Semirara Mining and Power Corporation and Subsidiaries

Consolidated Financial Statements
December 31, 2020 and 2019
and Years Ended December 31, 2020, 2019
and 2018

and

Independent Auditor's Report

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A member firm of Ernst & Young Global Limited

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BOA/PRC Reg. No. 0001,
October 4, 2018, valid until August 24, 2021
SEC Accreditation No. 0012-FR-5 (Group A),
November 6, 2018, valid until November 5, 2021

INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Stockholders
Semirara Mining and Power Corporation
2/F DMCI Plaza
2281 Don Chino Roces Avenue
Makati City

Opinion

We have audited the consolidated financial statements of Semirara Mining and Power Corporation and its subsidiaries (the Group), which comprise the consolidated statements of financial position as at December 31, 2020 and 2019, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2020, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2020 and 2019, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2020 in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

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

Key Audit Matters

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

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

Estimation of Provision for Decommissioning and Mine Site Rehabilitation Costs

The Group has recognized provision for decommissioning and mine site rehabilitation costs for the open pit mines of its coal mining activities amounting to ₱254.53 million as of December 31, 2020. This matter is important to our audit because the amount involved is material and the estimation of the provision requires the exercise of significant management judgment and estimation, including the use of assumptions, such as the costs of backfilling, reforestation, and maintenance of the rehabilitated area, inflation rate, and discount rate.

Relevant information on the provision for decommissioning and mine site rehabilitation costs are disclosed in Notes 3 and 16 to the consolidated financial statements.

Audit response

We obtained an understanding of and performed test of controls of management's processes and controls in the estimation of future decommissioning and mine site rehabilitation costs. We evaluated the competence, capabilities and objectivity of the mine site engineers and reviewed the relevant mine rehabilitation plan prepared by the Group's Mine Planning and Exploration Department and its Environment Department. We inquired of changes in the mine plan and in the cash flow assumptions, including management's bases for identifying and estimating the costs for various mine rehabilitation and closure activities, such as backfilling, reforestation and maintenance of the rehabilitated area. We compared the timing of the expected cash flows with reference to the rehabilitation plan for the open pit mines. We compared the cost estimates to billings, invoices and official receipts. We also evaluated the discount and inflation rates used by comparing these to external data.

Recoverability of Property, Plant and Equipment with Indicators of Impairment

The Group has yet to obtain a supply agreement for its gas turbine plant with a carrying value of ₱1,073.94 million as of December 31, 2020. Also, the joint venture agreement for the development of a thermal power plant, with a carrying value of ₱282.71 million was terminated during the year. These conditions are impairment indicators for which the Group is required under PFRSs to test the recoverability of the relevant items of property, plant and equipment.

This is a key audit matter because the amounts are material to the consolidated financial statements and the assessment of recoverability requires significant judgment and involves estimation and assumptions about future electricity demand and supply, as well as external inputs such as electricity and coal prices, diesel costs, inflation rate and discount rates. In addition, because of the coronavirus pandemic, there is heightened level of uncertainty on the future economic outlook and market forecast.

The relevant information on this matter are disclosed in Notes 3, 8, 10 and 29 to the consolidated financial statements.

Audit response

We involved our internal specialist in evaluating the methodology and the assumptions used in the estimation of recoverable amount. With respect to future electricity demand, we tested the reasonableness of the inputs to the forecasted revenue based on current and historical dependable capacity, electricity prices and growth rate, taking into consideration the impact associated with the coronavirus pandemic. We compared the electricity prices, coal prices, diesel costs and inflation rate with externally published data.

We tested the parameters used in the determination of the discount rates against the discount rates of comparable companies.

In addition, we reviewed the Group's disclosures about those assumptions to which the outcome of the impairment test is most sensitive, specifically those that have the most significant effect on the determination of the recoverable amount of property, plant and equipment.

Estimation of Mineable Ore Reserves

The Group's coal mining properties totaling to ₱5,160.28 million as of December 31, 2020 are amortized using the units-of-production method. Under this method, management is required to estimate the volume of mineable ore reserves for the remaining life of the mine which is a key input to the amortization of the coal mining properties. This matter is significant to our audit because the estimation of the mineable ore reserves of the Group's coal mines requires use of assumptions and significant estimation from management's specialists.

The related information on the estimation of mineable ore reserves and related coal mining properties are discussed in Notes 3 and 10 to the consolidated financial statements.

Audit response

We obtained an understanding of and performed test of controls on management's processes and controls in the estimation of mineable ore reserves. We evaluated the competence, capabilities and objectivity of management's internal specialists engaged by the Group to perform an assessment of the ore reserves. We reviewed the internal specialists' report and obtained an understanding of the nature, scope and objectives of their work and basis of estimates, including the changes in the reserves during the year. We also tested the application of the estimated ore reserves in the amortization of mining properties.

Other Information

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2020, but does not include the consolidated financial statements and our auditor's report thereon. The SEC Form 20-IS, SEC Form 17-A and Annual Report for the year ended December 31, 2020 are expected to be made available to us after the date of this auditor's report.

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

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are

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inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Dhonabee B. Señeres.

SYCIP GORRES VELAYO & CO.

Dhonabee B. Señeres

Dhonabee B. Señeres
Partner
CPA Certificate No. 97133
SEC Accreditation No. 1196-AR-2 (Group A),
October 18, 2018, valid until October 17, 2021
Tax Identification No. 201-959-816
BIR Accreditation No. 08-001998-098-2020,
November 27, 2020, valid until November 26, 2023
PTR No. 8534366, January 4, 2021, Makati City

March 3, 2021

SEMIRARA MINING AND POWER CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	December 31	
	2020	2019
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 4, 30, 31 and 32)	**₱8,084,589,496**	₱6,457,084,709
Receivables (Notes 5, 19, 30 and 31)	**3,669,234,219**	3,641,501,084
Inventories (Notes 7, 10 and 21)	**10,740,142,357**	10,219,569,761
Other current assets (Notes 6, 9 and 29)	**805,492,732**	1,284,979,604
Total Current Assets	**23,299,458,804**	21,603,135,158
Noncurrent Assets		
Property, plant and equipment (Notes 10 and 12)	**45,792,738,168**	47,630,629,428
Right-of-use assets (Note 11)	**156,848,975**	175,979,686
Investment in a joint venture (Note 8)	**–**	45,217,497
Deferred tax assets - net (Note 26)	**854,996,538**	888,181,062
Other noncurrent assets (Notes 6, 9, 12, 30 and 31)	**1,041,682,098**	1,865,980,855
Total Noncurrent Assets	**47,846,265,779**	50,605,988,528
	₱71,145,724,583	₱72,209,123,686
LIABILITIES AND EQUITY		
Current Liabilities		
Trade and other payables (Notes 15, 19, 30 and 31)	**8,306,875,283**	8,451,093,045
Short-term loans (Notes 13, 30 and 31)	**5,425,000,000**	2,070,000,000
Current portion of long-term debt (Notes 14, 30 and 31)	**2,775,355,754**	3,459,433,544
Current portion of lease liabilities (Notes 11, 30 and 31)	**13,923,691**	14,171,369
Total Current Liabilities	**16,521,154,728**	13,994,697,958
Noncurrent Liabilities		
Long-term debt - net of current portion (Notes 14, 30 and 31)	**11,673,716,060**	13,067,601,460
Lease liabilities - net of current portion (Notes 11, 30 and 31)	**89,095,024**	93,366,249
Provision for decommissioning and site rehabilitation costs (Notes 3 and 16)	**279,202,621**	522,804,859
Pension liabilities (Note 20)	**397,545,236**	294,753,397
Total Noncurrent Liabilities	**12,439,558,941**	13,978,525,965
Total Liabilities	**28,960,713,669**	27,973,223,923
Equity		
Capital stock (Notes 17 and 30)	**4,264,609,290**	4,264,609,290
Additional paid-in capital (Note 30)	**6,675,527,411**	6,675,527,411
Retained earnings (Notes 18 and 30):		
Unappropriated	**26,807,243,576**	28,833,678,689
Appropriated	**5,300,000,000**	5,300,000,000
Net remeasurement losses on pension plan (Notes 20 and 30)	**(122,842,685)**	(98,388,949)
Treasury shares (Notes 17 and 30)	**(739,526,678)**	(739,526,678)
Total Equity	**42,185,010,914**	44,235,899,763
	₱71,145,724,583	₱72,209,123,686

See accompanying Notes to Consolidated Financial Statements.

SEMIRARA MINING AND POWER CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31		
	2020	2019	2018
REVENUE FROM CONTRACTS WITH CUSTOMERS (Note 33)			
Coal	**₱16,488,547,162**	₱29,085,433,388	₱23,185,658,133
Power	**11,761,821,344**	15,166,671,920	18,782,854,690
	28,250,368,506	44,252,105,308	41,968,512,823
COSTS OF SALES (Notes 21 and 33)			
Coal	**12,280,311,958**	17,783,785,669	12,262,084,112
Power	**7,419,105,537**	8,863,373,331	8,582,086,177
	19,699,417,495	26,647,159,000	20,844,170,289
GROSS PROFIT	**8,550,951,011**	17,604,946,308	21,124,342,534
OPERATING EXPENSES (Notes 22 and 33)	**(4,554,061,716)**	(7,364,921,176)	(7,775,795,327)
INCOME FROM OPERATIONS	**3,996,889,295**	10,240,025,132	13,348,547,207
OTHER INCOME (CHARGES) - Net			
Finance income (Notes 24 and 33)	**45,872,939**	282,983,032	129,168,367
Finance costs (Notes 23 and 33)	**(1,094,820,551)**	(1,316,867,512)	(942,934,975)
Foreign exchange gains (losses) - net (Note 33)	**154,685,877**	(8,674,131)	(388,310,437)
Other income - net (Notes 25 and 33)	**316,719,609**	186,198,604	608,411,854
	(577,542,126)	(856,360,007)	(593,665,191)
INCOME BEFORE INCOME TAX	**3,419,347,169**	9,383,665,125	12,754,882,016
PROVISION FOR (BENEFIT FROM) INCOME TAX (Notes 26 and 33)	**132,597,757**	(295,125,686)	729,500,958
NET INCOME	**3,286,749,412**	9,678,790,811	12,025,381,058
OTHER COMPREHENSIVE INCOME (LOSS)			
Item not to be reclassified to profit or loss in subsequent periods			
Remeasurement gains (losses) on pension plan (Note 20)	**(34,933,908)**	(89,133,039)	71,775,630
Income tax effect	**10,480,172**	26,739,912	(21,532,689)
	(24,453,736)	(62,393,127)	50,242,941
TOTAL COMPREHENSIVE INCOME	**₱3,262,295,676**	₱9,616,397,684	₱12,075,623,999
Basic/Diluted Earnings per Share (Note 27)	**₱0.77**	₱2.28	₱2.83

See accompanying Notes to Consolidated Financial Statements.

SEMIRARA MINING AND POWER CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Capital Stock (Note 17)	Additional Paid-in Capital	Retained Earnings Unappropriated (Note 18)	Retained Earnings Appropriated (Note 18)	Net Remeasurement Loss on Pension Plan (Note 20)	Treasury Shares (Note 17)	Total
			For the Year Ended December 31, 2020				
Balances as of January 1, 2020	**₱4,264,609,290**	**₱6,675,527,411**	**₱28,833,678,689**	**₱5,300,000,000**	**(₱98,388,949)**	**(₱739,526,678)**	**₱44,235,899,763**
Comprehensive income							
Net income	–	–	**3,286,749,412**	–	–	–	**3,286,749,412**
Other comprehensive loss	–	–	–	–	**(24,453,736)**	–	**(24,453,736)**
Total comprehensive income (loss)	–	–	**3,286,749,412**	–	**(24,453,736)**	–	**3,262,295,676**
Cash dividends declared (Note 18)	–	–	**(5,313,184,525)**	–	–	–	**(5,313,184,525)**
Balances as of December 31, 2020	**₱4,264,609,290**	**₱6,675,527,411**	**₱26,807,243,576**	**₱5,300,000,000**	**(₱122,842,685)**	**(₱739,526,678)**	**₱42,185,010,914**
			For the Year Ended December 31, 2019				
Balances as of January 1, 2019	₱4,264,609,290	₱6,675,527,411	₱20,468,072,403	₱9,300,000,000	(₱35,995,822)	(₱739,526,678)	₱39,932,686,604
Comprehensive income							
Net income	–	–	9,678,790,811	–	–	–	9,678,790,811
Other comprehensive loss	–	–	–	–	(62,393,127)	–	(62,393,127)
Total comprehensive income (loss)	–	–	9,678,790,811	–	(62,393,127)	–	9,616,397,684
Cash dividends declared (Note 18)	–	–	(5,313,184,525)	–	–	–	(5,313,184,525)
Reversal of appropriation (Note 18)	–	–	4,000,000,000	(4,000,000,000)	–	–	–
Balances as of December 31, 2019	₱4,264,609,290	₱6,675,527,411	₱28,833,678,689	₱5,300,000,000	(₱98,388,949)	(₱739,526,678)	₱44,235,899,763
			For the Year Ended December 31, 2018				
Balances as of January 1, 2018	₱4,264,609,290	₱6,675,527,411	₱18,013,400,740	₱9,300,000,000	(₱86,238,763)	(₱487,919,538)	₱37,679,379,140
Acquisition of treasury shares	–	–	–	–	–	(251,607,140)	(251,607,140)
Comprehensive income							
Net income	–	–	12,025,381,058	–	–	–	12,025,381,058
Other comprehensive income	–	–	–	–	50,242,941	–	50,242,941
Total comprehensive income	–	–	12,025,381,058	–	50,242,941	–	12,075,623,999
Cash dividends declared (Note 18)	–	–	(9,570,709,395)	–	–	–	(9,570,709,395)
Balances as of December 31, 2018	₱4,264,609,290	₱6,675,527,411	₱20,468,072,403	₱9,300,000,000	(₱35,995,822)	(₱739,526,678)	₱39,932,686,604

See accompanying Notes to Consolidated Financial Statements.

