenants/Collaterals |
|---|---|---|---|---|---|---|---|
| | | (In Millions) | | | | | |
| Loan 4 | Various availments in 2011 and 2013 | **₱1,553.83** | ₱1,040.28 | Various maturities in 2013, 2014, 2015 and 2016 | Floating rate, aggregate of the margin (1.20%) and LIBOR, to be repriced every 90 to 180 days | 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 were restricted for capital expenditure requirements and refinancing of existing debts<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 5 | October 2013 | **151.88** | – | September 24, 2015 | Floating rate | Interest and principal are payable on the date of maturity | Unsecured loans<br><br>Current Ratio at least 1.0x; Debt-Equity Ratio at least 2.0x; compliant |
| | | **₱4,790.70** | ₱4,775.08 | | | | |

Interest expenses on long-term debt recognized under “Finance Cost” amounted to in the consolidated statements of comprehensive income ₱256.78 million, ₱434.42 million and ₱428.64 million in 2013, 2012 and 2011, respectively (see Note 22).

As of December 31, 2013, there is no more available borrowing facility that can be drawn.

The maturities of long-term debt at nominal values as of December 31, 2013 follow:

| | **2013** | 2012 |
|---|---|---|
| | (In Thousands) | |
| Due in: | | |
| 2013 | **₱–** | ₱5,182,555 |
| 2014 | **2,146,129** | 2,625,603 |
| 2015 | **3,149,752** | 1,545,013 |
| 2016 | **5,111,266** | 1,611,596 |
| 2017 | **1,608,188** | 848,459 |
| 2018 | **841,652** | 81,238 |
| 2019 | **842,398** | 81,299 |
| 2020 | **843,144** | 81,359 |
| 2021 | **843,891** | 81,420 |
| 2022 | **422,226** | 40,732 |
| | **₱15,808,646** | ₱12,179,274 |

## 14. Trade and Other Payables

This account consists of:

| | **2013** | 2012 |
|---|---|---|
| Trade: | | |
| Payable to suppliers and contractors | **₱3,256,554,439** | ₱4,417,579,065 |
| Related parties (Note 18) | **878,822,345** | 709,496,525 |
| Payable to DOE and local government units (LGU) (Note 27) | **877,947,530** | 1,007,849,324 |
| Output VAT Payable | **738,950,745** | 489,766,685 |
| Accrued expenses and other payables | **432,381,485** | 188,453,616 |
| | **₱6,184,656,544** | ₱6,813,145,215 |

*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 ₱968.56 million (US$21.82 million) and ₱339.12 million (US$7.75 million and ¥44.26 million) as of December 31, 2013 and 2012, 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.

*Accrued expenses and other payables*
Details of the accrued expenses and other payables account follow:

| | **2013** | 2012 |
|---|---|---|
| Withholding and other taxes | **₱93,592,713** | ₱57,750,472 |
| Shipping cost | **89,536,340** | – |
| Interest | **63,514,926** | 47,372,794 |
| Financial benefit payable | **43,588,841** | 13,590,642 |
| Salaries and wages | **31,682,830** | 11,641,106 |
| Rental (Note 18) | **27,933,675** | 15,259,799 |
| Professional fees | **3,279,972** | 8,538,640 |
| Real property tax | **–** | 12,745,030 |
| Others | **79,252,188** | 21,555,133 |
| | **₱432,381,485** | ₱188,453,616 |

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**

| | **2013** | 2012 |
|---|---|---|
| At January 1 | **₱62,448,101** | ₱47,582,228 |
| Additions (Note 8) | **133,188,944** | 5,265,925 |
| Accretion of interest (Note 22) | **867,006** | 9,599,948 |
| At December 31 | **₱196,504,051** | ₱62,448,101 |

Discount rates used by the Group to compute for the present value of liability for decommissioning and site rehabilitation cost are from 5.79% to 8.77% in 2012 and 3.63% to 4.63% in 2013.

Additions 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, 2013 and 2012 are as follows:

| | 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.

As of December 31, 2013, the Parent Company has 356.25 million common shares issued and outstanding which were owned by 663 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 year - end** |
|---|---|---|---|---|
| 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 shares 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 |

(Forward)

| | Number of shares registered | Issue/offer price | Date of approval | Number of holders as of year - end |
|---|---|---|---|---|
| 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 |



Share Rights Offering

On June 10, 2010, the Parent Company offered for subscription 59.38 million Rights Shares to eligible existing common shareholders at the Offer Price of ₱74.00 per share. The Rights Shares were issued from the Parent Company's authorized but unissued shares of stock. Each eligible stockholder was entitled to subscribe to one Rights Share for every five Common Shares held as of the Record Date at an Offer Price of ₱74.00 per Rights Share. Net proceeds from the share rights offering amounted to about ₱4.39 billion. The amount representing excess of offer price over the par value of the share offering amounting to about ₱4.33 billion was credited to additional paid-in capital for the year ended December 31, 2010.

Deposit on Future Stock Subscriptions

On December 1, 2009, DMCI-HI and Dacon Corporation (Dacon) advanced deposits on future stock subscriptions which aggregated to ₱5.40 billion. These advances were used in the reissuance of treasury shares on April 8, 2010 and share rights offering on June 10, 2010.

Shares Held in Treasury

The number of shares held in treasury is 19.30 million amounting to ₱528.89 million as of December 31, 2009. On April 8, 2010, the Parent Company reissued all of its treasury shares to Dacon at ₱67.00 per share or a total of ₱1.29 billion. The excess of the proceeds over the total cost of the treasury is included under additional paid-in capital in the amount of ₱764.36 million.

On July 7, 2005, the BOD approved the buyback of the Parent Company's shares aggregating 40.00 million shares which begun on August 15, 2005 until December 31, 2005. On January 11, 2006, the BOD approved to extend its buyback program for a period of 60 days starting January 12, 2006 under the same terms and conditions as resolved by the BOD last July 7, 2005, provided that the total number of shares to be reacquired shall in no case exceed 15.00 million shares.

## 17. Retained Earnings

Retained earnings amounting to ₱13.10 billion and ₱9.86 billion as of December 31, 2013 and 2012, respectively, include the accumulated equity in undistributed net earnings of subsidiaries. The amounts 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, 2013 amounted to ₱5.10 billion.

Cash Dividends

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.

On April 27, 2011, the BOD authorized the Parent Company to declare and distribute cash dividends of ₱10.00 per share or ₱3.56 billion to stockholders of record as of May 27, 2011. The said cash dividends were paid on June 22, 2011.



Appropriations
On August 8, 2013, the BOD 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 first quarter of 2015.

On March 12, 2013, the BOD 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.

