COVER SHEET

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SEC Registration Number

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

C O R P O R A T I O N

(Company's Full Name)

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

M A K A T I C I T Y

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

Junalina S. Tabor

(Contact Person)

888-3055

(Company Telephone Number)

1 2 3 1

(Fiscal Year)

1 7 - Q

(Form Type)

Month *Day*

(Annual Meeting[1])

(Secondary License Type, If Applicable)

CFD

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

S T A M P S

Remarks: Please use BLACK ink for scanning purposes.

[1] First Monday of May of each year.

SEC Number : 91447
File Number : _________

SEMIRARA MINING AND POWER CORPORATION

Company's Full Name

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

888-3550 to 888-3565
Telephone Number

For the Period Ending June 2015
Period Ended

QUARTERLY REPORT FORM 17-Q
Form Type

SEC FORM 17-Q

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

1. For the quarter period ended **June 30, 2015**

2. Commission Identification Number **91447**

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

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

   SEMIRARA MINING AND POWER CORPORATION

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

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

7. Address of issuer's principal office Postal Code

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

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

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

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

Title of each class	Number of shares of common Stock Outstanding
Common Stock, P1.00 par value	1,068,750,000 shares

11. 1,068,750,000 shares are listed in the Philippine Stock Exchange

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

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

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SEMIRARA MINING AND POWER CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As of June 30, 2015

	(Unaudited) 30-Jun-15	(Audited) 31-Dec-14
ASSETS		
Current Assets		
Cash and cash equivalents	4,374,851,122	3,683,125,544
Receivables - net	4,628,293,618	4,127,721,276
Inventories - net	3,781,897,794	2,792,331,113
Other current assets	3,261,197,497	2,169,449,877
Total Current Assets	16,046,240,032	12,772,627,810
Noncurrent Assets		
Property, plant and equipment - net	34,080,741,465	34,452,040,736
Investments	524,636,878	521,780,873
Exploration and evaluation asset	1,914,437,638	1,914,437,638
Deferred Tax Assets	291,883,865	704,195,424
Other noncurrent assets	1,598,550,309	1,536,293,213
Total Noncurrent Assets	38,410,250,155	39,128,747,884
TOTAL ASSETS	54,456,490,187	51,901,375,694
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Trade and other payables	9,134,545,118	8,805,562,841
Short-term loans	2,682,982,212	1,218,753,398
Current portion of long-term debt	1,346,449,350	2,113,885,350
Total Current Liabilities	13,163,976,680	12,138,201,589
Noncurrent liabilities		
Long-term debt - net of current portion	17,511,626,712	16,088,724,435
Provision for decommissioning and site rehabilitation	175,295,942	175,295,942
Pension liabilities	53,013,742	49,029,893
Other noncurrent liabilities	413,875,773	743,912,319
Total Noncurrent Liabilities	18,153,812,168	17,056,962,589
Total Liabilities	31,317,788,849	29,195,164,178
Stockholders' Equity		
Capital Stock	1,068,750,000	1,068,750,000
Additional paid-in capital	6,675,527,411	6,675,527,411
Remeasurement gains (losses) on pension plan	(13,471,337)	(13,471,337)
Retained earnings	15,407,895,264	14,975,405,442
Total Stockholders' Equity	23,138,701,339	22,706,211,516
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	54,456,490,187	51,901,375,694

SEMIRARA MINING AND POWER CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the Period Ending June 30, 2015 and 2014

For the Quarter Ending June 30, 2015 and 2014

	(Unaudited) For the Period		(Unaudited) For the Quarter	
	2015	2014	2015	2014
REVENUE				
Coal	6,525,581,252	9,051,131,675	2,773,319,100	4,278,989,493
Power	7,190,997,526	4,927,859,599	3,698,698,348	3,060,873,545
	13,716,578,778	13,978,991,274	6,472,017,448	7,339,863,038
COST OF SALES				
Coal	3,571,790,228	4,803,253,350	1,426,443,754	2,071,253,369
Power	2,509,782,333	4,434,606,299	1,549,876,964	3,868,783,716
	6,081,572,560	9,237,859,649	2,976,320,717	5,940,037,085
GROSS PROFIT	7,635,006,217	4,741,131,625	3,495,696,730	1,399,825,953
OPERATING EXPENSES	(2,089,645,562)	(2,078,354,356)	(840,552,924)	(852,511,150)
FINANCE INCOME (COSTS)	(128,742,795)	(120,697,047)	(73,057,356)	(67,953,572)
FOREIGN EXCHANGE GAINS (LOSSES)	29,530,529	24,236,386	(16,209,688)	123,070,918
OTHER INCOME	152,893,543	85,228,138	108,119,351	25,214,714
	(2,035,964,287)	(2,089,586,880)	(821,700,618)	(772,179,091)
INCOME BEFORE INCOME TAX	5,599,041,930	2,651,544,746	2,673,996,112	627,646,863
PROVISION FOR INCOME TAX	891,521,958	4,806,165	477,673,722	2,481,949
NET INCOME	4,707,519,973	2,646,738,580	2,196,322,391	625,164,913
			-	
TOTAL COMPREHENSIVE INCOME	4,707,519,973	2,646,738,580	2,196,322,391	625,164,913
Basic / Diluted Earnings per Share	4.40	2.48	2.06	0.58

Basis of EPS :

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

Wherein :

Wtd Average Outstanding Shares	1,068,750,000	(as of June 30, 2015)
Wtd Average Outstanding Shares (as adjusted)	1,068,750,000	(as of June 30, 2014)

SEMIRARA MINING AND POWER CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

As of June 30, 2015 and 2014

	Common Stock	Additional Paid-In Capital	Remeasurement Losses on Retirement Plan	Unappropriated Retained Earnings	Appropriated Retained Earnings	Grand Total
At January 1, 2015	1,068,750,000	6,675,527,411	(13,471,337)	8,400,405,442	2,300,000,000	18,431,211,516
Net Income for the period				4,707,489,823		4,707,489,823
Additional Paid-In Capital						-
Remeasurement Losses on Retirement Plan						-
Cost of Shares Held in Treasury						-
Dividends						-
At June 30, 2015	1,068,750,000	6,675,527,411	(13,471,337)	13,107,895,265	2,300,000,000	23,138,701,339
At January 1, 2014	356,250,000	6,675,527,411	-	2,251,579,976	2,300,000,000	11,583,357,387
Net Income for the period				2,646,738,580		2,646,738,580
Remeasurement Losses on Retirement Plan			(5,059,113)			(5,059,113)
Dividends				4,275,000,000		4,275,000,000
At June 30, 2014	356,250,000	6,675,527,411	(5,059,113)	9,173,318,556	2,300,000,000	18,500,036,855

SEMIRARA MINING AND POWER CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOW

As of June 30, 2015 and 2014

	(Unaudited) 2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	5,599,041,930	2,651,544,746
Adjustments for:		
Depreciation and amortization	1,107,093,818	1,129,002,831
Finance costs and revenues	129,224,434	118,661,180
Net unrealized foreign exchange gains	22,209,068	(64,199,149)
Pension expense	(5,700,000)	6,748,282
Operating income before changes in working capital	6,851,869,251	3,841,757,890
Decrease (increase) in:		
Receivables	(1,425,058,777)	(1,316,094,145)
Inventories	(1,029,643,722)	(874,241,415)
Other current assets	(882,341,645)	(61,022,370)
Increase (decrease) in:		
Trade and other payables	(123,452,598)	2,497,223,773
Cash generated from (used in) operations	3,391,372,508	4,087,623,733
Interest received	21,349,803	23,036,245
Benefits paid	(1,716,152)	
Income tax paid	(2,382,142)	(4,806,166)
Interest paid	(138,306,082)	(141,648,741)
Net cash provided by (used in) operating activities	3,270,317,936	3,964,205,071
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease (increase) in investments	412,311,555	
Additions to Sinking Fund/Investments	(2,856,005)	(2,287,159)
Additions to property, plant and equipment	(794,481,596)	(5,718,485,872)
Net cash used in investing activities	(385,026,046)	(5,720,773,031)
CASH FLOWS FROM FINANCING ACTIVITIES		
Loan Availments	4,001,344,840	7,017,423,011
Proceeds from additional subscription to capital stocks		
Payment of dividend	(4,275,000,000)	(4,275,000,000)
Loan Repayment	(1,919,735,376)	(2,438,265,823)
Net cash provided by (used in) financing activities	(2,193,390,536)	304,157,188
NET INCREASE IN CASH AND CASH EQUIVALENTS	691,901,354	(1,452,410,772)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	3,682,949,768	4,819,307,265
CASH AND CASH EQUIVALENTS AT END OF YEAR	4,374,851,122	3,366,896,493

1. Summary of Significant Accounting policies

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

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

Basis of Consolidation
The consolidated financial statements comprise the financial statements of the Group as at June 30, 2015 and for the year then ended.