SEMIRARA MINING AND POWER CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2020	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱3,419,347,169**	₱9,383,665,125	₱12,754,882,016
Adjustments for:			
Depreciation and amortization (Notes 10, 11, 12, 21 and 22)	**6,280,597,948**	6,923,044,039	7,784,475,344
Finance costs (Note 23)	**1,094,820,551**	1,316,867,512	942,934,975
Provision for impairment losses (Notes 10 and 22)	**157,196,754**	166,474,665	–
Pension expense, net of contributions (Note 20)	**70,889,130**	692,535	60,980,688
Net unrealized foreign exchange gains (losses)	**68,737,670**	139,226,570	(53,699,447)
Equity in net earnings of joint venture (Note 8)	**(306,874)**	(690,954)	(380,459)
Gain on sale of equipment (Notes 10 and 25)	**(67,002,889)**	(12,000,005)	(22,683,458)
Finance income (Note 24)	**(45,872,940)**	(282,983,032)	(129,168,367)
Unrealized loss (gain) on financial asset at FVPL (Note 6)	**–**	245,443,777	(25,775,773)
Provision for decommissioning and site rehabilitation (Note 21)	**–**	–	436,522,946
Operating income before changes in operating assets and liabilities	**10,978,406,519**	17,879,740,232	21,748,088,465
Changes in operating assets and liabilities:			
Decrease (increase) in:			
Receivables	**(47,706,197)**	3,513,775,127	(825,846,621)
Other current assets	**479,486,872**	2,666,679,312	(2,033,777,003)
Inventories	**(221,480,470)**	2,769,576,176	(5,557,602,875)
Decrease in trade and other payables	**(312,307,323)**	(1,486,026,563)	(780,257,360)
Decrease in provision for decommissioning and site rehabilitation costs	**–**	(14,543,926)	(1,598,420,875)
Cash generated from operations	**10,876,399,401**	25,329,200,358	10,952,183,731
Interest received (Note 24)	**75,968,005**	282,983,032	129,168,367
Income taxes paid	**(78,615,783)**	(193,027,854)	(729,088,556)
Interest paid	**(1,043,688,003)**	(1,270,024,784)	(841,687,302)
Pension settlement (Note 20)	**(13,348,477)**	(11,071,731)	(7,417,414)
Net cash provided by operating activities	**9,816,715,143**	24,138,059,021	9,503,158,826
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to:			
Property, plant and equipment (including borrowing cost) (Notes 10 and 32)	**(5,483,531,298)**	(11,634,346,801)	(9,528,471,843)
Computer software (Note 12)	**(4,562,479)**	(10,326,053)	(10,640,402)
Investment in a joint venture (Note 8)	**(56,500,000)**	–	–
Proceeds from sale of equipment (Note 10)	**546,586,932**	12,000,005	158,610,324
Decrease (increase) in other noncurrent assets (Notes 11 and 12)	**818,116,520**	(742,661,592)	808,263,986
Net cash used in investing activities	**(4,179,890,325)**	(12,375,334,441)	(8,572,237,935)

(Forward)

	Years Ended December 31		
	2020	2019	2018
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from availments of loans (Notes 13, 14 and 32)	**₱4,980,000,000**	₱47,494,250,000	₱7,859,848,705
Payments of:			
Loans (Notes 13, 14 and 32)	**(3,702,514,285)**	(49,417,912,229)	(5,526,691,188)
Principal portion of lease liabilities (Notes 11, 30, and 31)	**(5,245,912)**	(10,868,143)	–
Dividends (Notes 18 and 32)	**(5,313,211,592)**	(5,313,293,707)	(9,571,357,480)
Acquisition of treasury shares (Notes 17 and 32)	**–**	–	(251,607,140)
Net cash used in financing activities	**(4,040,971,789)**	(7,247,824,079)	(7,489,807,103)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**31,651,757**	39,232,685	(9,070,942)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**1,627,504,787**	4,554,133,186	(6,567,957,154)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**6,457,084,709**	1,902,951,523	8,470,908,677
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	**₱8,084,589,496**	₱6,457,084,709	₱1,902,951,523

See accompanying Notes to Consolidated Financial Statements.

1. Corporate Information

Semirara Mining and Power Corporation (SMPC or the Parent Company) is a corporation incorporated in the Philippines on February 26, 1980. The Parent Company's registered and principal office address is at 2/F DMCI Plaza, 2281 Don Chino Roces Avenue, Makati City. The Parent Company's shares of stock are listed and currently traded at the Philippine Stock Exchange (PSE). The Parent Company is a 56.65%-owned subsidiary of DMCI Holdings, Inc. (DMCI-HI), a publicly-listed entity in the Philippines and its ultimate parent company.

The Parent Company and its subsidiaries are collectively referred to herein as "the Group".

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

The consolidated financial statements as of December 31, 2020 and 2019 and for each of the three years in the period ended December 31, 2020, were authorized for issue by the Board of Directors (BOD) on March 3, 2021.

2. Summary of Significant Accounting Policies

Basis of Preparation
The consolidated financial statements of the Group have been prepared on a historical cost basis, except for financial assets at fair value through profit or loss (FVPL) that have been measured at fair value. The Parent Company's functional currency and the Group's presentation currency is the Philippine Peso (₱). All amounts are rounded off to the nearest Peso, except for earnings per share and par value information or unless otherwise indicated.

Statement of Compliance
The consolidated financial statements of the Group have been prepared in compliance with Philippine Financial Reporting Standards (PFRSs), which include the availment of the relief granted by the SEC under Memorandum Circular No. 14, Series of 2018, Memorandum Circular No. 3, Series of 2019 and Memorandum Circular No. 4, Series of 2020.

PFRSs include Philippine Financial Reporting Standards, Philippine Accounting Standards and Interpretations issued by Philippine Interpretations Committee (PIC).

Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Parent Company and the following subsidiaries (which are all incorporated in the Philippines) as of December 31, 2020 and 2019, and for each of the three years in the period ended December 31, 2020:

	Effective Rates of Ownership		
	2020	2019	2018
Sem-Calaca Power Corporation (SCPC)	**100.00 %**	100.00 %	100.00%
Sem-Calaca RES Corporation (SCRC)[1]	**100.00**	100.00	100.00
Southwest Luzon Power Generation Corporation (SLPGC)	**100.00**	100.00	100.00
SEM-Cal Industrial Park Developers, Inc. (SIPDI)	**100.00**	100.00	100.00
Semirara Claystone, Inc. (SCI)	**100.00**	100.00	100.00
Semirara Energy Utilities, Inc. (SEUI)	**100.00**	100.00	100.00
Southeast Luzon Power Generation Corporation (SELPGC)[2]	**100.00**	100.00	100.00
St. Raphael Power Generation Corporation (SRPGC)[3]	**100.00**	–	–

1. Wholly-owned subsidiary of SCPC. Started commercial operations on August 29, 2018.
2. Formerly SEM-Balayan Power Generation Corporation (SBPGC).
3. During the year, SMPC entered into a deed of assignment for acquisition of remaining 50% ownership interest in SRPGC. The acquisition of SRPGC was accounted for as an asset acquisition (see Note 3).

Except for SCPC, SLPGC and SCRC, the other subsidiaries have not yet started commercial operations as of December 31, 2020.

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

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 financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Control is achieved when the entity is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Specifically, the entity controls an investee if and only if the entity has the following element:
- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns.

Generally, there is a presumption that a majority of voting rights results in control. To support the presumption and when the entity has less than a majority of the voting or similar rights of an investee, the entity considers all relevant facts and circumstances in assessing whether it has power over an investee, including:
- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting and potential voting rights

The 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.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

A change in the ownership interest of a subsidiary without a loss of control is accounted for as an equity transaction. If the entity loses control over a subsidiary, it:
- Derecognizes the related assets (including goodwill), liabilities, non-controlling interests (NCI) and other components of equity,
- Recognizes the fair value of the consideration received, the fair value of any investment retained and any surplus or deficit in profit or loss.
- Reclassifies the parent's share of components previously recognized in other comprehensive income to profit or loss or retained earnings, as appropriate.

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

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

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability are recognized in accordance with PFRS 9 either in profit or loss or as change to other comprehensive income. If the contingent consideration is classified as equity, it is not remeasured and its subsequent settlement is accounted for within equity.

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

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

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

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

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

Asset Acquisitions
To assess whether a transaction is the acquisition of a business, the Group applies first a quantitative concentration test (also known as a screening test). The Group is not required to apply the test but may elect to do so separately for each transaction or other event. If the concentration test is met, the set of activities and assets is determined not to be a business and no further assessment is required. Otherwise, or if the Group elects not to apply the test, the Group will perform the qualitative analysis of whether an acquired set of assets and activities includes at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs.

If the assets acquired and liabilities assumed in an acquisition transaction do not constitute a business as defined under PFRS 3, the transaction is accounted for as an asset acquisition. The Group identifies and recognizes the individual identifiable assets acquired (including those assets that meet the definition of, and recognition criteria for, intangible assets) and liabilities assumed. The acquisition cost is allocated to the individual identifiable assets and liabilities on the basis of their relative fair values at the date of purchase. Such transaction or event does not give rise to goodwill. Where the Group acquires a controlling interest in an entity that is not a business, but obtains less than 100% of the entity, after it has allocated the cost to the individual assets acquired, it notionally grosses up those assets and recognizes the difference as noncontrolling-interests.

When the Group obtains control over a previously held joint operation, and the joint operation does not constitute a business, the transaction is also accounted for as an asset acquisition which does not give rise to goodwill. The acquisition cost to obtain control of the joint operation is allocated to the individual identifiable assets acquired and liabilities assumed, including the additional share of any assets and liabilities previously held or incurred jointly, on the basis of their relative fair values at the date of purchase. Previously held assets and liabilities of the joint operation should remain at their carrying amounts immediately before the transaction.

Changes in Accounting Policies and Disclosures
The accounting policies adopted in the preparation of the Group's consolidated financial statements are consistent with those of the previous financial year, except for the adoption of the following new standards which became effective January 1, 2020. The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

Unless otherwise indicated, adoption of these new standards did not have an impact on the consolidated financial statements of the Group.

- Amendments to PFRS 3, *Business Combinations, Definition of a Business*
  The amendments to PFRS 3 clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. Furthermore, it clarifies that a business can exist without including all of the inputs and processes needed to create outputs.

  These amendments apply to the current year acquisitions of the Group (see Note 3 for the related disclosures) and will apply to future business combinations.

- Amendments to PFRS 7, *Financial Instruments: Disclosures* and PFRS 9, *Financial Instruments, Interest Rate Benchmark Reform*
  The amendments to PFRS 9 provide a number of reliefs, which apply to all hedging relationships that are directly affected by the interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument.

  These amendments have no impact on the consolidated financial statements of the Group as it does not have any interest rate hedge relationships.

- Amendments to PAS 1, *Presentation of Financial Statements*, and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors, Definition of Material*
  The amendments provide a new definition of material that states "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity."

  The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users.

  The amendments did not have an impact on the consolidated financial statements.