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:

| | 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* | | | | |
| d.) Construction and outside services | **₱485,323,247** | **₱354,321,064** | **non-interest bearing, recoupment** | **Unsecured, no impairment** |
| | **₱485,323,247** | **₱354,321,064** | | |

(Forward)

| | **Amount/ Volume** | **Receivable (Payable)** | **Terms** | **Conditions** |
|---|---|---|---|---|
| Trade payables (see Note 14) | | | | |
| *Entities under common control* | | | | |
| d.) Construction and other outside services | **₱4,081,677,695** | **(₱852,473,055)** | **30 days, non-interest bearing** | **Unsecured** |
| e. ) Mine exploration and hauling services | **554,092,099** | **(20,138,858)** | **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** |
| | **₱2,979,130,602** | **(₱487,676,475)** | | |

| | 2012 | | | |
|---|---|---|---|---|
| | Amount/ Volume | Receivable (Payable) | Terms | Conditions |
| Trade receivables (see Note 5) | | | | |
| *Entities under common control* | | | | |
| a.) Transfer of materials and reimbursement of shared expenses | ₱8,130,000 | ₱81,240,459 | non-interest bearing, due and demandable | Unsecured, no impairment |
| b.) Reimbursements of shared expenses | 190,000 | 8,763,493 | non-interest bearing, due and demandable | Unsecured, no impairment |
| c.) Reimbursements of expenses | – | – | non-interest bearing, due and demandable | Unsecured, no impairment |
| | ₱8,320,000 | ₱90,003,952 | | |
| Advances to contractors - noncurrent (see Note 11) | | | | |
| *Entities under common control* | | | | |
| d.) Construction and outside services | ₱913,249,885 | ₱826,341,454 | non-interest bearing, recoupment | Unsecured, no impairment |
| | ₱913,249,885 | ₱826,341,454 | | |
| Trade payables (see Note 14) | | | | |
| *Entities under common control* | | | | |
| d.) Construction and other outside services | ₱4,549,776,595 | (₱653,025,154) | 30 days, non-interest bearing | Unsecured |
| e.) Mine exploration and hauling services | 361,132,979 | (41,205,122) | 30 days, non-interest bearing | Unsecured |
| f.) Purchases of office supplies and refreshments | 3,268,946 | (13,036,733) | 30 days, non-interest bearing | Unsecured |
| g.) Office, parking and warehouse rental expenses | 7,510,000 | (1,778,402) | 30 days, non-interest bearing | Unsecured |
| h.) Aviation services | 2,630,000 | (451,114) | 30 days, non-interest bearing | Unsecured |
| | ₱4,924,318,520 | (₱709,496,525) | | |
| Other noncurrent liabilities (see Note 11) | | | | |
| *Entities under common control* | | | | |
| d.) Retention payable | ₱2,544,550,350 | (₱57,938,954) | non-interest bearing | Unsecured |
| | ₱2,544,550,350 | (₱57,938,954) | | |

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. 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.

e. 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.

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 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.



*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, 2013 and 2012, there were no impairment losses recognized on related party balances.

Compensation of key management personnel of the Group by benefit type follows:

| | **2013** | 2012 | 2011 |
|---|---|---|---|
| Short-term employee benefits | **₱127,093,393** | ₱108,719,349 | ₱93,866,643 |
| Post-employment benefits | **4,018,829** | 3,434,897 | 2,346,104 |
| | **₱131,112,222** | ₱112,154,246 | ₱96,212,747 |

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, 2013.

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:

| | **2013** | 2012 | 2011 |
|---|---|---|---|
| Discount rate | **4.26% - 5.07%** | 4.69% | 6.75% |
| 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:

| | **2013** | 2012 (As restated) | 2011 (As restated) |
|---|---|---|---|
| Current service cost | **₱18,225,767** | ₱7,778,179 | ₱5,597,830 |
| Interest expense related to the defined benefit liability | **4,722,795** | 4,371,758 | 4,405,686 |
| Interest income related to plan assets | **(3,008,719)** | (3,863,820) | (3,473,150) |
| | **₱19,939,843** | ₱8,286,117 | ₱6,530,366 |

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:

| | December 31 | | January 1 |
|---|---|---|---|
| | **2013** | 2012 (As restated) | 2012 (As restated) |
| Defined benefit liability at beginning of year | **₱100,699,245** | ₱64,766,789 | ₱54,391,181 |
| Current service cost | **18,225,767** | 7,778,179 | 5,597,830 |
| Interest expense | **4,722,795** | 4,371,758 | 4,405,686 |
| Remeasurement of defined benefit liability: | | | |
| Arising from changes in financial assumptions | **(1,300,506)** | 3,592,053 | 2,711,835 |
| Experience gains (losses) | **(11,453,532)** | 23,625,344 | (2,339,743) |
| Benefits paid | **(6,857,636)** | (3,434,878) | – |
| Defined benefit liability at end of year | **₱104,036,133** | ₱100,699,245 | ₱64,766,789 |

| | December 31 | | January 1 |
|---|---|---|---|
| | **2013** | 2012 (As restated) | 2012 (As restated) |
| Fair value of plan assets at beginning of year | **₱64,151,770** | ₱57,994,669 | ₱28,646,138 |
| Return on plan assets (excluding amounts included in interest income) | **5,230,282** | 3,799,071 | (2,589,145) |
| Interest income | **3,008,719** | 3,863,820 | 3,473,150 |
| Employer contributions | **–** | – | 28,464,526 |
| Benefits paid | **–** | (1,505,790) | – |
| Fair value of plan assets at end of year | **₱72,390,771** | ₱64,151,770 | ₱57,994,669 |

| | December 31 | | January 1 |
|---|---|---|---|
| | **2013** | 2012 (As restated) | 2012 (As restated) |
| Net pension liability at beginning of year | **₱36,547,475** | ₱6,772,120 | ₱25,745,043 |
| Net periodic pension cost | **19,939,843** | 8,286,117 | 6,530,366 |
| Amounts recognized in other comprehensive income | **(17,984,320)** | 23,418,326 | 2,961,237 |
| Employer contributions | **–** | – | (28,464,526) |
| Benefit payments | **(6,857,636)** | (1,929,088) | – |
| Net pension liability at end of year | **₱31,645,362** | ₱36,547,475 | ₱6,772,120 |

The Group does not expect any contribution into the pension fund in 2014.

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

| | December 31 | | January 1 |
|---|---|---|---|
| | **2013** | 2012 (As restated) | 2012 (As restated) |
| Cash and cash equivalents | **₱8,067,400** | ₱880,539 | ₱1,297,706 |
| Equity instruments | | | |
| Financial institutions | **–** | 1,552,500 | 1,575,000 |
| Debt instruments | | | |
| Government securities | **56,597,922** | 52,542,707 | 46,218,086 |
| Not rated debt securities | **6,664,858** | 8,106,243 | 7,882,707 |
| Interest receivable | **1,060,591** | 1,069,781 | 1,021,170 |
| Fair value of plan assets | **₱72,390,771** | ₱64,151,770 | ₱57,994,669 |

Trust fee in 2013 and 2012 amounted to ₱35,878 and ₱32,220, respectively.

The composition of the fair value of the Fund includes:

*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

*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

*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 88% of debt instruments, 11% cash and 1% 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:

| | Increase (Decrease) | Effect on Defined Benefit Liability |
|---|---|---|
| Discount rates | +0.5% to 1% | (₱2,711,720) |
| | -0.5% to 1% | 3,182,044 |
| Future salary increases | +1% | 3,890,344 |
| | -1% | (3,566,847) |

Shown below is the maturity analysis of the undiscounted benefit payments:

| | **2013** | 2012 |
|---|---|---|
| Less than 1 year | **₱26,914,286** | ₱3,434,897 |
| More than 1 year to 5 years | **19,898,958** | 43,940,115 |
| More than 5 years to 10 years | **62,951,470** | 65,824,599 |
| | **₱109,764,714** | ₱113,199,611 |

The Group has no other transactions with the fund.