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 in the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group control 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, separate 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):

- ✓ Sem-Calaca Power Corporation (SCPC)
- ✓ Southwest Luzon Power Generation Corporation (SLPGC)
- ✓ SEM-Cal Industrial Park Developers, Inc. (SIPDI)
- ✓ Semirara Claystone, Inc. (SCI)
- ✓ Semirara Energy Utilities, Inc. (SEUI)
- ✓ St. Raphael Power Generation Corporation (SRPGC)
- ✓ SEM-Balayan Power Generation Corporation (SBPGC)
- ✓ Sem-Cal RES Corporation (SCRC)*

**Wholly-owned subsidiary of SCPC*

Except for SCPC, the Parent Company's subsidiaries have not yet started commercial operations as of June 30, 2015.

<u>Business Combination and Goodwill</u>

Business combinations are accounted for using the acquisition method. This involves recognizing identifiable assets (including previously unrecognized intangible assets) and liabilities (including contingent liabilities and excluding future restructuring) of the acquired business at fair value. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling 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 and 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 goodwll 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 non-controlling interests arising from transactions that do not involve the loss of control are based on proportionate amount of the net assets of the subsidiary.

Changes in Accounting Policies and Disclosures

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

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

- Investment Entities (Amendments to PFRS 10, *Consolidated Financial Statements,* PFRS 12*, Disclosure of Interests in Other Entities,* and PAS 27, *Separate Financial Statements*)
  These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment under PFRS10. The exception to consolidation requires investment entities to account for subsidiaries at fair valu through profit or loss. The amendments must b applied restrospectively, subject to certain transition relief.

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

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

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

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

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

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

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

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

- Annual Improvements to PFRSs (2011-2013 cycle)
  In the 2011 – 2013 annual improvements cycle, four amendments to four standards were issued, which included an amendment to PFRS1, *First-time Adoption of Philippine Financial Reporting Standards-First-time Adoption of PFRS.* The amendment to PFRS 1 is effective immediately. It clarifies that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but permits early application, provided either standard is applied consistently throughout the periods presented in the entity's first PFRS financial statements. This amendment has no impact on the Group as it is not a first time PFRS adopter.

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

- PFRS 9, *Financial Instruments* – Classification and Measurement (2010 version)
  PFRS 9 (2010 version) reflects the first phase on the replacement of PAS 9 and applies to the classification and measurement of financial assetsand liabilities as defined in PAS39, *Financial Instruments: Recognition and Measurement.* PFRS 9 requires all financial assets to be measured at fair value at initial recognition. A debt financial asset may, if the fair value option (FVO) is not invoked, be subsequently measured at amortized cost if it is held within a business model that has the objective to hold the assets to collect the contractual cash flows and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding. All other debt instruments are subsequently measured at fair value through profit and loss. All equity financial assets are measured at fair value either through other comprehensive income (OCI) or profit or loss. For FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk

must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. All other PAS 39 classification and measurement requirements for financial liabilities have been carried forward into PFRS 9, including the embedded derivative separation rules and the criteria for using the FVO. The Group will not adopt the standard before the completion of the limited amendments and the second phase of the project.

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

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

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

<u>Effective January 1, 2015</u>

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

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

- PFRS 2, *Share-based Payment – Definition of Vesting Condition*
  This improvement is applied prospectively and clarifies various issues relating to the

definitions of performance and service conditions which are vesting conditions, including:

- A performance condition must contain a service condition
- A performance target must be met while the counterparty is rendering service
- A performance target may relate to the operations or activities of an entity, or to those of another entity in the same group
- A performance condition may be a market or non-market condition
- If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied

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

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

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

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

- Annual Improvements to PFRSs (2011-2013 cycle)
  The Annual Improvements to PFRSs (2011-2013 cycle) are effective for annual periods beginning on or after January 1, 2015 and are not expected to have a

material impact on the Group. They include :

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

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

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

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

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

- PAS 16, *Property, Plant and Equipment,* and PAS 41, *Agriculture – Bearer Plants* (Amendments)
  The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of PAS 41. Instead, PAS 16 will apply. After initial recognition, bearer plants wil be measured under PAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of PAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, PAS 20, *Accounting for Government Grants and Disclosure of Government Assistance,*

will apply. The amendments are retrospectively effective for annual periods beginnin on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group as the Group does not have any bearer plants.

- PAS 27, *Separate Financial Statements – Equity Method in Separate Financial Statements* (Amendments)
  The amendments will allow entities to use the equity method to account for investments in subsidiaries, jont ventures and associates in their separate financiat statements. Entities already applying PFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. For first-time adopters of PFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to PFRS. The amendments are effective for annual periods beginning on or after January 1, 2016, with ealy adoption permitted. These amendments will not have any impact on the Group’s consolidated financial statements.

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

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

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

- PFRS 14, *Regulatory Deferred Accounts*
  PFRS 14 is an optional standard that allow an entity, whose activities are subject to

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

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

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

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

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

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

currency, government bond rates must be used.

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

Effective January 1, 2018

- PFRS 9, *Financial Instruments* – Hedge Accounting and amendments to PFRS 9, PFRS 7 and PAS 39 (2013 version)
  PFRS 9 (2013 version) already includes the third phase of the project to replace PAS 39 which pertains to hedge accounting. This version of PFRS 9 replaces the rules-based hedge accounting model of PAS 39 with a more principle-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 the economic relationship; allowing risk components to be designated as the hedged item, not only for financial items but also for non-financial items, provided that the risk component is separately identifiable and reliably measurable; and allowing the time value of an option, the forward element of a forward contract and any foreign currency basis spread to be excluded from the designation of a derivative instrument as the hedging instrument and accounted for as costs of hedging. PFRS 9 also requires more extensive disclosures for hedge accounting.

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

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

- PFRS 9, *Financial Instruments* – (2014 or final version)
  In July 2014, the final version of PFRS 9, *Financial Instruments,* was issued. PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement,* and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. PFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of PFRS 9 is permitted if the date of initial application is before February 1, 2015.

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

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

- IFRS 15, *Revenue from Contracts with Customers*
  IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under PFRS 15 revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

  The principles in IFRS 15 provide a more structured approach to measuring and recognizing revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2017 with early adoption permitted. The Group is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date once adopted locally.

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

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

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

Initial recognition of financial instruments
Financial assets and financial liabilities are recognized initially at fair value. Transaction costs are included in the initial measurement of all financial assets and financial liabilities, except for financial instruments measured at fair value through profit or loss (FVPL). Financial assets in the scope of PAS 39 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.

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

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

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

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

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

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

Deferred Financing Costs
Deferred financing costs represent debt issue costs arising from the fees incurred to obtain project financing. This is included in the initial measurement of the related debt.

The deferred financing costs are treated as a discount on the related debt and are amortized using the EIR method over the term of the related debt.

Impairment of Financial Assets

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

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

Loans and receivables

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

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

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

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

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

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

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.

Other Assets
Other assets pertain to resources controlled by the Group as a result of past events and from which future economic benefits are expected to flow to the Group.

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

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

All other assets are classified as noncurrent.
A liability is current when either:

- It is expected to be settled in the normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within 12 months after reporting date; or
- There is no unconditional right to defer the settlement of the liability for at least 12 months after reporting date.

The Group classifies all other liabilities as noncurrent.

Deferred tax assets and liabilities are classified as noncurrent assets and liabilities.