- Conceptual Framework for Financial Reporting issued on March 29, 2018
  The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The purpose of the Conceptual Framework is to assist the standard-setters in developing standards, to help preparers develop consistent accounting policies where there is no applicable standard in place and to assist all parties to understand and interpret the standards.

  The revised Conceptual Framework includes new concepts, provides updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts.

- Amendments to PFRS 16, *COVID-19-related Rent Concessions*
  The amendments provide relief to lessees from applying the PFRS 16 requirement on lease modifications to rent concessions arising as a direct consequence of the COVID-19 pandemic. A lessee may elect not to assess whether a rent concession from a lessor is a lease modification if it meets all of the following criteria:

- The rent concession is a direct consequence of COVID-19;
- The change in lease payments results in a revised lease consideration that is substantially the same as, or less than, the lease consideration immediately preceding the change;
- Any reduction in lease payments affects only payments originally due on or before June 30, 2021; and
- There is no substantive change to other terms and conditions of the lease.

A lessee that applies this practical expedient will account for any change in lease payments resulting from the COVID-19 related rent concession in the same way it would account for a change that is not a lease modification, i.e., as a variable lease payment.

The amendments are effective for annual reporting periods beginning on or after June 1, 2020. Early adoption is permitted.

This amendment is not applicable to the Group as there are no rent concessions granted to the Group as a lessee.

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

Effective beginning on or after January 1, 2021

- Amendments to PFRS 9, PFRS 7, PFRS 4 and PFRS 16, *Interest Rate Benchmark Reform – Phase 2*
  The amendments provide the following temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR):
  - Practical expedient for changes in the basis for determining the contractual cash flows as a result of IBOR reform
  - Relief from discontinuing hedging relationships
  - Relief from the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component.

  The Group shall also disclose information about:
  - The nature and extent of risks to which the entity is exposed arising from financial instruments subject to IBOR reform, and how the entity manages those risks; and,
  - Their progress in completing the transition to alternative benchmark rates, and how the entity is managing that transition.

  The amendments are effective for annual reporting periods beginning on or after January 1, 2021 and apply retrospectively, however, the Group is not required to restate prior periods.

Effective beginning on or after January 1, 2022

- Amendments to PFRS 3, *Reference to the Conceptual Framework*
  The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its

requirements. The amendments added an exception to the recognition principle of PFRS 3, *Business Combinations* to avoid the issue of potential 'day 2'gains or losses arising for liabilities and contingent liabilities that would be within the scope of PAS 37, *Provisions, Contingent Liabilities and Contingent Assets* or Philippine-IFRIC 21, *Levies*, if incurred separately.

At the same time, the amendments add a new paragraph to PFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date.

The amendments are effective for annual reporting periods beginning on or after January 1, 2022 and apply prospectively.

- Amendments to PAS 16, *Plant and Equipment: Proceeds before Intended Use*
  The amendments prohibit entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the costs of producing those items, in profit or loss.

  The amendment is effective for annual reporting periods beginning on or after January 1, 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment.

  The amendments are not expected to have a material impact on the Group.

- Amendments to PAS 37, *Onerous Contracts – Costs of Fulfilling a Contract*
  The amendments specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making. The amendments apply a "directly related cost approach". The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

  The amendments are effective for annual reporting periods beginning on or after January 1, 2022. The Group will apply these amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments.

- *Annual Improvements to PFRSs 2018-2020 Cycle*

  - Amendments to PFRS 1*, First-time Adoption of Philippines Financial Reporting Standards, Subsidiary as a first-time adopter*
    The amendment permits a subsidiary that elects to apply paragraph D16(a) of PFRS 1 to measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to PFRS. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of PFRS 1.

    The amendment is effective for annual reporting periods beginning on or after January 1, 2022 with earlier adoption permitted. The amendments are not expected to have a material impact on the consolidated financial statements of the Group.

- Amendments to PFRS 9, *Financial Instruments, Fees in the '10 per cent' test for derecognition of financial liabilities*
  The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

  The amendment is effective for annual reporting periods beginning on or after January 1, 2022 with earlier adoption permitted. The Group will apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendments are not expected to have a material impact on the Group.

Effective beginning on or after January 1, 2023

- Amendments to PAS 1, *Classification of Liabilities as Current or Non-current*
  The amendments clarify paragraphs 69 to 76 of PAS 1, *Presentation of Financial Statements*, to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

  - What is meant by a right to defer settlement
  - That a right to defer must exist at the end of the reporting period
  - That classification is unaffected by the likelihood that an entity will exercise its deferral right
  - That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification

  The amendments are effective for annual reporting periods beginning on or after January 1, 2023 and must be applied retrospectively. The Group is currently assessing the impact the amendments will have on current practice and whether existing loan agreements may require renegotiation.

Deferred effectivity

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

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

The Group is currently assessing the impact of adopting these amendments.

Significant Accounting Policies and Disclosures

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:

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

All other assets are classified as noncurrent.

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

The Group classifies all other liabilities as noncurrent.

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

Fair Value Measurement
The Group measures financial assets designated at FVOCI and financial assets at FVPL at fair value at each reporting date.

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 consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

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

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

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

<u>Cash and Cash Equivalents</u>
Cash includes cash on hand and cash in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three (3) months or less from dates of placement and that are subject to insignificant risk of change in value.

<u>Recognition and Measurement of Financial Instruments</u>
A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

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

The classification of financial assets at initial recognition that are debt instruments depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at FVPL, transaction costs.

Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient for contracts that have a maturity of one year or less, are measured at the transaction price determined under PFRS 15 (refer to the accounting policies in *Revenue from contracts with customers*).

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

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

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

As of December 31, 2020 and 2019, the Group's financial assets compromise of financial assets at amortized cost and financial asset at FVPL.

Subsequent measurement - Financial assets at amortized cost (debt instruments)
The Group measures financial assets at amortized cost if both of the following conditions are met:
- the asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and,
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI on the principal amount outstanding.

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

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

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

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

This category includes derivatives arising from contract for differences entered with a third party.

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

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

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

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

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

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

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

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

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

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

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

For short-term investments, the Group applies the low credit risk simplification. At every reporting date, the Group evaluates whether debt instrument is considered to have low credit risk using all reasonable and supportable information that is available without undue cost or effort. In making that evaluation, the Group reassesses the internal credit rating of the debt instrument.

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

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at FVPL, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities are trade and other payables (except statutory payables), short-term loans, long-term debt and lease liabilities.

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

Financial liabilities at FVPL

Financial liabilities at FVPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as at FVPL.

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

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

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

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

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

This category generally applies to trade and other payables, short-term loans, and long-term debt.

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

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.

Offsetting of financial instruments
Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, to realize the assets and settle the liabilities simultaneously.

'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.

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 ship loading cost, which is a period cost, all other production related costs are charged to production cost. Spare parts and supplies are usually carried as inventories and are recognized in the consolidated statement of comprehensive income when consumed.

Inventories transferred to property, plant and equipment are used as a component of self-constructed property, plant and equipment and are recognized as expense during useful life of that asset. Transfers of inventories to property, plant and equipment do not change the carrying amount of the inventories.

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 the units-of-production method over the mine life. The capitalization of development stripping costs ceases when the mine/component is commissioned and ready for use as intended by management.

After the commencement of production further development of the mine may require a phase of unusually high stripping that is similar in nature to development phase stripping. The costs of such stripping are accounted for in the same way as development stripping (as discussed above).

Stripping costs incurred during the production phase are generally considered to create two benefits, being either the production of inventory or improved access to the coal body to be mined in the future. Where the benefits are realized in the form of inventory produced in the period, the production stripping costs are accounted for as part of the cost of producing those inventories.

Where the benefits are realized in the form of improved access to ore to be mined in the future, the costs are recognized as a noncurrent asset, referred to as a stripping activity asset, if the following criteria are met:

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

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

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

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

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

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

Mineable Ore Reserves

Mineable ore reserves are estimates of the amount of coal that can be economically and legally extracted from the Group’s mining properties. The Group estimates its mineable ore reserves based on information compiled by appropriately qualified persons relating to the geological data on the size, depth and shape of the coal body, and require complex geological judgments to interpret the data.

The estimate on the mineable ore reserve are determined based on the information obtained from activities such as drilling, core logging or geophysical logging, coal sampling, sample database encoding, coal seam correlation and geological modelling. The Group will then estimate the recoverable reserves based upon factors such as estimates of commodity prices, future capital requirements, foreign currency exchange rates, and production costs along with geological assumptions and judgments made in estimating the size and grade of the coal body. Changes in the reserve or resource estimates may impact the amortization of mine properties included as part of ‘Mine properties, mining tools and other equipment’ under ‘Property, plant and equipment’.

Property, Plant and Equipment

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

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

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

Mine properties consist of stripping activity asset and expenditures transferred from ‘Exploration and evaluation asset’ once the work completed supports the future development of the property.

Mine properties are depreciated or amortized on a units-of-production basis over the economically mineable reserves of the mine concerned. Mine properties are included as part of ‘Mine properties, mining tools and other equipment’ under ‘Property, plant and equipment’ in the consolidated statement of financial position.

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

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

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

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

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

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

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. When assets are retired, or otherwise disposed of, the cost and the related accumulated depreciation are removed from the accounts. Any gain or loss arising from derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated statement of comprehensive income in the year the item is derecognized.

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

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

The useful lives of intangible assets are assessed as either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting date. Changes in the life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the consolidated statement of comprehensive income as the expense category that is consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable.

If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the consolidated statement of comprehensive income when the asset is derecognized.

Research and development costs
Research costs are expensed as incurred. Development expenditures on an individual project are recognized as an intangible asset when the Group can demonstrate:

- The technical feasibility of completing the intangible asset so that the asset will be available for use or sale
- Its intention to complete and its ability to use or sell the asset
- How the asset will generate future economic benefits
- The availability of resources to complete the asset
- The ability to measure reliably the expenditure during development
- The ability to use the intangible asset generated

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortization and accumulated impairment losses. Amortization of the asset begins when development is complete and the asset is available for use. It is amortized over the period of expected future benefit. Amortization is recorded in cost of sales of the consolidated statement of comprehensive income. During the period of development, the asset is tested for impairment annually.

Value-Added Taxes (VAT)
Revenues, expenses, and assets are recognized net of the amount of VAT, if applicable. Input VAT pertains to the 12% indirect tax paid by the Group in the course of the Group's trade or business on local purchase of goods or services. Deferred input VAT pertains to input VAT on accumulated purchases of property, plant and equipment for each month amounting to ₱1.00 million or more. This is amortized over five (5) years or the life of the property, plant and equipment, whichever is shorter, in accordance with the Bureau of Internal Revenue (BIR) regulation. Output VAT pertains to the 12% tax due on the local sale of goods and services by the Group.

For its VAT-registered activities, when VAT from sales of goods and/or services (output VAT) exceeds VAT passed on from purchases of goods or services (input VAT), the excess is recognized as payable in the consolidated statement of financial position. When VAT passed on from purchases of goods or services (input VAT) exceeds VAT from sales of goods and/or services (output VAT), the excess is recognized as an asset in the consolidated statement of financial position up to the extent of the recoverable amount.

For its non-VAT registered activities, the amount of VAT passed on from its purchases of goods or service is recognized as part of the cost of goods/asset acquired or as part of the expense item, as applicable.

Investment in a Joint Venture
A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The considerations made in determining joint control are similar to those necessary to determine control over subsidiaries. The Group's investment in a joint venture is accounted for using the equity method.

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

The financial statements of the associate or joint venture are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

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

Impairment of Nonfinancial Assets
The Group assesses at each reporting date whether there is an indication that its nonfinancial assets (investment in a joint venture, right-of-use assets, other current and noncurrent assets (except for financial asset at FVPL), and property, plant and equipment) may be impaired. If any such indication exists, or when an annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount.

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

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

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

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

For property, plant and equipment, right-of-use assets and other current and noncurrent assets, 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.

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

The disclosures of significant accounting judgements, estimates and assumptions relating to revenue from contracts with customers are provided in Note 3.

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

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

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

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

Under PFRS 15, the Group has concluded that revenue should be recognized over time since the customer simultaneously receives and consumes the benefits as the seller supplies power. In this case, any fixed capacity payments for the entire contract period is determined at contract inception and is recognized over time. The Group has concluded that revenue should be recognized over time and will continue to recognize revenue based on amounts billed.

Dividend Income
Dividend income is recognized when the Group's right to receive payment is established, which is generally when shareholders approve the dividend.