## 20. Cost of Sales

Cost of coal sales consists of:

| | **2013** | 2012 | 2011 |
|---|---|---|---|
| Materials and supplies (Note 18) | **₱3,025,232,354** | ₱3,120,735,226 | ₱4,121,638,177 |
| Fuel and lubricants | **2,453,660,298** | 3,043,331,610 | 3,257,328,929 |
| Depreciation and amortization (Notes 8 and 11) | **1,114,654,804** | 1,322,458,941 | 1,299,404,980 |
| Outside services (Note 18) | **739,853,180** | 966,478,901 | 842,386,090 |
| Direct labor (Note 18) | **502,288,609** | 450,134,214 | 419,722,649 |
| Hauling and shiploading costs (Note 18) | **456,329,361** | 547,620,380 | 802,772,100 |
| Production overhead (Note 18) | **372,852,892** | 374,395,481 | 357,901,033 |
| | **₱8,664,871,498** | ₱9,825,154,753 | ₱11,101,153,958 |

Cost of power sales consists of:

| | **2013** | 2012 | 2011 |
|---|---|---|---|
| Coal | **₱3,761,855,398** | ₱3,304,807,016 | ₱2,883,154,698 |
| Depreciation (Note 8) | **1,015,838,969** | 928,981,130 | 776,589,421 |
| Bunker | **230,027,758** | 238,254,696 | 234,071,851 |
| Spot purchases | **229,196,883** | 130,367,456 | 1,500,978,204 |
| Diesel | **79,255,223** | 115,632,253 | 113,440,407 |
| Market fees | **54,891,500** | 24,796,252 | 22,015,982 |
| Lube | **42,361,584** | 25,721,138 | 22,661,500 |
| Imported coal | **22,785,241** | 44,523,109 | – |
| Coal handling expense | **3,868,304** | 864,921 | 2,107,676 |
| Others | **5,543,770** | 4,838,132 | 4,445,765 |
| | **₱5,445,624,630** | ₱4,818,786,103 | ₱5,559,465,504 |

In 2013, 2012 and 2011, SCPC purchased power from the spot market in the amount of ₱0.23 billion, ₱0.13 billion and ₱1.50 billion, respectively.

The cost of depreciation that was charged to cost of coal and cost of power amounted to ₱1.11 billion and ₱1.02 billion, respectively, in 2013, ₱1.32 billion and ₱0.93 billion, respectively, in 2012, ₱1.30 billion and ₱0.78 billion, respectively, in 2011 (see Note 8).

The cost of coal on power sales consists of:

| | **2013** | 2012 | 2011 |
|---|---|---|---|
| Materials and supplies (Note 18) | **₱1,240,351,874** | ₱1,089,654,743 | ₱1,081,921,445 |
| Fuel and lubricants | **1,151,390,027** | 1,011,501,357 | 857,934,671 |
| Depreciation and amortization (Notes 8 and 11) | **470,558,388** | 413,387,676 | 300,677,228 |
| Outside services (Note 18) | **350,983,612** | 308,340,694 | 193,919,023 |
| Hauling and shiploading costs | **244,635,094** | 214,913,039 | 247,783,329 |
| Direct labor (Note 18) | **165,560,645** | 145,445,777 | 109,113,311 |
| Production overhead (Note 18) | **138,375,758** | 121,563,730 | 91,805,691 |
| | **₱3,761,855,398** | ₱3,304,807,016 | ₱2,883,154,698 |

## 21. **Operating Expenses**

| | **2013** | 2012 (As restated) | 2011 (As restated) |
|---|---|---|---|
| Government share (Note 27) | **₱1,304,961,185** | ₱1,557,950,322 | ₱1,479,972,809 |
| Depreciation (Note 8) | **1,162,179,465** | 44,910,889 | 38,230,893 |
| Repairs and maintenance | **648,067,215** | 148,671,287 | 52,485,703 |
| Loss on disposal and writedown of property, plant and equipment (Note 8) | **449,910,879** | 341,146,346 | – |
| Provision for doubtful accounts (Note 5) | **443,650,080** | 59,360,961 | 5,004,512 |
| Operation and maintenance (Note 18) | **379,359,691** | 437,180,259 | 500,743,201 |
| Taxes and licenses | **230,472,304** | 237,515,006 | 334,393,508 |
| Personnel costs (Notes 18 and 19) | **204,402,527** | 133,222,394 | 193,593,533 |
| Office expenses (Note 18) | **104,302,257** | 75,703,636 | 62,589,739 |
| Insurance and bonds | **59,270,251** | 56,282,680 | 61,394,404 |

(Forward)

| | 2013 | 2012 (As restated) | 2011 (As restated) |
|---|---|---|---|
| Professional fees | **₱42,424,740** | ₱46,893,228 | ₱29,987,831 |
| Marketing | **40,214,509** | 81,102,894 | 36,359,343 |
| Entertainment, amusement and recreation | **23,676,815** | 35,484,183 | 16,542,752 |
| Transportation and travel | **21,248,174** | 15,885,235 | 34,221,417 |
| Provision for impairment losses (Note 11) | – | 47,150,717 | – |
| Others | **150,377,541** | 79,915,264 | 10,738,564 |
| | **₱5,264,517,633** | ₱3,398,375,301 | ₱2,856,258,209 |

Others pertain to various expenses such as advertising and utilities.



## 22. Finance Costs

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Interest on: | | | |
| Long-term debt (Note 13) | **₱256,780,451** | ₱434,421,267 | ₱428,635,398 |
| Amortization of debt issuance cost (Note 13) | **21,751,583** | 27,123,187 | 22,415,490 |
| Short-term loans (Note 12) | **101,830,303** | 30,135,631 | 30,478,806 |
| Accretion of cost of decommissioning and site rehabilitation (Note 15) | **867,006** | 9,599,948 | 1,758,087 |
| | **₱381,229,343** | ₱501,280,033 | ₱483,287,781 |

## 23. Finance Income

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Interest on: | | | |
| Cash in banks (Note 4) | **₱7,103,842** | ₱14,611,540 | ₱14,959,769 |
| Cash equivalents and temporary investments (Note 4) | **6,667,777** | 49,090,080 | 108,389,881 |
| Investment in sinking fund (Note 9) | **12,173,043** | 17,214,589 | 5,525,696 |
| Accretion on security deposits (Note 31) | – | – | 168,856 |
| Others | **859,904** | 1,228,108 | 5,832,479 |
| | **₱26,804,566** | ₱82,144,317 | ₱134,876,681 |

## 24. Other Income

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Reversal of allowance for impairment losses (Note 11) | **₱61,549,364** | ₱– | ₱– |
| Recoveries from insurance claims | **10,632,170** | 41,545,855 | 35,179,622 |
| Gain on sale of equipment (Note 8) | **135,073** | 127,491,090 | 53,547,507 |
| Reversal of allowance for doubtful accounts (Note 5) | **–** | 9,552,129 | 7,892,343 |
| Miscellaneous | **208,892,151** | 139,859,194 | 3,285,825 |
| | **₱281,208,758** | ₱318,448,268 | ₱99,905,297 |