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

of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognized:

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

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

Spot electricity sales
Revenue from spot electricity sales derived from the sale to the spot market of excess generated electricity over the contracted energy using price determined by the spot market, also known as Wholesale Electricity Spot Market (WESM), the market where electricity is traded, as mandated by Republic Act (RA) No. 9136 of the Department of Energy (DOE).

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

Other income
Other income is recognized when earned.

Cost of Sales
Cost of coal
Cost of coal includes directly related production costs such as cost of fuel and lubricants, materials and supplies, depreciation and other related costs. These costs are recognized when incurred.

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

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

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

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

Other Comprehensive Income (Loss)
This pertains to items of income and expense that are not recognized in the profit or loss for the year in accordance with PFRS.

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

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

Defined benefit costs comprise the following:
- Service costs
- Net interest on the net defined benefit liability or asset
- Remeasurements of net defined benefit liability or asset

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

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

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

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

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

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

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

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

<u>Income Tax</u>
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.

<u>Earnings per Share</u>
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.

<u>Operating Segments</u>
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.

<u>Contingencies</u>
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.

<u>Events after Reporting Date</u>
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.

2. 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.

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.

<u>Management's Use of Estimates and Assumptions</u>
The key assumptions concerning the future and other sources of estimation uncertainty at reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

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

The Group's coal sales arrangement with its customers includes reductions of invoice price to take into consideration charges for penalties and bonuses. These price adjustments depend on the estimated quality of the delivered coal. These estimates are based on final coal quality analysis on delivered coal.

There is no assurance that the use of estimates may not result in material adjustments in future periods.

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.

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

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.

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.

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.

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.

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.

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.

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. 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.

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

I. PRODUCTION – COMPARATIVE REPORT H1 2015 vs H1 2014

Coal

Total materials moved slightly dipped 1% YoY at 54.08 million bank cubic meters (bcm) from 54.52 million bcm in H1 2014. Some equipment were used to prepare future operating areas, explaining the slight decrease in materials movement.

Correspondingly, coal production dropped 8% YoY to 4.46 million metric tons (MTs) from 4.87 million MTs last year, with strip ratio registering at 11.42:1, up by 9% from last year's 10.45:1. Apart from the deployment of some equipment for waste stripping, a few were also used to haul coal as the coal conveying system underwent capacity upgrading in Q1 to address increasing coal demand.

With lower export sales in Q2, Coal sales volume slightly dropped by 2% YoY to 4.34 million MTs from 4.43 million MTs last year. Ending inventory in the current period was 64% lower YoY at 582 thousand MTs versus 1.62 million last year.

The table below shows the comparative production data for H1 2015 and H1 2014.

	Q1 '15	Q2 '15	H1 '15	Q1 '14	Q2 '14	H1 '14	% Inc (Dec)
PRODUCTION							
Total Materials (bcm)	26,284	27,800	54,084	28,135	26,385	54,520	*-1%*
TPC Coal (MT)	2,325	2,134	4,459	2,353	2,513	4,866	*-8%*
Strip Ratio	10.59:1	12.31:1	11.42:1	11.21:1	9.74:1	10.45:1	*9%*
Net TPC (MT)	2,302	2,112	4,414	2,329	2,488	4,817	*-8%*
Saleable Coal (MTs)	2,282	2,092	4,374	2,311	2,467	4,778	*-8%*
Beg. Inventory (MTs)	386	290	386	1,277	1,279	1,277	*-70%*
End Inventory (MTs)	290	582	582	1,279	1,623	1,623	*-64%*

Power

Both power units are operating steadily in the current semester, unlike in the previous year. Total gross generation is up 143% YoY to 2,165 GWh from 893 GWh last year. In H1 2014, Unit 2 was placed on shut down for planned maintenance and to install the new Distribution Control System (DCS).

Unit One

Gross generation of Unit 1 increased 22% YoY to 951 GWh from 782 GWh generation last year. Average capacity increased to 259 MW from 236 MW last year. High grade coal from Semirara improved the capacity of the unit this semester. Capacity factor is also up at 73% during the current semester against 60% last year.

Availability of the plant increased 11% YoY to 84% availability this semester from 76% last year. Unplanned outages significantly lowered by 69% this year to 331 hours from 1,053 hours last year as the plant incurred more downtimes in April and June last year to repair tube leaks.

Unit Two

Gross generation of Unit 2 surged 995% to 1,214 GWh from 111 GWh last year. In 2014, the 90-day scheduled planned outage for the unit started in 31 December 2013, 60 days were allotted for equipment maintenance while the remaining 30 days was allocated for DCS (Distribution Control System) commissioning. However, commissioning was delayed and the plant only started to synchronize to the grid on 13 June as problems on the installation and fine tuning of the DCS were encountered. The unit only stabilized in the succeeding quarter, with dependable capacity reaching its rated capacity of 300 MW. Average capacity improved to 292 MW from 192 MW last year. Capacity factor also improved, registering at 93% this year from only 8% last year.

Availability of the plant increased to 95% in the current period from only 13% in H1 last year. Unplanned outages this year registered at 207 hours.

The table below shows the comparative production data for H1 2015 and H1 2014.

COMPARATIVE PLANT PERFORMANCE DATA
H1'15 VS H1'14

	Q1'15	Q2 '15	H1 '15	Q1'14	Q2 '14	H1 '14	% Inc (Dec)
Gross Generation, *Gwh*							
Unit 1	456	495	951	455	327	782	*22%*
Unit 2	558	656	1,214	33	77	111	*995%*
Total Plant	**1,014**	**1,151**	**2,165**	**489**	**404**	**893**	***143%***
% Availability							
Unit 1	77%	91%	84%	89%	63%	76%	*11%*
Unit 2	91%	100%	95%	6%	20%	13%	*620%*
Total Plant	**84%**	**96%**	**90%**	**48%**	**41%**	**45%**	***101%***
Capacity Factor							
Unit 1	70%	75%	73%	70%	49%	60%	*22%*
Unit 2	86%	99%	93%	5%	12%	8%	*995%*
Total Plant	**78%**	**87%**	**83%**	**38%**	**30%**	**34%**	***143%***

II. MARKETING – COMPARATIVE REPORT H1 2015 vs. H1 2014

Coal

Coal sales recorded a minute 5% decrease at 4.23 million MTs from 4.43 million MTs in the same period last year.

Market share of export sales dropped 38% to 1.59 million MTs. This is 45% lower than H1 2014's sales of 2.87 million MTs. Domestic demand was significantly lower last year as Calaca Unit 2 was on protracted shutdown, hence more coal was available for export. Local deliveries are given priority, and only volumes that are not sold locally are exported.

In contrast, local sales swelled 69% YoY to 2.57 million MTs from 1.56 million MTs last year. The increase is mainly due to more than doubling of sales to power plants to 1.91 million MTs from 912 thousand MTs last year. Deliveries to Calaca rose by 126% YoY at 1.29 million MTs from 572 thousand MTs last year. Other power plants also increased their off-take by 82% to 620 thousand MTs from 340 thousand MTs last year, due to additional capacities and increase in the plants' usage ratio between Semirara coal and imported coal.

Similarly, sales to cement plants also increased 14% YoY to 524 thousand MTs from 461 thousand MTs last year due to higher demand for cement this year for infrastructure projects as well as increase in blend ratio of Semirara coal against imported coal.

Sales to other industrial plants likewise posted an increase of 9% YoY to 207 thousand MTs from 190 thousand MTs last year. Off-take by brokers increased in Q2 this year.

Composite average FOB price per MT decreased 5% YoY to PHP2,194 from PHP2,300 last year as global coal prices continue to drop.

The table below shows the comparative sales volume data for H1 2015 and H1 2014.