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

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

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

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

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.

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

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

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.

Foreign Currency Translations and Transactions
The consolidated financial statements are presented in Philippine Peso. Each entity in the Group determines its own functional currency and items included in the consolidated financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are initially recorded in the functional currency rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency closing rate at the reporting date. All differences are taken to consolidated statement of income. Non-monetary items that are measured in terms of historical cost in foreign currency are translated using the exchange rates as at the dates of initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

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

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

Defined benefit costs comprise the following:

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

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

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

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 other comprehensive income in the period in which they arise. Remeasurements are not reclassified to profit or loss 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 obligations). If the fair value of the plan assets is higher than the present value of the defined benefit obligation, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

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

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 before twelve months after the end of the annual reporting period is recognized for services rendered by employees up to the end of the reporting period.

<u>Leases</u>
The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and 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 is 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 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 renewal or extension period for scenario (b).

The Group as a lessor
Leases where the Group retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same bases as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

The Group as a lessee
The Group applies a single recognition and measurement approach for all leases, except for short-term leases. The Group recognizes lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets
The Group recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date. Right-of-use assets are depreciated on

a straight-line basis over the shorter of the lease term and the estimated useful lives of the underlying assets.

"Right-of-use assets" are presented under noncurrent assets in the consolidated statement of financial position and are subject to impairment.

Lease liabilities
At the commencement date of the lease, the Group recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects the Group exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognized as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

Short-term leases
The Group applies the short-term lease recognition exemption to its leases of office spaces, storage and warehouse spaces that have lease term of 12 months or less from the commencement date and do not contain a purchase option. Lease payments on these short-term leases are recognized as expense on a straight-line basis over the lease term.

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

Current income tax relating to items recognized directly in equity is recognized in equity and not in the consolidated statement of comprehensive income. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred income tax
Deferred income tax is determined, using the liability method, on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences, with certain exceptions. Deferred income tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits from the excess of minimum corporate income tax (MCIT) over the regular corporate income tax (RCIT), and unused net operating loss carryover (NOLCO), to the extent that it is probable that sufficient taxable income will be available against which the deductible temporary differences and carryforward of unused tax credits from MCIT and unused NOLCO can be utilized. Deferred income tax, however, is not recognized on temporary differences that arise from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income.

Deferred income tax liabilities are not provided on nontaxable temporary differences associated with investments in domestic subsidiaries and associates. With respect to investments in foreign subsidiaries and associates, deferred income tax liabilities are recognized, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

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 income tax assets and liabilities are measured at the tax rates that are applicable to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognized in OCI or directly in equity is recognized in the consolidated statement of comprehensive income and statement of changes in equity and not in profit or loss. Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to offset current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

For periods where the income tax holiday (ITH) is in effect, no deferred taxes are recognized in the consolidated financial statements as the ITH status of the subsidiary neither results in a deductible temporary difference or temporary taxable difference. However, for temporary differences that are expected to reverse beyond the ITH, deferred taxes are recognized.

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 closure of plants, dismantling and removing of structures, backfilling, reforestation, rehabilitation activities on marine and rainwater conservation and maintenance of rehabilitated area.

The obligation generally arises when the asset is installed, or the ground environment is disturbed at the production location. When the liability is initially recognized, the present value of the estimated cost is capitalized by increasing the carrying amount of the related mining assets and restoration of power plant sites. Over time, the discounted liability is increased for the change in present value based on the discount rates that reflect current market assessments and the risks specific to the liability. The periodic unwinding of the discount is recognized in the consolidated statement 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.

Equity

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

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

Earnings per Share (EPS)

Basic EPS is computed by dividing the consolidated net income for the year attributable to common shareholders (net income less dividends on convertible redeemable preferred shares) by the weighted average number of common shares issued and outstanding during the year and adjusted to give retroactive effect to any stock dividends declared during the period.

Diluted EPS is computed by dividing the net income for the year attributable to common shareholders by the weighted average number of common shares outstanding during the year adjusted for the effects of dilutive convertible redeemable preferred shares. Diluted EPS assumes the conversion of the outstanding preferred shares. When the effect of the conversion of such preferred shares is anti-dilutive, no diluted EPS is presented.

Treasury Shares

Treasury shares pertains to own equity instruments which are reacquired and are carried at cost and are deducted from equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Parent Company's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognized in additional paid-in capital. Voting rights related to treasury shares are nullified for the Group and no dividends are allocated to them. When the shares are retired, the capital stock account is reduced by its par value and the excess of cost over par value upon retirement is debited to additional paid-in capital when the shares were issued, and to retained earnings for the remaining balance.

Operating Segments

The Group's operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. The BOD is the chief operating decision maker. Segment assets and liabilities reported are those assets and liabilities included in measures that are used by the BOD. The Group generally accounts for intersegment revenues and expenses at agreed transfer prices. Income and expenses from discontinued operations are reported separate from normal income and expenses down to the level of income after taxes. Financial information on operating segments is presented in Note 33 to the consolidated financial statements.

Contingencies
Contingent liabilities are not recognized in the consolidated financial statements. These are disclosed in the notes to consolidated financial statements unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the consolidated financial statements but disclosed when an inflow of economic benefits is probable. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the consolidated financial statements. If it has become virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognized in the consolidated financial statements on the period in which the change occurs.

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

3. Significant Accounting Judgments, Estimates and Assumptions

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

Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results could differ for such estimates.

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

a. *Revenue recognition - method and measure of progress*
   The Group applied the following judgements that significantly affect the determination of the amount and timing of revenue from contracts with customers:

   The Group concluded that revenue from coal sales is to be recognized at a point in time as the control transfers to customers at the date of shipment.

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

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

b. *Determination of components of ore bodies and allocation measures for stripping cost allocation*
The Group has identified that each of its two active mine pits, Narra and Molave, is a whole separate ore component and cannot be further subdivided into smaller components due to the nature of the coal seam orientation and mine plan.

Judgment is also required to identify a suitable production measure to be used to allocate production stripping costs between inventory and any stripping activity asset(s) for each component. The Group considers that the ratio of the expected volume of waste to be stripped for an expected volume of ore to be mined for a specific component of the coal body (i.e., stripping ratio) is the most suitable production measure. The Group recognizes stripping activity asset by comparing the actual stripping ratio during the year for each component and the component's mine life stripping ratio.

c. *Contingencies*
The Group is currently involved in various legal proceedings and other claims. The estimate of the probable costs for the resolution of these claims has been developed in consultation with internal and outside counsels handling the Group's defense in these matters and is based upon an analysis of potential results. The Group currently believes that these claims will not have a material adverse effect on its current financial position and results of operations. It is possible, however, that future results of operations and financial position could be materially affected by changes in the assessment or in the effectiveness of the strategies relating to these proceedings (see Note 29).

d. *Determination of lease term of contracts with renewal and termination options - Group as a lessee*
The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customization to the leased asset).

The Group did not include the renewal and termination period of several lease contracts since the renewal and termination options is based on mutual agreement, thus not enforceable (see Note 11)

e. *Evaluation whether acquisitions constitute a business combination*
The Parent Company acquired additional 50% ownership interest in SRPGC through a Deed of Assignment, with a joint venture partner. SRPGC is in the process of developing power plants in Calaca, Batangas. Prior to acquisition, SMPC already owned 50% ownership interest in SRPGC.

In determining whether a transaction or an event is a business combination, the Group assessed whether the assets acquired and liabilities assumed constitute a business. A business is defined as an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs or other economic benefits directly to investors or other owners, members or participants. Further, a business consists of inputs and processes applied to those inputs that have the ability to create outputs.

The Group determines that it has acquired a business when the acquired set of activities and assets include an input and a substantive process that together significantly contribute to the ability to create outputs. The acquired process is considered substantive if it is critical to the ability to continue producing outputs, and the inputs acquired include an organized workforce with the necessary skills, knowledge, or experience to perform that process or it significantly contributes to the ability to continue producing outputs and is considered unique or scarce or cannot be replaced without significant cost, effort, or delay in the ability to continue producing outputs.

The Group assessed that the acquisition of SRPGC does not constitute a business. In making the judgment, the Group considered the status of SRPGC and assessed that there was no substantive process acquired as of acquisition date. As such, the transaction was accounted for as an acquisition of assets.

Management's Use of Estimates and Assumptions

The key assumptions concerning the future and other sources of estimation uncertainty at reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

a. *Estimating mineable ore reserves*

   The Group uses the mineable ore reserve in the determination of the amount of amortization of mine properties using units-of-production method. The Group estimates its mineable ore reserves based on the assessment performed by the external and internal specialist engaged by the Group, who are professionally qualified mining engineers and geologists (specialists). These estimates on the mineable ore resource and reserves are determined based on the information obtained from activities such as drilling, core logging or geophysical logging, coal sampling, sample database encoding, coal seam correlation and geological modelling.

   The carrying values of mine properties included as part of 'Mine properties, mining tools and other equipment' under 'Property, plant and equipment' amounted to ₱5,160.28 million and ₱4,338.74 million as of December 31, 2020 and 2019, respectively (see Note 10).

b. *Estimating provision for expected credit losses of trade and other receivables*

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

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

The assessment of the correlation between historical observed default rates, forecast economic conditions, and ECL is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Group's trade receivables is disclosed in Note 5.

The Group has considered impact of COVID-19 pandemic and revised its assumptions in determining the macroeconomic variables and loss rates in the computation of ECL. The changes in the gross carrying amounts of receivables during the year and impact of COVID-19 pandemic did not materially affect the allowance for ECLs.

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

The coal inventory as of December 31, 2020 and 2019 amounted to ₱2,016.65 million and ₱2,223.58 million, respectively (see Note 7).

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

The carrying amount of spare parts and supplies is disclosed in Note 7.

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

The information about the estimation of recoverability of capitalized development costs is discussed in Note 12.

f. *Estimating provision for decommissioning and site rehabilitation costs*
The Group is legally required to fulfill certain obligations under its Department of Environment and Natural Resources (DENR) issued Environmental Compliance Certificate when its activities have ended in the depleted mine pits. The Group assesses its mine rehabilitation provision annually. Significant estimates and assumptions are made in determining the provision for decommissioning and mine site rehabilitation costs as there are numerous factors that will affect the ultimate liability. These factors include estimates of the extent and costs of rehabilitation activities given the approved decommissioning and mine site rehabilitation plan, (e.g., cost of backfilling, reforestation, rehabilitation activities on marine and rainwater conservation and maintenance of the rehabilitated area), technological changes, regulatory changes, cost increases,

and changes in inflation rates and discount rates. These uncertainties may result in future actual expenditure differing from the amounts currently provided.

An increase in decommissioning and site rehabilitation costs would increase the carrying amount of the related assets and increase noncurrent liabilities. The provision at reporting date represents management's best estimate of the present value of the future rehabilitation costs required. Assumptions used to compute the decommissioning and site rehabilitation costs are reviewed and updated annually.

Information with respect to the estimated provision for decommissioning and site rehabilitation cost are disclosed in Note 16.

g. *Impairment assessment of nonfinancial assets*
The Group reviews its nonfinancial assets for impairment. This includes considering certain indicators of impairment such as the following:
- Significant or prolonged decline in the fair value of the asset;
- Increase in market interest rates or other market rates of return on investments have increased during the period, and those increases are likely to affect the discount rate used in calculating the asset's value-in-use and decrease the asset's recoverable amount materially;
- 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;
- Significant negative industry or economic trends; or
- Significant changes with an adverse effect that have taken place in the technological, market, economic or legal environment where the Group operates.

When indicators exist, an impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. Assets that are subject to impairment testing when impairment indicators are present are as follows:

	2020	2019
Investments in a joint venture (Note 8)	**₱–**	₱45,217,497
Property, plant and equipment (Note 10)	**45,792,738,168**	47,630,629,428
Right-of-use assets (Note 11)	**156,848,975**	175,979,686
Other current assets (Note 9)*	**805,492,732**	1,284,979,604
Other noncurrent assets (Note 12)*	**1,041,682,098**	1,865,980,855

**Excluding current and noncurrent financial assets.*

The Group assessed that an indicator of impairment exists for the ancillary gas turbine plant of SLPGC due to its withdrawal from the ancillary contract with NGCP in 2019 (see Note 34). As of December 31, 2020, the gas turbine plant has yet to secure a supply agreement. Considering this, the Group reperformed impairment assessment on its gas turbine plant and recognized an impairment loss amounting to ₱157.20 million in 2020 to reduce the carrying value to its recoverable amount (nil in 2019 and 2018). The recoverable amount was computed using discounted cash flows approach and considered certain assumptions, such as future electricity demand and supply, historical and future dependable capacity, electricity prices, growth rate, diesel costs, inflation rate and discount rate, taking into consideration the impact of COVID-19 pandemic. As of December 31, 2020 and 2019, the carrying value of ancillary gas turbine, net of related allowance for impairment loss, amounted to ₱1,073.94 million and ₱1,286.70 million, respectively (see Note 10).