*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 income tax consists of:

| | **2013** | 2012 (As restated) | 2011 (As restated) |
|---|---|---|---|
| Current | **₱11,708,917** | ₱8,733,128 | ₱1,749,743 |
| Final | **5,074,275** | 15,412,170 | 21,011,803 |
| Deferred | **(134,621,496)** | 15,458,968 | (44,656,060) |
| | **(₱117,838,304)** | ₱39,604,266 | (₱21,894,514) |

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:

| | **2013** | 2012 (As restated) | 2011 (As restated) |
|---|---|---|---|
| Statutory income tax rate | **30.00%** | 30.00% | 30.00% |
| Adjustments for: | | | |
| Nondeductible expense | **0.07** | 0.03 | 0.16 |
| Nondeductible interest expense | **0.03** | 0.08 | 0.19 |
| Movement in unrecognized deferred tax assets | **0.90** | 0.52 | 0.26 |
| Interest income already subjected to final tax at a lower rate - net of nondeductible interest expense | **(0.03)** | (0.14) | (0.29) |
| Tax-exempt income | **(33.81)** | (29.97) | (30.68) |
| Movement in unrecognized deferred tax liabilities | **1.25** | – | – |
| Derecognized deferred tax assets | **–** | 0.10 | – |
| Effective income tax rate | **(1.59%)** | 0.62% | (0.36%) |

The components of net deferred tax assets as of December 31, 2013 and 2012 follow:

| | **2013** | 2012 |
|---|---|---|
| Unrealized foreign exchange loss | **₱91,779,812** | ₱– |
| Allowance for inventory obsolescence | **17,222,137** | – |
| Pension liabilities | **10,943,912** | 9,210,105 |
| Allowance for doubtful accounts | **10,667,586** | – |
| Allowance for impairment losses | **7,792,706** | – |
| Provision for decommissioning and site rehabilitation | **1,518,675** | 1,518,675 |
| NOLCO | **32,524** | 19,363 |
| | **₱139,957,352** | ₱10,748,143 |

In 2013 and 2012, the Group has the following deductible temporary differences that are available for offset against future taxable income or tax payable for which deferred tax assets have not been recognized:

| | 2013 | 2012 |
|---|---|---|
| Allowance for doubtful accounts | **₱467,430,619** | ₱118,700,123 |
| Allowance for impairment losses | **–** | 87,525,052 |
| Allowance for inventory obsolescence | **–** | 53,286,925 |
| Provision for decommissioning and site rehabilitation | **–** | 51,738,030 |
| NOLCO | **72,444,443** | 23,920,970 |
| Pension liability | **–** | 29,738,312 |
| Organizational costs | **–** | 20,170 |
| | **₱539,875,062** | ₱364,929,582 |

The breakdown of the Group's NOLCO as of December 31, 2013 follows:

| Year incurred | Amount | Utilized | Balance | Year of Expiration |
|---|---|---|---|---|
| 2013 | ₱48,523,473 | ₱– | ₱48,523,473 | 2016 |
| 2012 | 23,890,970 | – | 23,890,970 | 2015 |
| 2011 | 30,000 | – | 30,000 | 2014 |
| | ₱72,444,443 | ₱– | ₱72,444,443 | |

The above NOLCO pertains to SLPGC.

Board of Investments (BOI) Incentives

*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. The Parent Company's ITH of 6 years is expected to lapse in September 2014. The Parent Company has a pending application with BOI for another extension, the period of which is still to be determined.

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 ₱1.48 billion, ₱1.47 billion and ₱1.35 billion in 2013, 2012 and 2011, 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 incentive s 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 ₱5.02 billion and ₱2.53 billion in 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:

| | **2013** | 2012 (As restated) | 2011 (As restated) |
|---|---|---|---|
| Net income | **₱7,519,591,282** | ₱6,358,640,007 | ₱6,031,777,710 |
| Divided by the weighted average number of common shares outstanding | **356,250,000** | 356,250,000 | 356,250,000 |
| Basic/diluted earnings per share | **₱21.11** | ₱17.85 | ₱16.93 |

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 ₱1.30 billion, ₱1.56 billion and ₱1.48 billion in 2013, 2012 and 2011, respectively, included under "Operating expenses" in the consolidated statements of comprehensive income (see Note 21). The liabilities, amounting to ₱0.88 billion and ₱1.01 billion as of December 31, 2013 and 2012 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 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 11% 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's hearing officer directed the parties to explore the possibility of settling the dispute amicably. As the parties failed to arrive at a compromise during the prescribed period, hearings resumed with the conduct of preliminary conference on February 23, 2011, without prejudice to the result of any further discussions between the parties for amicable settlement. The ERC set the next hearing for the presentation of witnesses on March 22 and 23, 2011.

In 2010, SCPC 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 settlement for SCPC. The provision will be reversed and an income would be recognized in the "Other income" account upon collection of the said receivable.

On July 6, 2011, the ERC rendered its Decision in favor of SCPC and directed the parties, among others to submit the reconciled computation of the over-nominations and other MERALCO payments withheld by PSALM during the periods January 2010 to June 2010, and for PSALM to return to SCPC the amount computed and reconciled, including the interests thereon a rate of 6% per annum. PSALM filed a Motion for Reconsideration on the Decision which is denied by ERC in an order dated February 13, 2012 due to the lack of merit.

On April 24, 2012, SCPC and PSALM each filed their Compliance submitting the reconciled computations of the over-nominations and other MERALCO payments withheld by PSALM, as agreed upon by the parties, in the principal amount of ₱476 million.

On December 4, 2013, SCPC filed a Motion for Issuance of Writ of Execution praying for the issuance of a Writ of Execution directing 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.

As of December 31, 2013, decision of Supreme Court regarding the case is still pending resolution.

*PSALM's Petition for Review before the Court of Appeals and Supreme Court of the Philippines*
Meanwhile, PSALM filed a Petition for Review with Prayer for Temporary Restraining Order and/or Preliminary Injunction with the Court of Appeals on March 30, 2012, questioning the ERC's decision dated July 6, 2011 and Order dated February 13, 2012. On September 4, 2012, the Court of Appeals rendered a Decision, denying PSALM's petition and affirming the related Decision and Order previously issued.

PSALM subsequently filed a Motion for Reconsideration dated September 26, 2012 and seeking the reconsideration of the Decision dated September 4, 2012. SCPC filed its Opposition to PSALM's Motion for Reconsideration on November 5, 2012. Subsequently, the Court of Appeals issued a Resolution denying the Motion for Reconsideration filed by PSALM on November 27, 2012.

On December 27, 2012, PSALM filed a Petition for Review on Certiorari with Prayer for Issuance of Temporary Restraining Order and/or Preliminary Injunction with the Supreme Court.

Subsequently the Supreme Court issued a Resolution dated January 21, 2013 requiring SCPC to file a Comment to PSALM's Petition. Thus, on March 25, 2013, SCPC filed its Comment.