CUSTOMER	Q1 '15	Q2 '15	H1 '15	%	Q1 '14	Q2 '14	H1 '14	%	Inc (Dec)
Power Plants									
Calaca	666	626	1,292	31%	334	238	572	13%	***126%***
Other PPs	313	307	620	15%	165	175	340	8%	***82%***
TOTAL PPs	**980**	**932**	**1,912**	**45%**	**499**	**413**	**912**	**21%**	***110%***
Other Industries									
Cement	278	246	524	12%	242	219	461	10%	***14%***
Others	93	114	207	5%	106	85	190	4%	***9%***
Total Others	**371**	**360**	**731**	***17%***	**348**	**304**	**652**	***15%***	***12%***
TOTAL LOCAL	**1,351**	**1,292**	**2,643**	62%	**847**	**717**	**1,563**	35%	***69%***
EXPORT	1,054	534	1,587	38%	1,462	1,407	2,869	65%	***-45%***
GRAND TOTAL	**2,404**	**1,826**	**4,230**	**100%**	**2,309**	**2,124**	**4,432**	**100%**	***-5%***

Power

SCPC's sales increased 59% YoY to 2,079 GWh from 1,311 GWh last year as both power plants are fully operational this year. The lower energy generation last year is a result of the prolonged testing and commissioning of the DCS for Unit 2 and higher forced outage for Unit 1.

Of the total energy sold, 93% or 1,934 GWh were sold to bilateral contracts and the remaining 7% to the spot market.

MERALCO remained to be the single biggest customer, accounting for 85% of the total energy sales of the bilateral contracts; BATELEC I and Trans-Asia comprised 4% and 9%, respectively.

Spot Market Sales is higher by 1,165% YoY at 145 GWh against 11 GWh last year.

Of the total energy sold, 99% was sourced from own generation and 1% was purchased from the spot market. SCPC procured power from the spot market during hour intervals where power units were down, or when the plants were running at a de-rated capacity, in order to be able to supply committed capacity to some of its customers.

Average price for bilateral contracts dropped 12% YoY to PHP3.46/KWh from PHP3.94/KWh in H1 2014. The contracts index Newcastle prices has been declining in the current semester against last year.

The table below shows the comparative marketing data for H1 2015 and H1 2014.

COMPARATIVE SALES VOLUME DATA *(in GWh)*							
CUSTOMER	**Q1 '15**	**Q2 '15**	**H1 '15**	**Q1 '14**	**Q2 '14**	**H1 '14**	**% Inc (Dec)**
Bilateral Contracts	902	1,031	1,934	413	886	1,299	49%
Spot Sales	80	66	145	11	-	11	1165%
GRAND TOTAL	**982**	**1,097**	**2,079**	**425**	**886**	**1,311**	**59%**
Composite Ave Price	**3.56**	**3.37**	**3.46**	**4.40**	**3.73**	**3.94**	**-12%**

III. FINANCE

A. Sales and Profitability

Consolidated Revenues, net of eliminating entries, slightly dropped 2% YoY to PHP13.71 billion from PHP13.98 billion in H1 2014. Before elimination, Coal revenues decreased 9% YoY at PHP9.27 billion from PHP10.20 billion last year. The decrease is due to lower sales volume by 92 thousand MTs and decline in composite average price to PHP2,194 from PHP2,300 last year. Meanwhile, Power Revenues rose 46% YoY to PHP 7.25

billion from PHP4.96 billion last year. Increased generation from both running power units resulted to higher sales both to contracts and spot market.

Consolidated Cost of Sales dropped 34% YoY to PH6.08 billion from PHP9.24 billion last year. Depreciation dropped 9% YoY to PHP1.09 billion from PHP1.20 billion last year.

Before eliminations, coal Cost of Sales decreased 8% YoY to PHP5.06 billion from PHP5.47 billion last year, despite the increase in strip ratio. This is primarily due to decline in volume sold combined with lower shipping costs and drop in oil prices. Cost of coal sold per MT reduced by 2% YoY at PHP1,209 from PHP1,240 last year. Coal depreciation decreased 17% YoY to PHP574.51 million from PHP692.12million last year.

SCPC's Cost of Sales before elimination decreased 25% YoY to PHP3.72 billion from PHP4.98 billion; and 43% YoY after elimination to PHP2.51 billion from PHP4.35 billion last year. The Company was exposed to higher cost of replacement power last year when the plants used up the allowable downtime provided by the terms of the power supply contracts. Since both power units are operating reliably this year, costs are kept at their normal levels. Cost of Sales per Kwh is 53% lower YoY at PHP1.77 from PHP3.79 last year.

The resulting consolidated Gross Profit increased 61% YoY to PHP7.64 billion, with coal and power segments each contributing PHP2.95 billion and PHP4.68 billion, respectively. Last year's consolidated Gross Profit stood at PHP4.74 billion, PHP2.04 billion from coal and PHP1.30 billion from SCPC. Consolidated Gross profit margin rose to 56% from 34% last year.

Consolidated Operating Expenses (OPEX) slightly increased by 1% YoY to PHP2.09 billion from PHP2.08 billion. Net of eliminating entries, the coal segment’s OPEX increased 1% YoY to PHP1.57 billion from PHP1.55 billion last year. This mainly accounts for provision for government royalties which remained at the same level at PHP1.35 billion this year versus PHP1.34 billion last year. Meanwhile, SCPC's OPEX after elimination, which is mainly comprised of management fees and taxes and licenses, slightly decreased by 1% YoY to PHP488.41 million from PHP494.20 million last year. The pre-operating Southwest Luzon Power Generation Corp. (SLPGC), a wholly-owned subsidiary of the Company incorporated to expand its power capacity with the construction of 2 x 150 MW power plants, incurred PHP31.08 million OPEX, representing non-capitalizable expenses incurred during the period. Other pre-operating subsidiaries incurred combined OPEX of PHP2.14 million.

Consolidated Forex Gains stood at PHP29.53 million, 22% higher YoY from PHP24.24 million last year due to realized gains on foreign currency denominated transactions, net of unrealized valuation losses. The peso is weaker this year, closing at USD1: PHP45.09, as against USD1: PHP44.72 as at end of H1 2014. Coal recorded Forex gains of PHP14.33 million as against PHP34.41 million last year as a result of the valuation of its USD denominated loans. SCPC also recorded gains this year of PHP 15.42 million versus losses of PHP10.10 million last year on its foreign currency denominated transactions.

Lower placement interest rates resulted to 5% YoY decrease on consolidated Finance Income to PHP22.37 million from PHP23.66 million last year. Coal and Power earned PHP8.20 million and PHP14.17 million Finance Income, respectively.

Consolidated Finance Costs increased 5% YoY to PHP151.11 million from PHP144.36 million last year due to a slight rise in borrowing rates. Coal's interest-bearing loans dropped 6% YoY to PHP4.87 billion from PHP5.17 billion last year, resulting to a 9% decrease YoY in Finance Cost to PHP52.29 million from PHP57.19 million last year. Meanwhile, after servicing its long-term loan and cutting down to half its short-term loans, SCPC's interest-bearing loans declined 41% YoY to PHP4.86 billion from PHP8.18 billion last year; however, Finance Cost increased 15% YoY to PHP97.23 million from PHP84.51 million last year due to higher borrowing rates. The benchmark of SCPC's long-term loan is changed to PDST-R2 from PDST-F, while margin is increased from 100bps to 120bps. While SLPGC's loans surged by 33% YoY to PHP11.5 billion from PHP8.63 billion last year, Finance Cost dropped 40% to PHP1.60 million from PHP2.66 million last year due to capitalization of interest expenses.

Consolidated Other Income increased 79% YoY to PHP152.89 million from PHP85.23 million last year. The coal segment's Other Income in the current period rose 73% at PHP94.79 million from PHP54.78 million in H1 2014, this mainly accounted for insurance recoveries and gain on sale of miscellaneous assets. SCPC's Other Income likewise increased 91% YoY to PHP58.11 million from PHP30.45 million last year. Both power units are operating regularly this year, unlike last year, thus producing more fly ash that is marketed as cement additive.

The resulting consolidated Net Income Before Tax (NIBT) more than doubled YoY to PHP5.60 billion from PHP2.65 billion last year.

Consolidated Provision for Income Tax surged to PHP891.52 million from PHP4.81 million last year. Coal continues to enjoy Income Tax Holiday (ITH) as a Board of Investments-registered company, while SCPC is now in a tax position. As a result, coal's tax provision remained minimal at PHP1.02 million, while SCPC recognized tax exposure of PHP889.14 million, as against PHP2.84 million last year. Notably however, SCPC has Deferred Tax Assets to partially cover the tax liability in the current period. SLPGC recorded final income tax of PHP1.36 million.