The Group also assessed for impairment the pre-construction costs of the 2x350 power plants of SRPGC amounting to ₱282.71 million, due to termination of the related joint venture agreement in 2020 (see Notes 8 and 10). The recoverable amount was determined using assumptions about future electricity demand and supply, as well as external inputs such as electricity and coal prices, diesel costs, inflation rate and discount rate. Discount rate used to compute for the recoverable amount was 10.78%. No impairment loss was recognized in 2020 as a result of the test.

In addition, management also recognized provision for impairment loss on "Other current assets" amounting to ₱82.94 million in 2019 (nil in 2020 and 2018), since management assessed that the carrying amount of these assets are not recoverable (see Notes 9 and 12). Related allowance for impairment losses as of December 31, 2020 and 2019 amounted to ₱98.23 million.

Management believes that no impairment indicator exists for the Group's other nonfinancial assets.

h. *Estimating useful lives of depreciable property, plant and equipment*
The Group estimated the useful lives of its property, plant and equipment (except land, equipment in transit and construction in progress) based on the period over which the assets are expected to be available for use. The estimated useful lives of property, plant and equipment are reviewed at least annually and are updated if expectations differ from previous estimates due to physical wear and tear and technical or commercial obsolescence on the use of these assets.

It is possible that future results of operations could be materially affected by changes in these estimates brought about by changes in factors mentioned above. A reduction in the estimated useful lives of property, plant and equipment would increase depreciation expense and decrease noncurrent assets.

In 2019, the Group incurred a loss from dismantling of a mining equipment amounting to ₱83.54 million (nil in 2020 and 2018; see Notes 10 and 22).

In 2017, the BOD approved the rehabilitation of the Group's Units 1 and 2 coal-fired thermal power plant. This resulted to the recording of accelerated depreciation amounting to ₱101.23 million, ₱549.95 million and ₱1,210.10 million in 2020, 2019 and 2018, respectively. The rehabilitation of the Units 1 and 2 were completed in 2019 and 2020, respectively, and there are no salvage values for the parts replaced.

In estimating the useful life of depreciable assets that are constructed in a leased property, the Group considers the enforceability of and the intent of management to exercise the option to purchase the leased property. For these assets, the depreciation period is over the economic useful life of the asset which may be longer than the remaining lease period.

The carrying values and movements in property, plant and equipment are disclosed in Note 10.

i. *Deferred tax assets*
The Group reviews the carrying amounts of the deferred income tax assets at each end of the reporting period and reduces deferred income tax assets to the extent that it is no longer probable that sufficient future taxable profit will be available to allow all or part of the deferred income tax assets to be utilized. Significant management judgment is required to determine the amount of deferred income tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies. However, there is no assurance that the Group will utilize all or part of the deferred income tax assets.

The deductible temporary differences and NOLCO for which deferred tax assets are not recognized are disclosed in Note 26.

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

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

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

k. *Estimating the incremental borrowing rate*
The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease. The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating). This rate reflects the amount that the entity would need to borrow over the term of the lease.

The Group's lease liabilities discounted using the IBR amounted to ₱103.02 million and ₱107.54 million as of December 31, 2020 and 2019, respectively (see Note 11).

l. *Fair value measurement of financial instruments*
When the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be measured based on quoted prices in active markets, fair value is measured using valuation techniques using the market data approach (i.e., Monte Carlo simulation). The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions relating to these factors could affect the reported fair value of financial instruments. The carrying amount and assumptions for the fair valuation of derivatives are disclosed in Note 6.

4. Cash and Cash Equivalents

This account consists of:

	2020	2019
Cash on hand and in banks	**₱3,897,601,336**	₱1,949,681,971
Cash equivalents	**4,186,988,160**	4,507,402,738
	₱8,084,589,496	₱6,457,084,709

Cash and cash equivalents comprise of cash on hand and in banks and short-term deposits but excludes any restricted cash that is not available for use by the Group and therefore is not considered highly liquid.

Cash in banks earn interest at the respective bank deposit rates. Cash equivalents include short-term placements made for varying periods of up to three (3) months, depending on the immediate cash requirements of the Group, and earn interest at the respective prevailing short-term placement rates ranging from 0.50% to 4%, 0.13% to 4.45%, and 1.10% to 7.50% in 2020, 2019 and 2018, respectively.

In 2020, 2019 and 2018, total interest income earned from cash and cash equivalents amounted to ₱45.63 million, ₱81.24 million and ₱128.65 million, respectively (see Note 24).

5. Receivables

This account consists of:

	2020	2019
Trade receivables - outside parties	**₱4,709,006,489**	₱4,951,021,542
Trade receivables - related parties (Note 19)	**307,412,820**	150,552,051
Others (Note 25)	**223,069,351**	110,181,932
	5,239,488,660	5,211,755,525
Less allowance for impairment losses	**1,570,254,441**	1,570,254,441
	₱3,669,234,219	₱3,641,501,084

Trade receivables - outside parties
These are receivables from electricity sales and coal sales.

Receivables from electricity sales are claims from power distribution utilities, spot market operator and other customers for the sale of contracted energy and spot sales transactions. This also includes advances to Philippine Electricity Market Corporation (PEMC) for the adjustment of bills amounting to ₱888.22 million as of December 31, 2019 (nil in 2020, see Note 29). These are generally on a 30-day credit term and are carried at original invoice amounts less discounts and rebates.

Receivables from coal sales are noninterest-bearing and generally have 30 to 45 days credit terms. These receivables arise from export sales for coal sold to international market which are priced in US$ and local sales for coal sold to domestic market which are priced in Philippine Peso.

On November 26, 2018, SCPC entered into a Receivable Purchase Agreement with a local bank for the sale of receivables with recourse amounting to ₱1,272.23 million. Accordingly, a Master Deed of Assignment was executed by both parties on December 11, 2018 to transfer the rights over these receivables from SCPC to the local bank; however, in the event of default by SCPC's customer, the local bank has the right to collect from SCPC. Proceeds from the financing amounted to ₱1,268.03 million. Discount arising from this agreement was recognized as 'Finance cost' in the consolidated statements of comprehensive income (see Note 23).

Trade receivables - related parties
Receivables from related parties are noninterest-bearing and due and demandable. These are generally settled in cash.

Others
Others include advances to officers, employees and receivables from sale of fly ashes. These are generally noninterest-bearing. Advances to officers and employees are recovered through salary deduction and receivables from sale of fly ash are generally settled within the 30 to 45 days credit terms.

Allowance for impairment losses
As of December 31, 2020 and 2019, this account pertains to the following:

Trade receivables - outside parties	₱1,564,439,082
Others	5,815,359
	₱1,570,254,441

Provision for impairment losses for receivables recognized in 2018 based on lifetime ECL amounted to ₱25.33 million (nil in 2020 and 2019, see Note 22)

6. Financial Asset at FVPL

The Group's financial asset at FVPL pertains to a five-year option agreement (until December 2021) with a retail electricity supplier (RES) entered in February 2017 with respect to its exposure to the WESM which does not constitute the supply of power by the Group to the RES. This qualified as a derivative but was not designated as a hedging instrument against the Group's exposure in the WESM.

On March 25, 2020, the parties agreed to pre-terminate the contract and the Group recognized gain on pre-termination amounting to ₱37.24 million which is lodged under "Other income - net" in the consolidated statements of comprehensive income (see Note 25). The pre-termination did not constitute any default of either party or give rise to any termination fee.

Prior to termination, the fair value of the derivative was determined using the market data approach, Monte Carlo simulation (MCS) valuation, which is categorized within Level 3 of the fair value hierarchy. Because of the complexities in the option agreement such as the optionality of the payoff and variability of strike price, the MCS methodology is deemed appropriate for the valuation. Management uses published BVAL reference rates by the Bankers Association of the Philippines (BAP) in interpolation of discount rate.

Related gains (losses) recognized in profit or loss in 2019 and 2018 (nil in 2020) are as follows:

	2019	2018
Realized (Note 25)	(₱398,032,248)	₱65,817,775
Unrealized (Note 25)	(245,443,777)	25,775,773

Significant inputs to the valuation are as follows:

	2019	2018
WESM prices per kilowatt hour (kWh)	₱3.27 to ₱3.93	₱2.63 to ₱3.63
Philippine Peso to US$ exchange rate	₱49.77 to ₱54.34	₱45.92 to ₱54.35
Consumer price index	67.77	101.81
Coal price index	121.10	119.60
Basis of risk-free rate as of December 31*	3.74%	6.94%

**Based on Bloomberg Valuation Service (BVAL)*

7. Inventories

This account consists of:

	2020	**2019**
Spare parts and supplies - at NRV	**₱8,723,491,132**	₱7,995,986,192
Coal pile inventory - at cost	**2,016,651,225**	2,223,583,569
	₱10,740,142,357	₱10,219,569,761

Coal pile inventory are stated at cost, which is lower than NRV. The cost of coal inventories recognized as ‘Cost of coal sales’ in the consolidated statements of comprehensive income amounted to ₱11,840.35 million, ₱17,574.81 million and ₱12,238.21 million in 2020, 2019 and 2018, respectively (see Note 21).

Coal pile inventory at cost includes capitalized depreciation of ₱324.71 million, ₱443.04 million and ₱891.67 million in 2020, 2019 and 2018, respectively (see Note 10).

Spare parts and supplies, with previously recognized allowance for obsolescence, amounted to ₱5.88 million were written off in 2020 (nil in 2019 and 2018). Allowance for obsolescence amounted to ₱61.51 million and ₱67.39 million as of December 31, 2020 and 2019, respectively.

8. Investment in a Joint Venture

On September 10, 2013, St. Raphael Power Generation Corporation (SRPGC) was incorporated to acquire, construct, erect, assemble, rehabilitate, expand, commission, operate and maintain power-generating plants and related facilities for the generation of electricity. SRPGC is in the process of developing and constructing a proposed 2x350 MW, coal-fired power plant in Calaca, Batangas.

SRPGC is accounted for as a joint venture by Parent Company and Meralco PowerGen Corporation (MGen), a wholly owned subsidiary of Manila Electric Company (MERALCO), as each holds a 50% ownership interest in SRPGC which clearly demonstrates joint control over SRPGC and the equal representation of the Parent Company and MGen in SRPGC’s BOD further signifies that there should be a unanimous consent between the two parties in order for significant activities to be undertaken by SRPGC. The arrangement between the Parent Company and MGen over the operations of SRPGC is based on the joint venture agreement executed on April 27, 2016.

The Parent Company's equity in net earnings (losses) of SRPGC in 2020, 2019 and 2018 amounted to ₱0.31 million, ₱0.69 million and ₱0.38 million, respectively, included under "Operating expenses (see Note 22).

On September 30, 2020, SRPGC made an equity call and the Parent Company and MGen paid additional ₱56.50 million each.

On November 9, 2020, the joint venture agreement between the Parent Company and MGen was terminated. Subsequently after termination, SRPGC became a wholly-owned subsidiary of the Parent Company upon acquisition by the latter of the 50% equity shareholdings from MGen for ₱115.0 million, which remained unpaid as of December 31, 2020. As of the same date, SRPGC has started the pre-construction work and the related capitalized costs amounting to ₱282.71 million are included as part of "Property, Plant and Equipment" in the consolidated statements of financial position (see Note 10). The acquisition of the 50% interest in SRPGC was accounted for as an asset acquisition (see Note 3).

9. Other Current Assets

This account consists of:

	2020	2019
Creditable withholding tax	**₱650,544,168**	₱518,887,403
Advances to suppliers and contractors (Note 12)	**161,753,032**	555,780,413
Input VAT - net (Note 12)	**–**	206,301,898
Prepaid insurance	**38,869,056**	28,778,738
Prepaid rent	**3,030,748**	3,030,748
Others	**34,234,807**	55,139,483
	888,431,811	1,367,918,683
Less allowance for impairment losses (Note 22)	**82,939,079**	82,939,079
	₱805,492,732	₱1,284,979,604

Creditable withholding tax
Creditable withholding tax pertains to the amount withheld by the Group's customers from their income payment. This will be claimed as tax credit and will be used against future income tax payable.