PSALM filed a Motion for Extension to file reply on July 25, 2013, requesting for an additional period of ten (10) days from July 25, 2013, or until August 4, 2013, within which to file its Reply. PSALM subsequently filed its Reply on August 2, 2013.

In a Resolution dated September 30, 2013, the Supreme Court granted 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, 2013.

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 with which the plant is situated, for the period of 25 years, renewable for another 25 years with the mutual agreement of both parties. 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 in consideration for the grant of the option, 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 Option Existence Notice 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 sqm in favor of its Parent Company. On May 5, 2011, PSALM approved the assignment. On June 1, 2011, SCPC exercised the land lease option at a purchase price of ₱292.62 million and is included as part of "Property, plant and equipment" (see Note 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 the December 31, 2013, PSALM is pending for any response in connection therewith.

*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, 2013 and 2012.

*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):

| | **2013** | 2012 |
|---|---|---|
| Domestic market | **55.43%** | 55.83% |
| Export market | **44.57** | 44.17 |

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, 2013 and 2012 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 2013 and 2012.

| | Effect on income before income tax | |
|---|---|---|
| Change in coal price | **2013** | 2012 |
| *Based on ending coal inventory* | | |
| Increase by 42% in 2013 and 30% in 2012 | **₱1,022,494,329** | ₱1,053,008,837 |
| Decrease by 42% in 2013 and 30% in 2012 | **(1,022,494,329)** | (1,053,008,837) |
| *Based on coal sales volume* | | |
| Increase by 42% in 2013 and 30% in 2012 | **5,643,685,176** | 4,335,046,600 |
| Decrease by 42% in 2013 and 30% in 2012 | **(5,643,685,176)** | (4,335,046,600) |

*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:

| | 2013 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Interest | Within 1 year | 1-2 years | 2-3 years | 3-4 years | More than 4 years | Carrying Value |
| | | | | (In Thousands) | | | |
| **Cash in banks and cash equivalents** | **1.00% to 4.63%** | **₱4,812,938** | **₱–** | **₱–** | **₱–** | **₱–** | **₱4,812,938** |
| **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** | **₱–** | **₱341,683** | **₱–** | **₱–** | **₱–** | **₱341,683** |
| $61.79 million loan (USD) | **Floating rate to be repriced every 90 days** | **529,410** | **716,336** | **1,497,566** | **–** | **–** | **2,743,312** |
| $35.00 million loan (USD) | **Floating rate, aggregate of the margin (1.20%) and LIBOR, to be repriced every 90 to 180 days** | **102,109** | **208,657** | **1,243,060** | **–** | **–** | **1,553,826** |
| $3.42 million loan (USD) | **Floating rate** | **–** | **151,878** | **–** | **–** | **–** | **151,878** |
| **Mortgage payable at floating rate** | **PDST-F benchmark yield for three-month treasury securities + 1.00%** | **(5,029)** | **206,150** | **840,161** | **840,907** | **3,793,311** | **5,675,500** |
| | **PDST-F benchmark yield for 3-month treasury securities +1.75%** | **1,519,639** | **1,525,049** | **1,530,478** | **767,281** | **–** | **5,342,447** |
| | | **₱2,146,129** | **₱3,149,753** | **₱5,111,265** | **₱1,608,188** | **₱3,793,311** | **₱15,808,646** |

| | | 2012 | | | | | |
|---|---|---|---|---|---|---|---|
| | Interest | Within 1 year | 1-2 years | 2-3 years | 3-4 years | More than 4 years | Carrying Value |
| | | | | (In Thousands) | | | |
| **Cash in banks and cash equivalents** | 1.25% to 4.62% | ₱520,353,153 | ₱– | ₱– | ₱– | ₱– | ₱520,353,153 |
| **Foreign long-term debt at floating rate** | | | | | | | |
| $23.08 million loan (USD) | 1.32-1.95% p.a. payable semi-annually, to be repriced every 3 months | ₱631,604 | ₱315,938 | ₱– | ₱– | ₱– | ₱947,542 |
| $5.62 million loan (USD) | 1.80% p.a. for 92 days, to be repriced every 30 to 180 days | – | 230,404 | – | – | – | 230,404 |
| $62.29 million loan (USD) | 1.16-1.61% p.a., to be repriced every 3 months | 1,996,833 | 560,028 | – | – | – | 2,556,861 |
| $25.34 million loan (USD) | 1.03%-1.10% payable in 3-4 months, principal to be paid at maturity | 1,040,276 | – | – | – | – | 1,040,276 |
| **Mortgage payable at floating rate** | PDST-F benchmark yield for three-month treasury securities + 1.00% | – | – | 20,230 | 81,118 | 446,147 | 547,495 |
| | PDST-F benchmark yield for 3-month treasury securities +1.75% | 1,514,248 | 1,519,639 | 1,525,049 | 1,530,478 | 767,281 | 6,856,695 |
| | | ₱5,182,961 | ₱2,626,009 | ₱1,545,279 | ₱1,611,596 | ₱1,213,428 | ₱12,179,273 |

The following table demonstrates the sensitivity of the Group's income before tax to a reasonably possible change in interest rates on December 31, 2013 and 2012, with all variables held constant, through the impact on floating rate borrowings.

| | Effect on Income Before Tax | |
|---|---|---|
| Basis points (in thousands) | **2013** | 2012 |
| +100 | **(₱158,086)** | (₱121,793) |
| -100 | **158,086** | 121,793 |

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, 2013 and 2012 based on undiscounted contractual payments:

| | 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** | | **7,440** | **30,240,190** | **77,378,346** | **3,896,542,315** |
| Trade receivables - related parties | **75,553,612** | – | – | – | – | **75,553,612** |
| Others* | **48,948,283** | – | – | – | – | **48,948,283** |
| **Environmental guarantee fund** | – | – | – | – | **1,500,000** | **1,500,000** |
| **Investment in sinking fund** | – | – | – | – | **517,603,224** | **517,603,224** |
| | **8,726,356,025** | – | **7,440** | **30,240,190** | **596,481,570** | **9,353,085,225** |
| **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** | | | | | | |
| $7.70 million loan (USD) with interest payable in arrears | **1,756,419** | **1,756,419** | **345,195,455** | – | – | **348,708,293** |
| $61.79 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** |
| $35.00 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** |
| $3.42 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** |
| | **₱1,683,200,327** | **(₱1,545,844,152)** | **(₱3,272,711,928)** | **(₱5,224,983,200)** | **(₱5,064,785,787)** | **(₱13,425,124,740)** |