The resulting consolidated Net Income After Tax (NIAT) increase 78% YoY to PHP4.71 billion from PHP2.65 billion last year. Net of eliminations, coal generated net income of PHP1.45 billion, while SCPC generated PHP3.29 billion. Pre-operating SPLGC incurred non-capitalizable project expenses, thus recording losses amounting to PHP27.44 million. Before eliminations, coal and SCPC recorded NIAT of PHP4.22 billion and PHP2.07 billion, respectively. With higher outstanding shares after a 200% stock dividend declaration in Q3 last year, Earnings per Share (EPS) stood at PHP4.40, 78% more than same period last year's adjusted EPS of PHP2.48.

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

Internal cash generation in the H1 this year amounted to PHP3.27 billion. Consolidated loan availments amounted to PHP4.00 billion, broken down as follows: coal's medium-term loan fund maintenance CAPEX amounting to PHP1.19 billion, SCPC's short-term working capital loans of PHP1.80 billion, and SLPGC's remaining project finance line of PHP1.01 billion. SCPC recorded changes in Non-Current Assets amounting to PHP412.31 thousand, representing application of Deferred Tax Assets against current tax provision. Combined with beginning Cash of PHP3.68 billion, total consolidated Cash available during the period stood at PHP11.37 billion.

Of the available cash, PHP794.48 million was used to fund major CAPEX, PHP382.73 million, PHP206.32 million, and PHP205.43 million for coal, SCPC, and SLPGC, respectively.

SCPC invested PHP2.86 million to augment its Sinking Fund during the period.

Meanwhile, PHP1.92 billion was spent for debt repayments, PHP1.15 billion by coal and PHP768 million by SCPC.

The Company declared and paid cash dividends during the period amounting to PHP4.28 billion.

Net increase in consolidated Cash during the period stood at PHP691.90 million. With a beginning balance of PHP3.68 billion, Consolidated Ending Cash closed at PHP4.38 million, 30% more than H1 last year's cash level and 19% higher than beginning balance. Coal, SCPC, and SLPGC recorded ending cash of PHP827.21 million, PHP1.98 billion, and PHP1.55 billion, respectively.

Current ratio improved to 1.22x from 1.05x as at the start of the year.

C. <u>Financial Condition</u>

Consolidated Total Assets increased 5% to PHP54.46 billion from beginning balance of PHP51.90 billion. After eliminations, Parent and SCPC’s Total Assets closed at PHP11.59 billion and PHP22.62 billion, respectively. Pre-operating SLPGC, SBPG, SRPG, SCS, SEU, SCRC and SCIP recorded Total Assets of PHP20.11 billion, PHP3.14 million, PHP3.15 million, PHP113.86 million, PHP3.22 million, PHP7.77 million and PHP2.64 million, respectively.

Consolidated Current Assets closed at PHP16.05 billion, increasing by 26% from PHP12.77 billion as at the start of the year. Coal, SCPC, SLPGC, SBPG, SRPG, SCS, SEU, SCRC and SCIP accounted for PHP6.09 billion, PHP7.21 billion, PHP2.72 billion, PHP 3.14 million, PHP 3.15 million, PHP2.82 million, PHP 3.15 million, PHP 7.77 million, and PHP2.64 million, respectively.

Consolidated Cash and Cash Equivalents increased 19% to PHP4.38 billion from PHP3.68 billion beginning balance. Additional equity infusion to SLPGC and dividend payout reduced coal's cash by 56% to PHP827.21 million from PHP1.89 billion as at the start of the year. Meanwhile, SCPC's strong income generation beefed up its cash position to five times the beginning level at PHP1.98 billion from PHP390.38 million beginning balance. Moreover, additional availment of project finance facility by the expansion project increased SLPGC's undisbursed cash to PHP1.55 billion from PHP1.38 billion as at the start of the year.

Consolidated net Receivables increased 12% YoY to PHP4.63 billion from PHP4.13 billion beginning balance. The coal segment's receivables of PHP1.43 billion, net of elimination, is mainly trade related. Power receivables rose 9% to PHP2.84 billion from PHP2.60 billion as at the start of the year. These mainly account for the uncollected spot sales in Q4 2013. Due to a wide gap in power demand and supply in the last two months of 2013, spot prices surged. While the Energy Regulatory Commission issued a resolution invalidating market prices on November and December 2013, and instead imposed administrative pricing, a case is still pending before the Supreme Court on the issue.

Moreover, Due from affiliated companies lodged under Receivables increased more than six times to PHP420.01 million from PHP67.15 million beginning balance, most of which is due to SLPGC amounting to PHP361.94 million, representing remaining advance payment for the plant construction. The coal segment amounting accounted for PHP58.07 million for transfer of materials and shared services with affiliated companies.

Consolidated Net Inventories increased 35% to PHP3.78 billion from PHP2.79 billion as at the start of the year. The coal segment’s ending inventory rose 37% to PHP1.96 billion from beginning balance of PHP1.42 billion. This is comprised of cost of ending coal inventory of PHP696.37 million for 582 thousand MT from 386 thousand MT beginning of the year and materials spare parts, fuel, and supplies amounting to PHP1.30 billion, net of valuation allowance of PHP45.23 million. Meanwhile SCPC’s Inventory of PHP1.81 billion is mainly comprised of coal inventory and spare parts inventory for corrective, preventive and predictive maintenance program, as well as parts needed for the scheduled shutdown in the second half. SLPGC's inventory of PHP20.54 million is comprised mostly of tools and spare parts.

Consolidated Other Current Assets slightly increased 50% to PHP3.26 billion from PHP2.17 billion beginning balance. The coal segment’s Other Current Assets of PHP1.87 billion is mainly comprised of advances to suppliers for importations and downpayment for contracted services amounting to PHP1.44 billion and prepaid income taxes of PHP425.59 million. On the other hand, SCPC’s Other Current Assets of PHP593.85 million mainly accounted for advances to suppliers and prepaid income taxes at PHP193.65 million and PHP164.21 million, respectively. SLPGC recorded Other Current Assets of PHP793.64 million, mostly for VAT input taxes, currently recoverable.

Consolidated Non-Current Assets dropped 2% to PHP38.41 billion from PHP39.13 billion as at the start of the year. Coal, SCPC, SLPGC, and SCS accounted for PHP5.50 billion, PHP15.41 billion, PHP17.39 billion, and PHP111.04 million, respectively.

Consolidated net PPE slightly decreased by 1% to PHP34.08 billion from PHP34.45 billion beginning balance due to accounting of depreciation which offset additions. Coal, SCPC, and SLPGC accounted for net PPE of PHP3.35 billion, PHP14.57 billion, and PHP16.17 billion, respectively.

Consolidated Investment in Sinking Fund remained at almost the same level at PHP524.64 million from PHP521.78 million beginning balance. This accounted for the sinking fund maintained by the power segment.

Consolidated Deferred Tax Assets dropped 59% to PHP291.88 million from PHP704.20 million beginning balance after applying Deferred Tax Assets of SCPC for losses incurred in purchase of replacement power to service bilateral power supply contracts in 2014 to income tax payable. Coal, SCPC, SCS and SEU closed the period with Deferred Tax Assets of PHP61.33 million PHP230.42 million, PHP62.95 thousand, and PHP69.45 thousand respectively.

Exploration and Evaluation Asset did not change at PHP1.91 billion. This accounted for the exploratory drilling and pre-stripping activities in Narra mine (previously Bobog mine), which is scheduled to be in commercial operation by the mid 2016.

Consolidated Other Non-Current Assets increased 4% YoY to PHP1.59 billion from PHP1.54 billion last year. This is mainly comprised of receivable input VAT and deferred input VAT on capitalized assets amounting to PHP1.39 billion. Coal, SCPC, SLPGC, and SCS accounted for Other Non-Current Assets of PHP178.91 million, PHP85.39 million, PHP1.22 billion, and PHP105.11 million, respectively.