Advances to suppliers and contractors
Advances to suppliers and contractors represent prepayments for the acquisition of materials and supplies and is expected to be realized within one (1) year. In 2019, the Group recognized provision for impairment loss on this account amounting to ₱82.94 million (nil 2020 and 2018, see Note 22).

Creditable withholding tax
Creditable withholding tax pertains to the amount withheld by the Group's customers from their income payment. This will be claimed as tax credit and will be used against future income tax payable.

Input VAT- net
Input VAT represents VAT imposed on the Group by its suppliers and contractors for the acquisition of goods and services required under Philippine taxation laws and regulations. Input VAT is applied against output VAT. The balance, net of the related allowance, is recoverable in future periods.

Others
Others include environmental guarantee fund and guarantee deposit to government and other prepaid charges.

10. Property, Plant and Equipment

The rollforward of this account follows:

	2020					
	Land	**Mine Properties, Mining Tools and Other Equipment**	**Power Plant and Buildings**	**Roads and Bridges**	**Equipment in Transit and Construction in Progress**	**Total**
Cost						
At January 1	**₱386,884,790**	**₱34,797,430,978**	**₱49,430,748,239**	**₱846,946,929**	**₱4,259,979,442**	**₱89,721,990,378**
Additions	**–**	**2,864,208,129**	**253,439,892**	**–**	**2,582,907,647**	**5,700,555,668**
Reclassifications	**–**	**–**	**4,345,744,560**	**–**	**(4,345,744,560)**	**–**
Write-down (Note 22)	**–**	**–**	**(424,618,118)**	**–**	**–**	**(424,618,118)**
Disposals (Note 25)	**–**	**(64,610,303)**	**–**	**–**	**(564,278,112)**	**(628,888,415)**
Adjustment (Note 16)	**–**	**(267,884,424)**	**–**	**–**	**–**	**(267,884,424)**
At December 31	**386,884,790**	**37,329,144,380**	**53,605,314,573**	**846,946,929**	**1,932,864,417**	**94,101,155,089**
Accumulated Depreciation and Impairment						
At January 1	**–**	**26,462,473,351**	**14,991,714,222**	**637,173,377**	**–**	**42,091,360,950**
Depreciation and amortization (Notes 3, 7, 21 and 22)	**–**	**3,315,395,686**	**3,176,710,151**	**56,981,801**	**–**	**6,549,087,638**
Write-down (Note 22)	**–**	**–**	**(267,421,364)**	**–**	**–**	**(267,421,364)**
Disposals (Note 25)	**–**	**(64,610,303)**	**–**	**–**	**–**	**(64,610,303)**
At December 31	**–**	**29,713,258,734**	**17,901,003,009**	**694,155,178**	**–**	**48,308,416,921**
Net Book Value	**₱386,884,790**	**₱7,615,885,646**	**₱35,704,311,564**	**₱152,791,751**	**₱1,932,864,417**	**₱45,792,738,168**

	2019					
	Land	Mine Properties, Mining Tools and Other Equipment	Power Plant and Buildings	Roads and Bridges	Equipment in Transit and Construction in Progress	Total
Cost						
At January 1	₱386,884,790	₱31,538,323,156	₱43,166,791,765	₱846,946,929	₱2,888,555,009	₱78,827,501,649
Additions	–	3,274,162,829	106,557,966	–	8,310,338,533	11,691,059,328
Reclassifications (Notes 7 and 11)	–	43,453,932	6,707,345,516	–	(6,938,914,100)	(188,114,652)
Write-down (Note 22)	–	(118,405,879)	–	–	–	(118,405,879)
Disposals (Note 25)	–	(23,824,727)	(549,947,008)	–	–	(573,771,735)
Adjustment (Note 16)	–	83,721,667	–	–	–	83,721,667
At December 31	386,884,790	34,797,430,978	49,430,748,239	846,946,929	4,259,979,442	89,721,990,378
Accumulated Depreciation and Impairment						
At January 1	–	22,430,340,913	12,297,245,128	580,191,575	₱–	35,307,777,616
Depreciation and amortization (Notes 3, 7, 21 and 22)	–	4,090,827,458	3,244,416,102	56,981,802	–	7,392,225,362
Write-down (Note 22)	–	(34,870,293)	–	–	–	(34,870,293)
Disposals (Note 25)	–	(23,824,727)	(549,947,008)	–	–	(573,771,735)
At December 31	–	26,462,473,351	14,991,714,222	637,173,377	–	42,091,360,950
Net Book Value	₱386,884,790	₱8,334,957,627	₱34,439,034,017	₱209,773,552	₱4,259,979,442	₱47,630,629,428

Mine properties, mining tools and other equipment

- Mine properties, mining tools and other equipment includes the mining properties and stripping activity assets amounting to ₱5,160.28 million and ₱4,388.74 million as of December 31, 2020 and 2019, respectively.

- These also include the expected cost of decommissioning and site rehabilitation of mine sites and future clean-up of its power plants. The impact of annual re-estimation is shown in the rollforward as an adjustment (see Notes 3 and 16).

- In 2019, the Group incurred a loss on write-down of property, plant and equipment amounting to ₱83.54 million due to the dismantling of the coal washing plant (nil in 2020, see Note 22). In relation to the dismantling, the recovered parts and construction supplies in the amount of ₱182.72 million that are still usable were transferred to "Inventories" in the consolidated statements of financial position (see Note 7).

Power Plant and Buildings

- Power Plant and Buildings includes the ancillary gas turbine plant covered by the Ancillary Services and Procurement Agreement with the NGCP which was withdrawn in 2019 (see Note 29). Up to 2020, the Group has yet to secure a supply agreement for this plant. Accordingly, in 2020, the Group revisited the recoverable amount of the plant and recognized impairment loss amounting to ₱157.20 million (see Notes 3 and 22). The carrying value of this plant amounted to ₱1,073.94 million and ₱1,286.70 million as of December 31, 2020 and 2019, respectively.

- The replacement of the significant components of SCPC's Units I and II coal-fired thermal power plants as part of the life extension rehabilitation program, resulted to the accelerated recognition of depreciation expense (see Notes 3 and 22). The Group did not expect any salvage values for the parts to be replaced.

- Costs of dismantling and removing certain assets under lease was reclassified and included in the right-of-use assets recognized upon adoption of PFRS 16 in 2019 (see Note 11).

Equipment in transit and construction in progress accounts

- Equipment in transit and construction in progress accounts mostly pertain to purchased mining equipment that are in transit and various buildings and structures that are under construction as of December 31, 2020 and 2019. In 2020 and 2019, there were reclassifications from "Equipment in Transit and Construction in progress" to "Power Plant and Building" for the regular rehabilitation and completion of additional coal-fired thermal power plants and bunker-fired genset totaling to ₱7,534.33 million and ₱6,712.53 million, respectively.

- This also includes capitalized pre-construction costs for the thermal power plant of SRPGC amounting to ₱282.71 million as of December 31, 2020 (nil as of December 31, 2019; see Notes 12 and 35). Reclassifications from "Construction in progress" amounting to ₱8,415.60 million and ₱6,938.71 million pertain to the regular rehabilitation and completion of additional coal-fired thermal power plants and bunker-fired genset and other completed improvements on existing facilities.

- In 2020, the Group sold its marine vessels included under "Equipment in Transit and Construction in Progress" and "Mine Properties, Mining Tools and Other Equipment" to DMC-CERI for ₱620.58 million, of which ₱84.69 million remained uncollected as of December 31, 2020. Gain recognized from the sale amounted ₱56.30 million (see Notes 19 and 25).

The Group also sold various equipment to third parties at a gain amounting to ₱10.70 million, ₱12.00 million and ₱22.68 million, in 2020, 2019 and 2018, respectively (see Note 25).

As security for timely payment, discharge, observance and performance of the loan provisions, the Group created, established, and constituted a first ranking real estate and chattel mortgage on present and future real estate assets and chattels owned by SLPGC in favor of the Security Trustee, for the benefit of all secured parties. Also, 67% of issued and outstanding shares of SLPGC owned by the Parent Company were pledged on this loan. In 2019, the Group was released on the real estate and chattel mortgage due to the prepayment of the loan.

Depreciation and amortization follow:

	2020	2019	2018
Included under:			
Inventories (Note 7)	**₱324,707,108**	₱443,040,632	₱891,667,535
Mine properties, mining tools and other equipment	**261,445,284**	56,712,527	–
Cost of coal sales (Note 21):			
Depreciation and amortization	**2,346,583,325**	3,461,657,292	3,276,055,748
Hauling and shiploading costs	**61,458,508**	35,861,154	22,831,289
Cost of power sales (Note 21):			
Depreciation and amortization	**2,871,506,678**	2,483,914,467	2,444,928,202
Cost of coal:			
Depreciation and amortization	**519,986,937**	298,030,756	752,611,208
Operating expenses (Note 22)	**194,002,240**	643,580,370	1,288,048,897
	₱6,579,690,076	₱7,422,797,198	₱8,676,142,879
Depreciation and amortization of:			
Property, plant and equipment	**₱6,549,087,638**	₱7,392,225,362	₱8,668,669,331
Right-of-use assets (Note 11)	**19,857,722**	18,994,967	–
Computer software (Note 12)	**10,744,716**	11,576,869	7,473,548
	₱6,579,690,076	₱7,422,797,198	₱8,676,142,879

Depreciation and amortization of 'Property, plant and equipment' includes amortization of stripping activity asset amounting to ₱3.32 million, ₱0.30 million and ₱7.27 million in 2020, 2019 and 2018, respectively.

11. **Leases**

The Group as a Lessee

The Group has lease contracts for various items of land, office spaces and foreshore leases used in its operations. Leases of land and foreshore generally have lease terms between five (5) and 15 years, while office spaces generally have lease terms of two (2) to seven (7) years. The Group also has certain leases of warehouse, and office spaces with lease terms of 12 months or less. The Group applies the 'short-term lease' recognition exemption for these leases.

Set out below the movement in the Group's right-of-use assets and lease liabilities during the year:

	Right-of-use Assets	
	2020	2019
At Cost		
Beginning balance	**₱194,974,653**	₱190,624,079
Additions	**727,011**	4,350,574
Ending balance	**195,701,664**	194,974,653
Accumulated Amortization		
Beginning balance	**18,994,967**	–
Amortization (Note 21 and 22)	**19,857,722**	18,994,967
Ending balance	**38,852,689**	18,994,967
	₱156,848,975	₱175,979,686

	Lease Liabilities	
	2020	2019
Beginning balance	**₱107,537,618**	₱114,055,187
Additions	**727,011**	4,350,574
Accretion of interest	**8,774,991**	6,620,167
Lease payments	**(14,020,905)**	(17,488,310)
Ending balance	**103,018,715**	107,537,618
Less current portion of lease liabilities	**13,923,691**	14,171,369
Noncurrent lease liabilities	**₱89,095,024**	₱93,366,249

Prepaid rent (under current and noncurrent assets) amounting to ₱71.18 million was adjusted against the amount of right-of-use assets recognized upon adoption of PFRS 16 on January 1, 2019. This prepaid rent pertains to the advance rent payment of SCPC to PSALM which covers the 25-year land lease (see Note 29). At the same time, related costs of dismantling and removing the underlying assets under lease, amounting to ₱5.39 million, was included in the right-of-use assets recognized.

The Group applied the requirements of PFRS 16 for this long-term lease and did not change the amount initially recognized as right-of-use asset at the date of initial application. No corresponding lease liability was recognized given the prepayment.

The lease liabilities were measured at the present value of the remaining lease payments discounted at the Group's weighted average incremental borrowing rate of 6.32% and 7.77% in 2020 and 2019, respectively.

In 2020 and 2019, the Group recognized rent expense amounting to ₱3.62 million and ₱13.27 million, respectively, included under "Cost of Sales' and 'Operating Expenses' in the consolidated statements of comprehensive income in relation with the short-term leases where recognition exemption were availed upon adoption of PFRS 16 (nil in 2018, see Notes 21 and 22).

The lease liabilities were measured at the present value of the remaining lease payments discounted at the Group's weighted average incremental borrowing rate of 6.32 % and 7.77% in 2020 and 2019, respectively.

In 2020 and 2019, total rent expense recognized by the Group for all operating lease agreements under "Cost of Sales' and 'Operating Expenses' in the consolidated statements of comprehensive income amounted to ₱109.73 million and ₱109.73 million, respectively (see Notes 21 and 22).