**excludes advances for liquidation*
***excludes statutory liabilities*

| | 2012 | | | | | |
|---|---|---|---|---|---|---|
| | Less than 6 months | 6-12months | 1-2 years | 2-3 years | More than 3 years | Total |
| **Assets** | | | | | | |
| **Cash in banks and cash equivalents** | ₱520,353,153 | ₱– | ₱– | ₱– | ₱– | ₱520,353,153 |
| **Receivables:** | | | | | | |
| Trade receivables - outside parties | 3,207,794,303 | 186,082,876 | – | – | – | 3,393,877,179 |
| Trade receivables - related parties | 90,003,952 | – | – | – | – | 90,003,952 |
| Others* | 97,962,584 | – | – | – | – | 97,962,584 |
| **Environmental guarantee fund** | – | – | – | – | 1,500,000 | 1,500,000 |
| **Investment in sinking fund** | – | – | – | – | 508,041,189 | 508,041,189 |
| | 3,916,113,992 | 186,082,876 | – | – | 509,541,189 | 4,611,738,057 |
| **Liabilities** | | | | | | |
| **Trade and other payables:** | | | | | | |
| Trade: | | | | | | |
| Payable to suppliers and contractors | 4,417,579,065 | – | – | – | – | 4,417,579,065 |
| Related parties | 709,496,525 | – | – | – | – | 709,496,525 |
| Accrued expenses and other payables** | 117,958,114 | – | – | – | – | 117,958,114 |
| **Short-term loans** | 175,646,271 | – | – | – | – | 175,646,271 |
| **Long-term debt at floating rate** | | | | | | |
| $23.08 million loan (USD) with interest payable in arrears | 636,767,242 | 2,625,023 | 321,103,675 | – | – | 960,495,940 |
| $5.62 million loan (USD) with interest payable in arrears | 2,073,640 | 2,073,640 | 234,551,693 | – | – | 238,698,973 |
| $62.29 million loan (USD) with interest payable in arrears | 2,010,660,683 | 3,878,195 | 567,784,482 | – | – | 2,582,323,360 |
| $25.34 million loan (USD) with interest payable in arrears | 628,401,855 | 419,625,036 | – | – | – | 1,048,026,891 |
| PDST-F benchmark yield for 3-month treasury securities + 1.00% | 10,312,500 | 10,312,500 | 20,625,000 | 40,095,451 | 547,037,563 | 628,383,014 |
| PDST-F benchmark yield for 3-month treasury securities + 1.75% | 798,914,863 | 781,961,760 | 1,572,611,105 | 1,551,380,339 | 2,324,212,112 | 7,029,080,179 |
| | 9,507,810,758 | 1,220,476,154 | 2,716,675,955 | 1,591,475,790 | 2,871,249,675 | 17,907,688,332 |
| | (₱5,591,696,766) | (₱1,034,393,278) | (₱2,716,675,955) | (₱1,591,475,790) | (₱2,361,708,486) | (₱13,295,950,275) |

**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, 26.66% and 29.03% of the Group's sales in 2013 and 2012, respectively, were denominated in US$ whereas approximately 25.55% and 38.65% of debts as of December 31, 2013 and 2012, 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, 2013** | | December 31, 2012 | | |
|---|---|---|---|---|---|
| | **U.S. Dollar** | **Peso Equivalent** | Yen | U.S. Dollar | Peso Equivalent |
| **Assets** | | | | | |
| Cash and cash equivalents | **$18,318,751** | **₱813,260,942** | ¥– | $129,885 | ₱5,331,779 |
| Trade receivables | **10,654,649** | **473,013,142** | – | 15,120,837 | 620,710,340 |
| **Liabilities** | | | | | |
| Trade payables | **(21,816,839)** | **(968,558,569)** | (44,264,786) | (7,745,053) | (339,123,523) |
| Short-term loans | **(32,367,091)** | **(1,436,937,001)** | – | (4,278,837) | (175,646,271) |
| Long-term debt (including current portion) | **(107,910,746)** | **(4,790,697,569)** | – | (116,323,594) | (4,775,083,533) |
| Net exposure | **($133,121,276)** | **(₱5,909,919,055)** | (¥44,264,786) | ($113,096,762) | (₱4,663,811,208) |

*The exchange rates used were ₱44.40 to $1 and ₱41.05 to $1 and ₱0.48 to ¥1 in 2013 and 2012, 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, 2013 and 2012.

| Reasonably possible change in the Philippine peso-US dollar exchange rate | Increase (decrease) in income before tax | |
|---|---|---|
| | **2013** | 2012 |
| ₱2 | **(₱266,242,552)** | (₱226,193,524) |
| (₱2) | **266,242,552** | 226,193,524 |

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 ₱481.00 million net foreign exchange loss, ₱391.00 million net foreign exchange gain and ₱38.32 million net foreign exchange loss for the years ended December 31, 2013, 2012 and 2011, respectively, arising from the translation of the Group's cash and cash equivalents, trade receivables, trade payables, short-term loans and long-term debt.

*Credit risk*
Credit risk is the risk that counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss.

The Group manages and controls credit risk by doing business with recognized, creditworthy third parties, thus, there is no requirement for collateral. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. The Group evaluates the financial condition of the local customers before deliveries are made to them.

On the other hand, export sales are covered by sight letters of credit issued by foreign banks subject for the Group's approval, hence, mitigating the risk on collection. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to doubtful accounts is not significant. The Group generally bills 80% of coal delivered payable within 30 days upon receipt of billing and the remaining 20% payable within 15 days after receipt of final billing based on final analysis of coal delivered. The Group's exposure to credit risk from trade receivables arise from the default of the counterparty with a maximum exposure equal to their carrying amounts.

With respect to the credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents, other receivables, environmental guarantee fund and investment in sinking fund, the exposure to credit risk arises from default of the counterparty with a maximum exposure to credit risk equal to the carrying amount of the financial assets as of reporting date. The Group does not hold any collateral or other credit enhancement that will mitigate credit risk exposure. The Group transacts only with institutions or banks and third parties that have proven track record in financial soundness. The management does not expect any of these institutions to fail in meeting their obligations.

The credit risk is concentrated to the following markets:

| | **2013** | 2012 |
|---|---|---|
| Trade receivables - outside parties | **96.65%** | 94.75% |
| Trade receivables - related parties | **1.87** | 2.52 |
| Others | **1.48** | 2.73 |
| | **100.00%** | 100.00% |

As of December 31, 2013 and 2012, the credit quality per class of financial assets is as follows:

| | **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** |

| | 2012 | | | | |
|---|---|---|---|---|---|
| | Neither Past Due nor Impaired | | Substandard | Past due and/or Individually | |
| | Grade A | Grade B | Grade | Impaired | Total |
| Cash in banks and cash equivalents | ₱520,353,153 | ₱– | ₱– | ₱– | ₱520,353,153 |
| Receivables: | | | | | |
| Trade receivables - outside parties | 1,910,273,911 | 1,217,942,375 | | 319,184,695 | 3,447,400,981 |
| Trade receivables - related parties | – | 90,003,952 | – | – | 90,003,952 |
| Others | 97,962,584 | – | – | 5,815,359 | 103,777,943 |
| Environmental guarantee fund | 1,500,000 | – | – | – | 1,500,000 |
| Investment in sinking fund | 508,041,189 | – | – | – | 508,041,189 |
| Total | ₱3,038,130,837 | ₱1,307,946,327 | ₱– | ₱325,000,054 | ₱4,671,077,218 |

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, 2013 and 2012, the aging analyses of the Group's past due and/or impaired receivables presented per class are as follows:

| | **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** |

| | 2012 | | | |
|---|---|---|---|---|
| | Past Due but not Impaired | | Impaired Financial | |
| | <45 days | 45-135 days | Assets | Total |
| *Receivables* | | | | |
| Trade receivables - outside parties | ₱229,925,118 | ₱35,735,775 | ₱53,523,802 | ₱319,184,695 |
| Others | – | – | 5,815,359 | 5,815,359 |
| Total | ₱229,925,118 | ₱35,735,775 | ₱59,339,161 | ₱325,000,054 |

*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.