Consolidated Total Liabilities rose 7% to PHP31.32 billion from PHP29.20 billion beginning balance. Coal, SCPC and SLPGC accounted for PHP12.09 billion, PHP6.63 billion, and PHP12.60 billion, respectively.

Consolidated Total Current Liabilities increased 8% to PHP13.16 billion from PHP12.14 billion as at the start of the year. This is due to availment of short-term loans and booking of additional trade payables by SCPC. Coal, SCPC, and SLPGC accounted for PHP7.75 billion, PHP8.20 billion, and PHP1.10 billion, respectively.

Consolidated Trade and Other Payables surged by 4% to PHP9.16 billion from PHP8.81 billion beginning balance. The increase is mainly due to additional accounting of trade payables by SCPC for its coal fuel. Coal, SCPC, and SLPGC respectively accounted for PHP6.66 billion, PHP1.75 billion, and PHP724.60 million, respectively.

Included in the Trade and Other Payables is Due to Affiliated Companies which rose 15% to PHP859.51 million from PHP738.81 million beginning balance. This accounted for supply of materials, services, construction and management contract with affiliated companies.

Short-term loans swelled by 120% to PHP2.68 billion from PHP1.22 billion beginning balance, mainly due to additional working capital loans of SCPC during the period, amounting to PHP1.8 billion. Coal decreased its short-term loans by 28% to PHP882.98 million from PHP1.22 billion beginning balance.

Consolidated Current Portion of Long-Term Debt decreased 36% to PHP1.35 billion from PHP2.11 billion beginning balance with lesser maturing loans in the next twelve months. Some of coal's maturing medium-term USD-denominated loans were refinanced to take advantage of cheap interest rates benchmarked to LIBOR. Coal, SCPC, and SLPGC accounted for PHP210.08 million, PHP757.05 million, and 378.65 million, respectively.

Consolidated Total Non-Current Liabilities increased 6% to PHP18.15 billion, from PHP17.06 billion beginning balance due to additional availment of term loans by coal and SLPGC during the period. Coal, power, and SLPGC accounted for PHP4.33 billion, PHP2.32 billion and PHP11.49 billion, respectively.

Consolidated Long-Term Debt rose 9% to PHP17.51 billion from PHP16.09 billion beginning balance. SLPGC accounted for the bulk of the account, recording PHP11.08 billion borrowings for the expansion project, after re-class of current portion of long-term debt to current liabilities. Coal and SCPC have outstanding long-term portion of debts amounting to PHP4.13 billion and PHP2.30 billion, respectively.

Consolidated Pension Liabilities increased 8% to PHP53.05 million from PHP49.03 million beginning balance, reflecting coal's recording of additional liability. Coal and power accounted for PHP43.56 million and PHP9.46 million, respectively.

Provision for Decommissioning and Site Rehabilitation recorded no movement during the period, maintaining at PHP175.30 million. Coal and power accounted for PHP163.73 million, PHP11.56 million, respectively.

Other Non-Current Liabilities, which accounts for retention payments on contracts under SLPGC decreased 44% to PHP413.88 million from 743.91 million beginning balance due to re-class of retention payable to current portion.

After accounting for net income generation of PHP4.71 billion and payment of cash dividends of PHP4.28 billion during the period, consolidated Stockholders' Equity slightly increased by 2% to PHP23.14 billion from PHP22.71 billion beginning balance.

Debt-to-Equity ratio rose to 1.35:1 from 1.29:1 as at end 2014.

IV. PERFORMANCE INDICATORS:

1. **Earnings per Share** – both business are running regularly with no major glitches in the first half of the year. As a result, net profitability increased by 78% YoY, thus correspondingly boosting EPS to PHP4.40 from PHP2.48 last year.

2. **Debt-to-Equity Ratio** – the Company's low DE of 1.35 primes it to take on more debts to finance expansion, both in the coal and power business. Healthy cash flow enables it to continuously service its maturing payables.

3. **Business Expansion** – the first 1 x 150MW expansion, under SLPGC, started to commission in Q2. After hurdling connection issues, it finally subsequently synchronized to the grid in July. The second 1 x 150MW is expected to be commercially available within two months from the first unit. Plans of the next phase of power expansion are currently finalized. Increasing capacity in power is the Company's main growth driver. Moreover, expanding coal production capacity is also currently in the pipe line.

4. **Expanded Market** – Most of the new coal-fired power plants are expected to source their fuel requirement from the Company. Hence, local coal sales are expected to increase. Moreover, old plants are increasing their blend ratio, favoring Semirara coal over imported coal.

Meanwhile, increased generation of SCPC Units 1 and 2 allows the Company to sell the excess of its contracted capacity to the spot market. The first 50MW contract of SLPGC was signed during the period.

5. **Coal Reserves** – The Company continues to drill in West Panian where more reserved were discovered. The discovery of these additional reserves prompted the Company to plan for a capacity expansion in the coal business.

PART II OTHER INFORMATION

Other disclosures:

a. The Group's operation is not cyclical in nature or seasonal. Mining activities is continuous throughout the year;
b. There were no issuances, repurchases, and repayments of debt in equity securities which transpired during the quarter;
c. There are no subsequent events, that came to our knowledge, which are material enough to warrant an adjustment in the consolidated financial statements;
d. The Company has commitment to purchase 25 units dump trucks and 5 units excavators with an estimated total amounting to USD30million for maintenance CAPEX to replace retired equipment.
e. The Group has no contingent assets nor liabilities known as of financial position date. The case on the wholesale electricity supply market (WESM) prices for November and December 2013 is still pending before the Supreme Court (SC) and the Energy Regulatory Commission (ERC).

PART III SIGNATURES

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

Issuer: **SEMIRARA MINING AND POWER CORPORATION**

Signature and Title:

VICTOR A. CONSUNJI
President & Chief Operating Officer
Principal Executive and Operating Officer
Date: August 13, 2015

JUNALINA S. TABOR
VP & Chief Finance Officer
Principal Financial Officer
Date: August 13, 2015

LEANDRO D. COSTALES
Comptroller
Principal Accounting Officer
Date: August 13, 2015

PART IV - ANNEX A

SEMIRARA MINING AND POWER CORPORATION
AGING OF ACCOUNTS RECEIVABLE

	TOTAL	Current	2 - 3 Mon	4 - 6 Mon	7 Mon - 1 Yr	Allow for DA
A. AR TRADE RECEIVABLES						
COAL						
EXPORT	368,264	205,104	13,696	33,535	115,928	29,743
PEDC	166,258	93,890	72,368	-	-	
SPG	130,783	56,964	57,831	15,987	-	
HOLCIM	107,700	70,119	37,581	-	-	
LRI	101,823	83,774	18,048	-	-	
CCC	91,661	14,886	74,824	-	1,951	
JPC	85,548	85,548	-	-	-	
ECC	79,504	63,452	16,052	-	-	
PNOC	61,736	40,748	20,988	-	-	
CEDC	60,401	60,401	-	-	-	
SOLID	48,465	16,413	17,458	13,984	610	
APO	43,804	43,181	-	-	623	
TPC	28,577	17,843	10,735	-	-	
UPPC	9,562	9,562	-	-	-	
POWER						
MERALCO	1,155,322	707,651	-	-	447,672	467,431
PEMC	1,326,389	536,612	-	-	789,777	
MERALCO RES	513,105	490,431	-	-	22,674	
TRANS-ASIA OIL	147,948	147,948	-	-	-	
BATELEC	61,004	61,004	-	-	-	
PSALM	56,180	-	-	-	56,180	
POZZOLANIC	22,402	22,261	-	-	141	
STEEL CORP	7,987	7,987	-	-	-	
PUYAT STEEL	3,874	3,874	-	-	-	
OTHERS	3,297	3,254	5	-	38	
	4,681,597	**2,842,906**	**339,587**	**63,507**	**1,435,597**	**497,174**
Less: Allowance for doubtful account	497,174					
	4,184,423					
B. NON - TRADE RECEIVABLES						
COAL						
Advances-Officers & employees	2,422	2,422				
Advances-Contractors	13,423	13,423				
Advances-For liquidation	6,151	6,151				
Advances-SSS Claims	-					
Advances-medical accounts & others	456	456				
POWER						
Advances - officers & employees	67	67				
Advances-For liquidation	4,304	4,304				
Advances-SSS Claims	67	67				
Other receivables	255	255				
Adv.for Govt Institutions	387	387				
OTHERS	2,145	2,145				
	29,675	**29,675**			29,222	
Less: Allowance for D/A-AR Others	5,815					
Net NON - TRADE RECEIVABLE	**23,859**					
C. DUE FROM AFFILIATED COMPANIES	420,011					
NET RECEIVABLES (A + B + C))	**4,628,293**					

ANNEX B

SEMIRARA MINING AND POWER CORPORATION
FINANCIAL RISK MANAGEMENT DISCLOSURES
As of June 30, 2015

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 June 30, 2015 and 2014.