As of December 31, 2020 and 2019, future minimum lease payments under operating leases are as follows:

	2020	2019
Within one year	**₱21,173,304**	₱19,780,636
After one year but not more than five years	**68,473,093**	76,336,673
More than five years	**48,469,118**	49,988,453
	₱138,115,515	₱146,105,762

12. **Other Noncurrent Assets**

This account consists of:

	2020	2019
Advances to suppliers and contractors (Note 9)	**₱464,303,562**	₱1,581,931,705
Deferred input VAT	**678,797,795**	724,638,389
Input VAT - net (Note 9)	**27,698,588**	211,441,834
Claims for refunds and tax credits	–	77,841,478
Computer software	**9,620,423**	15,802,660
Others (Notes 30 and 31)	**23,014,762**	16,407,100
	1,203,435,130	2,628,063,166
Less current portion of (Note 9):		
Advances to suppliers	**161,753,032**	555,780,413
Input VAT – net	–	206,301,898
	161,753,032	762,082,311
	₱1,041,682,098	₱1,865,980,855

Advances to suppliers and contractors
Advances to suppliers and contractors under noncurrent assets represent prepayment for the acquisition and construction of property, plant and equipment.

Deferred input VAT
Deferred input VAT pertains to the unamortized portion of input VAT on purchase of capital goods spread evenly between the life of the capital goods or five years, whichever is shorter. The balance is recoverable in future periods

Input VAT - net
Noncurrent portion of input VAT includes deferred input VAT, which is the unamortized portion of input VAT on purchase of capital goods spread evenly between the life of the capital goods or five years, whichever is shorter. The balance, net of the related allowance, is recoverable in future periods.

Claims for refunds and tax credits
This amount pertains to claims for refund and issuance of tax credit certificates from BIR on erroneously withheld VAT on VAT-exempt coal sales which were ruled by the Supreme Court in favor of the Group. In 2020 and 2019, the Group received the refund from BIR amounting to

₱77.25 million and ₱97.96 million, respectively, related to these claims. The balance as of December 31, 2020 and 2019 is presented net of previously recognized allowance for impairment losses amounting to ₱15.29 million.

Computer software
Movements in computer software account follow:

	2020	2019
At Cost		
At January 1	**₱74,042,085**	₱63,716,032
Additions	**4,562,479**	10,326,053
At December 31	**78,604,564**	74,042,085
Accumulated Amortization		
At January 1	**58,239,425**	46,662,556
Amortization (Note 10)	**10,744,716**	11,576,869
At December 31	**68,984,141**	58,239,425
Net Book Value	**₱9,620,423**	₱15,802,660

13. **Short-term Loans**

Rollforward analyses of this account are as follows:

	2020	2019
Balance at beginning of year	**₱2,070,000,000**	₱5,872,231,984
Additional borrowings	**3,580,000,000**	2,070,000,000
Payments	**(225,000,000)**	(5,872,231,984)
Balance at end of year	**₱5,425,000,000**	₱2,070,000,000

The Group's bank loans consist of unsecured Peso-denominated short-term borrowings from local banks which bear annual interest ranging from 4.25% to 4.50% and 4.95% in 2020 and 2019, respectively, and are payable on lump-sum basis on various maturity dates within the next 12 months after the reporting date.

During 2020 and 2019, the Group obtained various short-term loans from local banks primarily to finance its capital expenditures and working capital requirements.

Interest expense on these short-term loans recognized under 'Finance costs' amounted to ₱318.75 million, ₱582.21 million and ₱52.17 million in 2020, 2019 and 2018, respectively (see Note 23).

14. **Long-term Debt**

This account consists of:

	2020	2019
Principal	**₱14,522,485,714**	₱16,600,000,000
Less unamortized deferred financing cost	**73,413,900**	72,964,996
	14,449,071,814	16,527,035,004
Less current portion of long-term debt	**2,775,355,754**	3,459,433,544
	₱11,673,716,060	₱13,067,601,460

The Group's outstanding long-term debt from local banks pertain to the following:

	2020	2019
SMPC	**₱3,853,255,055**	₱4,900,000,000
SCPC	**7,273,956,008**	7,656,259,870
SLPGC	**3,321,860,751**	3,970,775,134
	14,449,071,814	16,527,035,004
Less current portion	**2,775,355,754**	3,459,433,544
	₱11,673,716,060	₱13,067,601,460

a. Details of the Parent Company's bank loans are as follows:

Loan Type	Year of Availment	Outstanding Balance 2020	2019	Maturity	Interest Rate	Payment Terms	Covenants
Peso loan 2	2020	**₱2,475,000,000**	₱2,750,000,000	Various quarterly maturities starting 2020 until 2027	Floating rate to be repriced every 3 years	Interest payable every 3 months, principal to be paid every 3 months	None
Peso loan 1	2020	**1,400,000,000**	–	Various maturities from 2020 to 2027	Floating rate to be repriced every 3 months based on 3-months "PDST-R2" plus a spread of one half of one percent (0.5%)	Interest payable every 3 months, principal to be paid on maturity date	Current Ratio not less than 1:1 and Debt-to-Equity Ratio not to exceed 2:1
Peso loan 3	2017	**–**	1,400,000,000	2020	Floating rate to be repriced every 3 months based on 3-months "PDST-R2" plus a spread of one half of one percent (0.5%)	Interest payable every 3 months, principal to be paid on maturity date	Current Ratio not less than 1:1 and Debt-to-Equity Ratio not to exceed 2:1
Peso loan 4	2017	**₱–**	₱750,000,000	2020	Floating rate to be repriced every 3 months	Interest payable every 3 months, principal to be paid on maturity date	None
		₱3,875,000,000	₱4,900,000,000				

b. On November 28, 2019, November 29, 2019 and December 20, 2019, SLPGC availed of interest-bearing promissory notes with local banks amounting to ₱1,000 million, ₱2,000 million and ₱1,000 million, respectively. Interest is payable every three months at a fixed annual interest rate of 5.133%, 5.125% and 5.00% per annum, respectively. The principal amounts shall be payable from 17 to 20 equal consecutive quarterly installments with commencement ranging from the third month to one year from the initial borrowing date. Final repayment date is five (5) years after initial borrowing. All outstanding bank loans are clean and are compliant with loan covenants.

c. Details of SCPC's loans are as follows:

- *Promissory Note of ₱3,000.00 million*
  On December 22, 2017, SCPC entered into a ₱3,000.00 million interest-bearing promissory note from a local bank. Interest is payable every three (3) months at a fixed annual interest rate of 4.9% per annum. The principal amount shall be payable in 16 equal consecutive quarterly installments commencing on the 39th month from the initial borrowing date. Final repayment date is seven (7) years after initial borrowing. This loan requires SCPC to maintain debt to equity ratio of 2.0x and minimum historical debt service coverage ratio of 1.2x, among others.

- *Promissory Note of ₱2,000.00 million*
  On November 18, 2019, SCPC obtained a ₱2,000.00 million interest-bearing promissory note from a local bank. Interest is payable every three (3) months at 4.876% fixed annual interest rate for five (5) years to be repriced at the two (2)-year BVAL benchmark rate, plus 60 basis points for the remainder of its tenor. The principal amount shall be payable in 28 equal consecutive quarterly installments commencing on the third month from the initial borrowing date. Final repayment date is seven (7) years after initial borrowing.

- *Promissory Note of ₱2,700.00 million*
  On November 28, 2019, SCPC obtained a ₱2,700.00 million interest-bearing promissory note from Bank of the Philippine Islands. Interest is payable every three months at 4.877% fixed annual interest rate for five (5) years to be repriced at the two (2)-year BVAL benchmark rate plus 60 basis points for the remainder of its tenor. The principal amount shall be payable in 25 equal consecutive quarterly installments commencing on the 12th month from the initial borrowing date. Final repayment date is seven (7) years after initial borrowing.

All bank loans are clean and are compliant with loan covenants. As of December 31, 2020 and 2019, the Group has not been cited by bank as in default.

The movements in unamortized debt issue cost follow:

	2020	2019
Balance at beginning of year	**₱72,964,996**	₱22,552,758
Additions	**31,125,000**	65,250,000
Amortization (Note 23)	**(30,676,096)**	(14,837,762)
Balance at end of year	**₱73,413,900**	₱72,964,996

Interest expense on long-term debt recognized under 'Finance cost' amounted to ₱668.08 million, ₱538.20 million and ₱717.64 million in 2020, 2019 and 2018, respectively (see Note 23).

The Group's remaining borrowing facility that can be drawn as of December 31, 2020 and 2019 amounted to ₱14,332.52 million and ₱39,616.27 million, respectively.

Future payments of long-term debt of the Group as of December 31, 2020 and 2019 follow:

	2020	2019
Within one year	**₱2,775,355,754**	₱3,459,433,544
After one year but not more than five years	**10,402,837,534**	11,222,748,537
More than five years	**1,270,878,526**	1,844,852,923
	₱14,449,071,814	₱16,527,035,004

15. **Trade and Other Payables**

This account consists of:

	2020	2019
Trade:		
Payable to suppliers and contractors	**₱5,487,316,397**	₱5,747,420,342
Related parties (Note 19)	**510,862,019**	551,694,807
Payable to DOE and local government units (LGU) (Note 28)	**1,034,079,245**	855,901,861
Accrued expenses and other payables	**503,403,757**	669,752,488
Output VAT - net	**530,496,765**	79,032,001
Deferred output tax	**240,717,100**	547,291,546
	₱8,306,875,283	₱8,451,093,045

Trade payable to suppliers and contractors
Trade payable to suppliers and contractors arise from progress billings of completed work as of year-end. The amount includes liabilities amounting to ₱2,243.37 million (US$46.71 million) and ₱2,280.32 million (US$45.03 million) as of December 31, 2020 and 2019, respectively, payable to various foreign suppliers for open account purchases of equipment, and equipment parts and supplies (see Note 30).

Trade payables are noninterest-bearing and are normally settled on 30-day to 60-day credit terms.

Payable to DOE and LGU
Payable to DOE and LGU represent the share of DOE and LGU in the gross income of the Parent Company's coal production computed in accordance with the Coal Operating Contract (COC) between the Parent Company, DOE and LGU dated July 11, 1977 (see Note 28).

Output VAT - net
Output VAT pertains to the VAT due on the sale of electricity, net of input VAT.

Deferred output tax
Deferred output tax pertains to VAT due on uncollected sale of electricity.

Accrued expenses and other payables
Accrued expenses and other payables are noninterest-bearing and are normally settled on a 30-day to 60-day credit terms from date of invoice (except, dividends payable). Details of this account follow:

	2020	2019
Taxes, permits and licenses	**₱243,230,122**	₱407,490,743
Financial benefit payable	**87,509,694**	32,474,788
Interest	**83,734,468**	56,435,200
Customer deposit	**32,192,515**	32,124,013
Salaries and wages	**6,021,525**	28,410,263
Professional fees	**1,195,040**	8,355,648
Rental	**–**	2,240,000
Power spot purchases	**677,292**	677,292
Others	**48,843,101**	101,544,541
	₱503,403,757	₱669,752,488

Others include accruals on contracted services, utilities, supplies and other administrative expenses. This account also includes dividends payable amounting to ₱1.20 million and ₱1.22 million as of December 31, 2020 and 2019, respectively (see Note 32).

16. Provision for Decommissioning and Site Rehabilitation Costs

The rollforward of this account follows:

	2020	2019
At January 1	**₱522,804,859**	₱423,397,560
Effect of change in estimates (Note 10)	**(267,884,423)**	83,721,667
Actual usage	**−**	(14,543,926)
Accretion of interest (Note 23)	**24,282,185**	30,229,558
At December 31	**₱279,202,621**	₱522,804,859

The Group's provision for decommissioning and site rehabilitation costs relates to rehabilitation activities for the coal pits for its mining segment and dismantling and restoration activities for its power segment. Segment breakdown of provision for decommissioning and site rehabilitation costs follows:

	2020	2019
Mining	**₱254,525,083**	₱500,085,766
Power	**24,677,538**	22,719,093
	₱279,202,621	₱522,804,859

These provisions have been created based on the Group's internal estimates. Assumptions based on the current regulatory requirements and economic environment have been made, which management believes are reasonable bases upon which to estimate the future liability. These estimates are reviewed annually to take into account any material changes to the assumptions (see Note 3).

However, actual rehabilitation costs will ultimately depend upon future market prices for the necessary decommissioning works required which will reflect market conditions at the relevant time. Furthermore, the timing of rehabilitation is likely to depend on when the mines cease to produce at economically viable rates. This, in return, will depend upon future ore and coal prices, which are inherently uncertain.