The Group is not subject to externally imposed capital requirements. 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, 2013 and 2012.

| | **2013** | 2012 (As restated) |
|---|---|---|
| Interest-bearing loans | **₱15,808,646,351** | ₱12,179,273,676 |
| Total equity | **20,127,511,704** | 16,870,331,398 |
| Debt-to-Equity ratio | **78.54%** | 72.19% |
| EPS (Note 26) | **₱21.11** | ₱17.85 |

The aggressive expansion and investment strategies of the Group resulted to higher Debt-to-Equity ratios in 2013 and 2012. 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, 2013 and 2012:

| | **2013** | 2012 (As restated) |
|---|---|---|
| Total paid-up capital | **₱7,031,777,411** | ₱7,031,777,411 |
| Remeasurement losses on pension plan | **(5,876,670)** | (18,465,694) |
| Retained earnings - unappropriated | **10,801,610,963** | 9,157,019,681 |
| Retained earnings - appropriated | **2,300,000,000** | 700,000,000 |
| | **₱20,127,511,704** | ₱16,870,331,398 |

## 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 due to the relatively short-term nature of the transactions.

*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, 2013 and 2012, interest rate ranges from 1.00% to 3.00% and 1.03% to 4.00%, 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, 2013 and 2012, the Group does not have financial instruments measured at fair value.

## 31. Lease Commitments

*Equipment Rental Agreement*
On various dates in 2009 and 2008, the Parent Company entered into Equipment Rental Agreement (the Agreement) with Banco de Oro Rental, Inc. (the Lessor) for the rental of various equipment for a period of twenty (20) months starting on various dates. The Agreement requires for the payment of a fixed monthly rental. The Agreement also requires the Parent Company to pay security deposit which shall be held by the lessor as security for the faithful and timely performance by the Parent Company of all its obligations. Upon termination of the Agreement, the lessor shall return to the Parent Company the security deposit after deducting any unpaid rental and/or other amounts due to lessor. The equipment are, at all times, shall be and remain the sole and exclusive equipment of the lessor, and no title shall pass to the Parent Company.

As of December 31, 2013, the Agreement with the Lessor is terminated.

*LLA*
As discussed in Notes 8, 28 and 34, SCPC entered into a LLA with PSALM for the lease of land in which the plant is situated, for a period of 25 years, renewable for another 25 years with the mutual agreement of both parties. SCPC paid US$3.19 million or its peso equivalent of ₱150.57 million as payment for the 25 years of rental.

As part of the agreement, SCPC has the option to buy the parcels of land that form part of the leased premises upon issuance of an Option Existence Notice. On July 12, 2010, PSALM issued an Option Existence Notice and granted the 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 or a peso equivalent of ₱14.72 million exercisable within one year from the issuance of the Option Existence Notice.

On May 5, 2011, PSALM granted SCPC’s request to assign portion of its option to the Parent Company to buy the 82,740 square meters lot covered by TCT No. 115804.

On June 1, 2011, the Parent Company and SCPC exercised its option to purchase the Option Asset and subsequently entered into a Deed of Absolute Sale with PSALM for the total consideration of ₱376.61 million.

On October 12, 2011, SCPC reiterated its proposal to purchase the remainder of the Leased Premises not identified as Optioned Assets. One of the salient features of the proposal included the execution of Contract to Sell (CTS) between SCPC and PSALM. This included the proposal of SCPC to assign its option to purchase and sub-lease in favor of Southwest Luzon Power Generation (SLPGC).

On February 13, 2012, PSALM held off the approval of the proposal to purchase the portion of Calaca Leased Premises not identified as Optioned Assets, subject to further studies. On the same date, PSALM Board has approved SCPC's request to sub-lease a portion of the Calaca Leased Premises to SLPGC for the purpose of constructing and operating a power plant.

On February 24, 2012, SCPC sent a letter to PSALM for its proposal to handle the titling of Calaca Land.

As of the December 31, 2013, PSALM is pending for any response in connection therewith.

## 32. Notes to Consolidated Statements of Cash Flow

Supplemental disclosure of noncash investing and financing activities follows:

| | **2013** | 2012 | 2011 |
|---|---|---|---|
| Increase in property, plant and equipment and liabilities arising from adjustments relating to decommissioning (Note 8) | **₱133,188,944** | ₱275,903,977 | ₱226,731,248 |
| 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 | 1,607,455,720 |
| Adjustments to provision for decommissioning and site rehabilitation (Note 15) | **–** | 5,265,923 | – |

## 33. Operating Segments

Segment Information

For management purposes, the Group is organized into business units based on their products and activities. Segment revenues, cost and operating expenses, profit or loss, segment assets and segment liabilities assume measurement under PFRS. Reportable operating segments are as follows:

- Mining - engaged in surface open cut mining of thermal coal;
- 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.

| | 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 loss | (463,938) | (17,239) | – | – | (481,177) |
| Finance costs | (152,628) | (228,601) | – | – | (381,229) |
| Provision for (benefit from) 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 |
| Deferred tax liability | – | – | – | – | – |
| | ₱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 |
| Provision for doubtful accounts | 29,743 | 413,907 | – | – | 443,650 |
| Provision for inventory obsolescence | 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) |
| Loss on property, plant and equipment writedown | – | (341,162) | – | – | (341,162) |
| Depreciation | (23,097) | (21,814) | – | – | (44,911) |
| Operating profit | 3,296,762 | 2,746,577 | (102) | 64,693 | 6,107,930 |
| 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 |
| 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 |

| | 2011 (In thousands) | | | | |
|---|---|---|---|---|---|
| | Mining | Power | Others | Adjustments and Eliminations | Consolidated |
| **Revenue** | | | | | |
| Sales to external customers | ₱16,201,880 | ₱9,611,704 | ₱– | ₱– | ₱25,813,584 |
| Inter-segment sales | 3,861,843 | – | – | (3,861,843) | – |
| | 20,063,723 | 9,611,704 | – | (3,861,843) | 25,813,584 |
| **Cost of sales** | (12,083,577) | (5,269,515) | – | 3,327,506 | (14,025,586) |
| Depreciation and amortization | (1,923,329) | (1,127,569) | – | 415,866 | (2,635,032) |
| **Gross profit** | 6,056,817 | 3,214,620 | – | (118,471) | 9,152,966 |
| Operating expenses | (1,816,319) | (1,001,658) | (50) | – | (2,818,027) |
| Depreciation | (20,667) | (17,564) | – | – | (38,231) |
| Operating profit | 4,219,831 | 2,195,398 | (50) | (118,471) | 6,296,708 |
| Other income | 1,299,905 | – | – | (1,200,000) | 99,905 |
| Finance income | 79,448 | 55,429 | – | – | 134,877 |
| Foreign exchange gain | (26,011) | (12,307) | | | (38,318) |
| Finance costs | (104,932) | (378,356) | | | (483,288) |
| Provision for income tax | 16,154 | 5,741 | | | 21,895 |
| **Net income** | ₱5,484,395 | ₱1,865,905 | (₱50) | (₱1,318,471) | ₱6,031,779 |