<u>Price Risk</u>
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):

	06/30/2015	12/31/2014
Domestic Market	62.47%	40.98%
Export Market	37.53%	59.02%

as a percentage of total coal sales volume

The following table shows the effect on income before income tax should the change in the prices of coal occur based on the inventory of the Group as of June 30, 2015 and December 31, 2014 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 2015 and 2014.

Based on ending coal inventory	Effect on income before income tax	
Change in coal price	06/30/2015	12/31/2014
Increase by 25% in 2015 and 22% in 2014	270,939,484	316,564,503
Decrease by 25% in 2015 and 22% in 2014	(270,939,484)	(316,564,503)

Based on coal sales volume	Effect on income Before income tax	
Change in coal price	06/30/2015	12/31/2014
Increase by 25% in 2015 and 22% in 2014	1,969,766,599	8,008,029,855
Decrease by 25% in 2015 and 22% in 2014	(1,969,766,599)	(8,008,029,855)

Interest Rate Risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term term debts with floating interest rates. The Group's policy is to manage its interest cost using a mix of fixed and variable rate debts. The Group's policy is to maintain a balance of Peso-denominated and United States Dollar (US$) denominated debts.

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

	June 30, 2015						
	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	1.38% to 2.75%	4,374,851	-	-	-	-	4,374,851
Short-term loan	30 days 1.20-2.0%	2,682,982					2,682,982
Foreign short-term debt at floating rate							
$55.26 million loan (USD)	Floating rate to be repriced every 90 days		2,485,124			-	2,485,124
$8.32 million loans (USD)	Floating rate to be repriced every 90 days						
$32.70 million loan (USD)	Floating rate, aggregate of the margin (1.20%) and LIBOR, to be repriced every 90 to 180 days	207,223	1,234,520			-	1,441,743
Mortgage payable at floating rate	PDST-F benchmark yield for three-month treasury securities + 1.00%	1,151,090	1,544,876	1,546,238	1,546,238	5,668,999	11,457,442
	PDST-F benchmark yield for three-month treasury securities + 1.75%	1,141,049	1,530,478	767,281			3,438,808
		5,182,345	6,794,998	2,313,519	1,546,238	5,668,999	21,506,099

	December 31, 2014						
	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	1.38% to 2.75%	3,677,533	–	-	-	-	3,677,533
Foreign short-term debt at floating rate							
$31.95 million loans (USD)		1,218,753					1,218,753
Foreign long-term debt at floating rate							
$32.7 million loan (USD)	Floating rate payable quarterly and in arrears, to be repriced every 90 days	210,184	1,252,160	-	-		1,462,344
$33.73 million loan (USD)	Floating rate to be repriced every 90 days	-	1,508,529	-	-		1,508,529
$10.61 million loan (USD)	Floating rate, aggregate of the margin (1.20%) and LIBOR, to be repriced every 90 to 180 days	-	474,346	-	-		474,346
$9.31 million loan (USD)	Floating rate	-	416,332	-	-		416,332
$1.6 million loan (USD)	Floating rate	-	72,182	-	-		72,182
Mortgage payable at floating rate	PDST-F benchmark yield for three-month treasury securities + 1.00%	378,652	1,544,876	1,546,238	6,976,303		10,446,069
	PDST-F benchmark yield for 3-month treasury securities 1.75%	1,525,049	1,530,478	767,281	-		3,822,808
		3,332,639	6,798,903	2,313,519	6,976,303	-	19,421,363

The following table demonstrates the sensitivity of the Group's income before tax to a reasonably possible change in interest rates on June 30, 2015 and 2014, with all variables held constant, through the impact on floating rate borrowings.

	Effect on income before income tax	
Basis points (in thousands)	**06.30.2015**	**12.31.2014**
+100	**(215,061)**	**-194,214**
-100	**215,061**	**194,214**

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

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

Liquidity Risk

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

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

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

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

The tables below summarize the maturity profile of the Group's financial assets and liabilities as of June 30, 2015 and 2014 based on undiscounted contractual payments:

LIQUIDITY RISK					More than	
June 30, 2015	**Within 6 months**	**Next 6 months**	**1-2 years**	**2-3 years**	**3 years**	**Total**
Cash and cash equivalents	4,374,851					4,374,851
Receivables						
Trade - outside parties	4,681,597		-	-	-	4,681,597
Trade - related parties	420,011					420,011
Others	29,222					29,222
Investment in sinking fund					524,637	524,637
Environmental guarantee fund					1,500	1,500
	9,505,680	-	-	-	526,137	10,031,817
Trade and other payables						
Trade	8,605,409	-	-	-	-	8,605,409
Payable to DOE and local government units	-	-	-	-	-	-
Accrued expenses and other payables	1,646,694	-	-	-	-	1,646,694
Due to related parties	859,510	-	-	-	-	859,510
Short term loans	2,682,982	-	-	-	-	2,682,982
Long term debt at floating rate	-					-
$55.26 million loan (USD) with interest payable in arrears	1,904	-	2,491,836	-	-	2,493,740
$8.32 million loan (USD) with interest payable in arrears	121	-	-	375,247	-	375,367
$32.7 million loan (USD) with interest payable in arrears	973	211,923	1,262,520	-	-	1,475,416
PDST-F benchmark yield for 3-month treasury securities + 1.00	378,652	772,438	1,544,876	1,546,238	7,215,237	11,457,442
PDST-F benchmark yield for 3-month treasury securities + 1.75	765,559	765,071	1,530,142	-	-	3,060,772
	14,941,804	1,749,432	6,829,374	1,921,484	7,215,237	32,657,331
	(5,436,123)	(1,749,432)	(6,829,374)	(1,921,484)	(6,689,100)	(22,625,514)
December 31, 2014						
Cash and cash equivalents	3,677,533					3,677,533
Receivables						-
Trade - outside parties	2,567,693	504,198			703,871	3,775,762
Trade - related parties	67,122					67,122
Others	271,508	-				271,508
Environmental guarantee fund					1,500	1,500
Investment in sinking fund					521,781	521,781
	6,583,856	504,198	-	-	1,227,152	8,315,207
Trade and other payables						
Trade	4,579,969	–	-	-	-	4,579,969
Payable to DOE and local government units		–	-	-	-	-
Accrued expenses and other payables	707,618	-	-	-		707,618
Due to related parties	1,792,921	-	-	-		1,792,921
Short term loans	1,050,917	167,836	-	-		1,218,753
Long term debt at floating rate	-	-	-	-		-
	-	-	-	-		-
$32.7 million loan (USD) with interest payable in arrears	105,846	105,846	1,288,093	-		1,499,785
$33.73 million loan (USD) with interest payable in arrears	-	-	1,558,760	-		1,558,760
$10.61 million loan (USD) with interest payable in arrears	-	-	488,919	-		488,919
$9.31 million loan (USD) with interest payable in arrears	-	-	429,188	-		429,188
$1.6 million loan (USD) with interest payable in arrears	-	-	74,398	-		74,398
PDST-F benchmark yield for 3-month treasury securities + 1.00	-	378,652	1,544,876	1,546,238	6,976,303	10,446,070
PDST-F benchmark yield for 3-month treasury securities + 1.75	762,525	762,525	1,530,478	767,281		3,822,808
	8,999,796	1,414,859	6,914,713	2,313,519	6,976,303	26,619,191
	(2,415,940)	(910,661)	(6,914,713)	(2,313,519)	(5,749,151)	(18,303,984)

(in Php000)

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, 23.72% and 47.51% of the Group's sales as of June 30, 2015 and 2014, respectively, were denominated in US$ whereas approximately 36.39% and 19.35% of debts as of June 30, 2015 and 2014, respectively, were denominated in US$.

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

		June 30, 2015		December 31, 2014	
		U.S. Dollar	**Peso Equivalent**	U.S. Dollar	Peso Equivalent
Assets					
Cash and cash equivalents	$	**4,916,560**	**221,687,675**	24,582,205	1,099,316,208
Trade receivables		**8,167,307**	**368,263,895**	15,024,717	671,905,344
	$	**13,083,867**	**589,951,569**	39,606,922	1,771,221,552
Liabilities					
Trade payables	$	**(28,007,406)**	**(1,262,853,945)**	(20,291,547)	(907,437,982)
Short-term loans		**(19,556,603)**	**(881,807,212)**	(27,252,983)	(1,218,753,400)
Long-term debt (including current portion)		**(96,285,773)**	**(4,341,525,495)**	(87,963,604)	(3,933,732,371)
	$	**(143,849,782)**	**(6,486,186,652)**	(135,508,134)	(6,059,923,752)
Net foreign currency denominated assets (liabilities)	$	**156,933,649**	**7,076,138,221**	$ (95,901,212)	$ (4,288,702,201)

The spot exchange rates used in June 30, 2015 and December 31, 2014 were 45.09 to US$1 and 44.72 to US$1, respectively.

The following table demonstrates the sensitivity to a reasonably possible change in foreign exchange rates, with all variables held constant, of the Group's income before tax (due to changes in the fair value of monetary assets and liabilities) on June 30, 2015 and 2014.

Reasonably possible change in foreign exchange rate for every unit of Philippine Peso		Increase (decrease) in profit before tax	
		30-Jun-15	31-Dec-14
	2	**313,867,297**	(191,802,424)
	(2)	**(313,867,297)**	191,802,424

There is no impact on the Group's equity other than those already affecting profit or loss. The movement in sensitivity analysis is derived from current observations on movement in dollar average exchange rates.

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

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

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

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

The credit risk is concentrated to the following markets:

	06.30.15	12.31.2014
Trade receivable - outside parties	**91.24%**	91.47%
Trade receivable - related parties	**8.19%**	1.63%
Others	**0.58%**	6.90%
Total	**100.00%**	100.00%

As of June 30, 2015 and 2014, the credit quality per class of financial assets is as follows

	06.30.2015				
	Neither Past Due nor Impaired		**Substandard Grade**	**Past due and/or Individually Impaired**	**Total**
	Grade A	**Grade B**			
Cash in banks and cash equivalents	**4,374,851**	-	-	-	**4,374,851**
Receivables:					-
Trade receivables - outside parties	**2,842,906**	**403,094**	-	**1,435,597**	**4,681,597**
Trade receivables - related parties	**420,011**	-	-	-	**420,011**
Others	**23,859**	-	-	**5,815**	**29,675**
Environmental guarantee fund	**1,500**	-	-	-	**1,500**
Investment in sinking fund	**524,637**	-	-	-	**524,637**
Total	**8,187,765**	**403,094**	-	**1,441,412**	**10,032,270**

	12.31.2014				
	Neither Past Due nor Impaired		**Substandard Grade**	**Past due and/or Individually Impaired**	**Total**
	Grade A	**Grade B**			
Cash in banks and cash equivalents	**3,677,533**				**3,677,533**
Receivables:					-
Trade receivables - outside parties	**714,026**			**3,558,910**	**4,272,936**
Trade receivables - related parties	**67,122**			–	**67,122**
Others	**271,508**			**5,815**	**277,324**
Environmental guarantee fund	**1,500**				**1,500**
Investment in sinking fund	**521,781**				**521,781**
Total (000)	**5,253,471**	-	-	**3,564,725**	**8,818,196**

Cash in banks and cash equivalents are short-term placements and working cash fund placed, invested or deposited in foreign and local banks belonging to top ten (10) banks in the Philippines in terms of resources and profitability. These financial assets are classified as Grade A due to the counterparties' low probability of insolvency. Trade receivable - related parties are considered Grade A due to the Group's positive collection experience. Environmental guarantee fund is assessed as Grade A since this is deposited in a reputable bank, which has a low probability of insolvency.

Grade A are accounts considered to be of high credit rating and are covered with coal supply and power supply contracts. The counterparties have a very remote likelihood of default and have consistently exhibited good paying habits.

Grade B accounts are active accounts with minimal instances of payment default, due to collection issues. These accounts are typically not impaired as the counterparties generally respond to credit actions and update their payments accordingly. The Group determines financial assets as impaired when probability of recoverability is remote evidenced by the counterparty's financial difficulty.

Substandard grade accounts are accounts which have probability of impairment based on historical trend. Accounts under this group show possible future loss to the Group as a result of default in payment of the counterparty despite of the regular follow-up actions and extended payment terms.

In the Group's assessment, there are no financial assets that will fall under the category substandard grade due to the following reasons:

- Receivables from electricity and local coal sales - transactions are entered into with reputable and creditworthy companies.

- Receivables from export coal sales - covered by irrevocable letter of credit at sight from a reputable bank acceptable to the Group.

As of June 30, 2015 and 2014, the aging analyses of the Group's past due and/or impaired receivables presented per class are as follows:

	06.30.2015			
	Past Due but not Impaired		Impaired Financial	
	<45 days	45-135 days	Assets	Total
Receivables				
Trade receivables - outside parties	-	938,423	497,174	1,435,597
Others	-	-	5,815	5,815
Total (000)	-	938,423	502,989	1,441,412

	12.31.2014			
	Past Due but not Impaired		Impaired Financial	
	<45 days	45-135 days	Assets	Total
Receivables				
Trade receivables - outside parties	1,712,413	1,082,567	497,174	3,292,154
Others	266,756	–	5,815	272,571
Total (000)	1,979,169	1,082,567	502,989	3,564,725

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 June 30, 2015 and 2014.

	6/30/2015	12/31/2014
Interest Bearing Loan	**21,541,058,274**	19,421,363,183
Total equity	**23,138,701,339**	22,706,211,516
Debt to Equity Ratio	**93.10%**	85.53%
EPS	**4.40**	6.42

The aggressive expansion and investment strategies of the Group resulted to higher Debt-to-Equity ratios in 2015 and 2014. The Debt-to-Equity ratio is carefully matched with the strength of the Group's financial position, such that when a good opportunity presents itself, the Group can afford further leverage.

The following table shows the component of the Group's capital as of June 30, 2015 and 2014:

	6/30/2015	12.31.2014
Total paid-up capital	**7,744,277,411**	7,744,277,411
Remeasurement losses on pension plan	**(13,471,337)**	(13,471,337)
Retained earnings - unappropriated	**13,071,466,449**	12,675,405,442
Retained earnings - appropriated	**2,300,000,000**	2,300,000,000
	23,102,272,524	22,706,211,516

Fair Values

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 June 30, 2015 and 2014, 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 June 30, 2015 and 2014 the Group does not have financial instruments measured at fair value.

ANNEX C

SEMIRARA MINING CORPORATION AND SUBSIDIARIES
COMPARATIVE FINANCIAL SOUNDNESS INDICATORS
AS OF JUNE 30, 2015 AND 2014

Financial Soundness Indicator	2015	2014
i. Liquidity ratios:		
Current ratio	122%	105%
Quick ratio	93%	65%
ii. Leverage ratios:		
Debt-to-equity ratio (interest bearing loan/equity	93%	119%
Interest coverage ratio	3705%	1837%
iii. Management ratios:		
Accounts receivable turnover ratio	332%	320%
Return on assets ratio	9%	6%
Return on equity ratio	21%	14%
iv. Asset-to-equity ratio	235%	269%
v. Profitability ratios:		
Gross margin ratio	56%	34%
Net profit margin ratio	34%	19%
vi. Solvency ratios		
Current liabilities to net worth ratio	57%	77%
Total liabilities to net worth ratio	135%	169%