(Forward)

| | 2011 (In thousands) | | | | |
|---|---|---|---|---|---|
| | Mining | Power | Others | Adjustments and Eliminations | Consolidated |
| Segment assets | ₱22,192,742 | ₱23,151,248 | ₱2,500 | (₱9,736,701) | ₱35,609,789 |
| Deferred tax assets | – | 19,747 | – | – | 19,747 |
| | ₱22,192,742 | ₱23,170,995 | ₱2,500 | (₱9,736,701) | ₱35,629,536 |
| Segment liabilities | ₱5,323,444 | ₱3,826,400 | ₱50 | (₱833,401) | ₱8,316,493 |
| Long-term debt | 4,140,133 | 8,369,261 | | – | 12,509,394 |
| Deferred tax liability | 565 | – | – | – | 565 |
| | ₱9,464,142 | ₱12,195,661 | ₱50 | (₱833,401) | ₱20,826,452 |
| **Cash flow arising from:** | | | | | |
| Operating activities | ₱4,734,221 | ₱1,918,600 | ₱– | (₱37,831) | ₱6,614,990 |
| Investing activities | (1,673,786) | (465,796) | – | (389,469) | (2,529,051) |
| Financing activities | (2,125,406) | (1,206,029) | 2,500 | 427,299 | (2,901,636) |
| **Other disclosures** | | | | | |
| Capital expenditures | ₱2,130,050 | ₱324,326 | ₱– | ₱– | ₱2,454,376 |
| Provision for (reversal of) allowance for doubtful accounts | 5,005 | (7,892) | – | – | (2,888) |

1. Intersegment revenues, other income, cost and expenses are eliminated in the consolidation.
2. Segment assets exclude deferred tax assets amounting to ₱139.96 million, ₱10.75 million and ₱19.75 million in 2013, 2012 and 2011, respectively.
3. Segment liabilities exclude deferred tax liabilities amounting to ₱31.65 million, ₱36.55 million and ₱6.77 million in 2013, 2012 and 2011. Long term bank loans are no longer included as these are managed on a group basis.
4. Significant noncash items charged to comprehensive income include loss on property, plant and equipment writedown and depreciation and amortization.
5. Capital expenditures consist of additions of property, plant and equipment.
6. All noncurrent assets other than financial instruments are located in the Philippines.

Total power energy sold to MERALCO amounted to ₱10.73 billion, ₱6.14 billion and ₱5.18 billion in 2013, 2012 and 2011, respectively.

Geographic Information

*Revenues from external customers*

The financial information about the operation of the Group as of December 31, 2013, 2012 and 2011 reviewed by the management follows:

| | **2013** | 2012 | 2011 |
|---|---|---|---|
| **Revenue:** | | | |
| Local coal sales | **₱5,287,388,411** | ₱7,440,134,295 | ₱9,041,167,716 |
| Export coal sales | **7,286,180,834** | 7,010,021,039 | 7,160,712,695 |
| | **₱12,573,569,245** | ₱14,450,155,334 | ₱16,201,880,411 |

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.

34. **Other Matters**

a. Electric Power Industry Reform Act (EPIRA)

In June 2001, the Congress of the Philippines approved and passed into law R.A. No. 9136, otherwise known as the EPIRA, providing the mandate and the framework to introduce competition in the electricity market. EPIRA also provides for the privatization of the assets of NPC, including its generation and transmission assets, as well as its contract with Independent Power Producers (IPPs). EPIRA provides that competition in the retail supply of electricity and open access to the transmission and distribution systems would occur within three years from EPIRA's effective date. Prior to June 2002, concerned government agencies were to establish WESM, ensure the unbundling of transmission and distribution wheeling rates and remove existing cross subsidies provided by industrial and commercial users to residential customers. The WESM was officially launched on June 23, 2006 and began commercial operations for Luzon. The ERC has already implemented a cross subsidy removal scheme. The inter-regional grid cross subsidy was fully phased-out in June 2002. ERC has already approved unbundled rates for Transmission Company (TRANSCO) and majority of the distribution utilities.

Under EPIRA, NPC's generation assets are to be sold through transparent, competitive public bidding, while all transmission assets are to be transferred to TRANSCO, initially a government-owned entity that was eventually being privatized. The privatization of these NPC assets has been delayed and is considerably behind the schedule set by the DOE. EPIRA also created PSALM, which is to accept transfers of all assets and assume all outstanding obligations of NPC, including its obligations to IPPs. One of PSALM's responsibilities is to manage these contracts with IPPs after NPC's privatization. PSALM is also responsible for privatizing at least 70% of the transferred generating assets and IPP contracts within three years from the effective date of EPIRA.

In August 2005, the ERC issued a resolution reiterating the statutory mandate under the EPIRA law for the generation and distribution companies, which are not publicly listed, to make an initial public offering (IPO) of at least 15% of their common shares. Provided, however, that generation companies, distribution utilities or their respective holding companies that are already listed in the Philippine Stock Exchange (PSE) are deemed in compliance. SCPC was already compliant with this requirement given that the Parent Company is a publicly listed company.

*WESM*
With the objective of providing competitive price of electricity, the EPIRA authorized DOE to constitute an independent entity to be represented equitably by electric power industry participants and to administer and operate WESM. WESM will provide a mechanism for identifying and setting the price of actual variations from the quantities transacted under contracts between sellers and purchasers of electricity.

In addition, the DOE was tasked to formulate the detailed rules for WESM which include the determination of electricity price in the market. The price determination methodology will consider accepted economic principles and should provide a level playing field to all electric power industry participants. The price determination methodology was subject to the approval of the ERC.

In this regard, the DOE created Philippine Electricity Market Corporation (PEMC) to act as the market operator governing the operation of WESM. On June 26, 2006, WESM became operational in the Luzon grid and adopts the model of a "gross pool, net settlement" electricity market.

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 with modification of the ERC Case No. 2012-037 RC.

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 with 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 and Pozzolanic sealed its 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.

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.

35. **Events after Reporting Date**

On March 6, 2014, the Parent Company's BOD approved the following matters, during their regular meeting, which are subject to approval of stockholders in their upcoming annual meeting on May 5, 2014:

- Stock dividends declaration 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 with delegation to the President of the power to determine the record date and payment dates;
- Change in corporate name to Semirara Mining and Power Corporation;
- Increase in authorized capital stock from ₱1,000,000,000 to ₱3,000,000,000;
- Change in principal office address from "Metro Manila" to "2/F DMCI Plaza, 2281 Don Chino Roces Avenue, Makati City, Metro Manila" in compliance to SEC Memorandum Circular No. 6, Series of 2014; and
- Ratification of the Parent Company's authority to execute the required securities and corporate guarantee in relation to the procurement of project debt facility by its wholly owned subsidiary, St. Raphael Power Generation Corporation (SRPGC) to fund Phase 2 of its power expansion at Calaca, Batangas, with capacity of up to 400MW and project cost of up to USD600 million, of which 70% shall be funded by debt, and the 30% equity requirement shall be funded by the Parent Company. The Parent Company pledged 67% voting shares and interim corporate suretyship in SRPGC for the project debt facility.

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