Discount rates used by the Group to compute for the present value of liability for decommissioning and mine site rehabilitation costs are from 2.99% to 4.48% in 2020, 4.46% to 8.58% in 2019 and 7.07% to 7.27% in 2018.

The Group revised its mine work program based on the current conditions of the mining operations. Management revisited certain procedures, practices and assumptions on its existing rehabilitation plan (e.g., timing of mining operations, reforestation requirements, movement of the overburden) which resulted to adjustment in the previously estimated provision for decommissioning and mine site rehabilitation costs.

Resulting changes in estimate pertaining to mine sites amounted to (₱267.88 million) and ₱83.72 million (recognized as adjustment to 'Mine properties, mining tools and other equipment' under property, plant and equipment account) in 2020 and 2019, respectively (see Note 10).

17. Capital Stock

The details of the Parent Company's capital stock as of December 31, 2020 and 2019 are as follows:

	Shares	Amount
Authorized - ₱1 par value		
Balance at beginning and end of year	10,000,000,000	₱10,000,000,000
Issued and outstanding		
Capital stock		
Balance at beginning and end of year	4,264,609,290	₱4,264,609,290
Treasury shares		
Balance at beginning and end of year	(14,061,670)	(739,526,678)
	4,250,547,620	₱3,525,082,612

On November 28, 1983, the SEC approved the issuance and public offering of 55,000.00 million common shares of the Parent Company at an offer price of ₱0.01 per share. Additional public offering was also approved by SEC on February 4, 2005 for 46.87 million common shares at an offer price of ₱36.00 per share.

On August 18, 2014, the SEC approved the increase in authorized capital stock of the Parent Company from ₱1,000.00 million to ₱3,000.00 million divided into 3,000.00 million common shares with a par value of ₱1 per share.

On August 18, 2017, the SEC approved the increase in authorized capital stock of the Parent Company from ₱3,000.00 million to ₱10,000.00 million divided into 10,000.00 million common shares with a par value of ₱1 per share.

Treasury shares

On December 7, 2017, the BOD approved the share buy-back program wherein the Parent Company will buy-back shares at prevailing market price not exceeding 2,000 million shares (or equivalent amount of ₱2,000.00 million) beginning December 8, 2017.

As of December 31, 2020 and 2019, the Parent Company has bought-back a total of 14,061,670 shares for a total consideration of ₱739.53 million. This is presented as treasury shares in the consolidated statements of financial position.

The unappropriated retained earnings amounting to ₱5,947.22 million and ₱7,899.81 million as of December 31, 2020 and 2019, respectively, are restricted for the payment of dividends to the extent of the cost of the shares held in treasury, the undistributed earnings of the subsidiaries and joint venture (see Note 18).

The Parent Company's track record of capital stock is as follows:

	Number of shares registered	Issue/offer price	Date of approval	Number of holders as of yearend
At January 1, 2001	1,630,970,000	₱1/share		
Add (deduct):				
Additional issuance	19,657,388	₱1/share	July 2, 2004	
Conversion of preferred shares to common shares	225,532	₱1/share	July 2, 2004	
Decrease in issued and outstanding common share from capital restructuring	(1,625,852,920)			
Share dividends	225,000,000	₱1/share	July 2, 2004	
Public offering additional issuance	46,875,000	₱36/share	February 4, 2005	
December 31, 2010	296,875,000			632
Add: Share rights offering	59,375,000	₱74/share	January 12, 2010	7
December 31, 2011	356,250,000			639
Add: Movement	–			24
December 31, 2012	356,250,000			663
Add: Movement	–			–
December 31, 2013	356,250,000			663
Add: Stock dividends	712,500,000		May 5, 2014	5
December 31, 2014	1,068,750,000			668
Add: Movement	–			9
December 31, 2015	1,068,750,000			677
Add: Movement	(3,463,570)		August 15, 2017	16
December 31, 2016	1,065,286,430			693
Add: Stock dividends	3,195,859,290		May 2, 2017	–
Add: Movement	(2,735,100)		December 7, 2018	1
December 31, 2017	4,258,410,620			694
Add: Movement	(7,863,000)		December 7, 2018	15
December 31, 2018	4,250,547,620			709
Add: Movement	–			22
December 31, 2019	4,250,547,620			731
Add: Movement	–			–
December 31, 2020	4,250,547,620			731

18. Retained Earnings

As of December 31, 2020, and 2019, retained earnings amounted to ₱32,107.24 million and ₱34,133.68 million, respectively. The amounts include the accumulated equity in undistributed net earnings of subsidiaries which are not available for dividends until declared by the BOD of the respective subsidiaries. The retained earnings is also restricted to the extent of the cost of the treasury shares (see Note 17).

In accordance with SEC Memorandum Circular No. 11 issued in December 2008, the Parent Company's retained earnings available for dividend declaration as of December 31, 2020 and 2019 amounted to ₱14,328.93 million and ₱14,288.07, respectively.

Cash Dividends

On February 28, 2020, the Parent Company's BOD authorized the Parent Company to declare and distribute special cash dividends of ₱1.25 per share or ₱5,313.18 million to stockholders of record as of March 13, 2020 and payable on March 27, 2020.

On March 18, 2019, the Parent Company's BOD authorized the Parent Company to declare and distribute special cash dividends of ₱1.25 per share or ₱5,313.18 million to stockholders of record as of April 2, 2019. The said cash dividends were paid on April 26, 2019.

On November 7, 2018, the Parent Company's BOD authorized the Parent Company to declare and distribute special cash dividends of ₱1.00 per share or ₱4,250.55 million to stockholders of record as of November 21, 2018. The said cash dividends were paid on December 14, 2018.

On February 22, 2018, the Parent Company's BOD authorized the Parent Company to declare and distribute regular cash dividends of ₱1.25 per share or ₱5,320.16 million to stockholders of record as of March 8, 2018. The said cash dividends were paid on March 22, 2018.

Appropriations

The remaining appropriations as of December 31, 2020 and 2019 amounting to ₱5,300.00 million were retained for the continuing capital expenditures for the coal mining operations and ongoing power plant expansion projects which are expected to be completed by 2023. This is after the reversal of ₱4,000.00 million, representing the costs of equipment procured for mine site operations in 2019. This also includes, the 2013 appropriations of ₱1,600.00 million and ₱700.00 million for the power generation and coal mining operations, respectively, retained for the continuing capital expenditure for the power and coal mining segment.

On February 23, 2017, the BOD approved the appropriation of ₱4,500.00 million from the unappropriated retained earnings as of December 31, 2016 for other investments of the Group. This appropriation is intended for the ongoing power capacity expansion project which are expected to be completed by 2023.

On November 8, 2016, the BOD approved the appropriation of ₱2,500.00 million from the unappropriated retained earnings as of December 31, 2015 as additional capital expenditure for the Phase 2 Power Plant expansion project of SRPGC which was initially expected to be completed in 2021 but has been moved to 2023.

On August 8, 2013, the BOD approved the appropriation of ₱1,600.00 million from the unappropriated retained earnings as of December 31, 2012, as additional capital expenditure and investment in power expansion projects of the Group which are expected to be completed by 2021.

On March 12, 2013, the BOD of the Parent Company ratified the remaining ₱700.00 million appropriations to partially cover new capital expenditures for the Group's mine operations.

19. Related Party Transactions

The Group in its regular conduct of business has entered into transactions with related parties. Parties are considered to be related if, among others, one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making the financial and operating decisions, the parties are subject to common control or the party is an associate or a joint venture. The Group has affiliates enumerated below which are under common control of DMCI-HI and Consunji family.

The significant transactions with related parties follow:

	2020				
	Reference	**Amount/ Volume**	**Receivable (Payable)**	**Terms**	**Conditions**
Trade receivables (Note 5)					
Entities under common control					
Sale of coal	**(a)**	**₱8,716440**	**₱38,709,058**	**Noninterest-bearing, due and demandable**	**Unsecured, no impairment**
Sale of materials, services and reimbursement of shared expenses	**(b)**	**24,278,037**	**268,703,762**	**Noninterest-bearing, due and demandable**	**Unsecured, no impairment**
			₱307,412,820		
Trade payables (Note 15)					
Entities under common control					
Operation and maintenance fees	**(c)**	**(₱23,055,378)**	**(₱3,747,060)**	**30 days, noninterest-bearing**	
Coal handling services	**(d)**	**91,459,312**	**(53,574,790)**	**30 days, noninterest-bearing**	**Unsecured**
Mine exploration and hauling services	**(e)**	**(128,030,141)**	**(128,030,141)**	**30 days, noninterest-bearing**	**Unsecured**
Construction and other outside services	**(f)**	**42,922,472**	**(297,028,036)**	**30 days for monthly billings and portion after expiration of, retention period, noninterest-bearing**	**Unsecured**
Retention payable		**14,822,091**	**(51,835)**	**30 days, noninterest-bearing**	**Unsecured**
Purchases of office supplies and refreshments	**(g)**	**611,855**	**-**	**30 days, noninterest-bearing**	**Unsecured**
Land and warehouse rental expenses	**(h)**	**(425,657)**	**(832,859)**	**30 days, noninterest-bearing**	**Unsecured**
Aviation services	**(i)**	**(4,794,885)**	**(27,239,435)**	**30 days, noninterest-bearing**	**Unsecured**
Arrastre and cargo services	**(j)**	**–**	**-**	**30 days, noninterest-bearing**	**Unsecured**
Others	**(b)**	**(356,363)**	**(357,863)**	**30 days, noninterest-bearing**	**Unsecured**
			(₱510,862,019)		

	2019				
	Reference	Amount/ Volume	Receivable (Payable)	Terms	Conditions
Trade receivables (Note 5)					
Entities under common control					
Sale of coal	(a)	₱29,992,618	₱29,992,618	Noninterest-bearing, due and demandable	Unsecured, no impairment
Sale of materials, services and reimbursement of shared expenses	(b)	170,077,389	120,559,433	Noninterest-bearing, due and demandable	Unsecured, no impairment
			₱150,552,051		
Trade payables (Note 15)					
Entities under common control					
Operation and maintenance fees	(c)	(₱12,113,882)	(₱26,802,437)	30 days, noninterest-bearing	
Coal handling services	(d)	35,118,853	(145,034,102)	30 days, noninterest-bearing	Unsecured
Mine exploration and hauling services	(e)	(311,041,399)	–	30 days, noninterest-bearing	Unsecured

(Forward)

	2019				
	Reference	Amount/ Volume	Receivable (Payable)	Terms	Conditions
Construction and other outside services	(f)	(₱201,208,133)	(₱339,950,509)	30 days for monthly billings and portion after expiration of, retention period, noninterest-bearing	Unsecured
Retention payable		(52,894,815)	(14,822,091)	30 days, noninterest-bearing	Unsecured
Purchases of office supplies and refreshments	(g)	(734,678)	(611,855)	30 days, noninterest-bearing	Unsecured
Land and warehouse rental expenses	(h)	(13,646,093)	(407,202)	30 days, noninterest-bearing	Unsecured
Aviation services	(i)	(130,426,947)	(22,444,550)	30 days, noninterest-bearing	Unsecured
Arrastre and cargo services	(j)	−	(1,620,561)	30 days, noninterest-bearing	Unsecured
Others	(b)	−	(1,500)	30 days, noninterest-bearing	Unsecured
			(₱551,694,807)		

a. The Group has coal sales to DMCI Masbate Power Corporation (DMPC), an entity under common control of DMCI-HI.

b. The Group has receivables for services rendered, deliveries of goods and reimbursement of expenses advanced by the Group to its affiliates. This includes contracted services, share in rental expenses, office materials and supplies, and maintenance and renewal expenses of information systems.

c. SCPC engaged DMCI Power Corporation (DPC) for the management, operation and maintenance of the power plant.

d. SCPC and SLPGC entered into a voyage charter agreement with DMC Construction Equipment and Resources, Inc. (DMC CERI). SLPGC and SCPC hired St. John Bulk Handlers, Inc. (SJBHI) for its coal handling services. The agreement with SJBHI was terminated in 2020. Cost of coal handling services for SCPC and SLPGC are included in the ‘Cost of power sales’ (nil in 2020, see Note 21).

e. In 2019, DMC-CERI had transactions with the Parent Company for services rendered relating to the Parent Company’s coal operations. These include services for the confirmatory drilling for coal reserve and evaluation of identified potential areas, exploratory drilling of other minerals within Semirara Island, dewatering well drilling along cut-off wall of Panian mine and fresh water well drilling for industrial and domestic supply under an agreement. Expenses incurred for said services are included in cost of sales under ‘Outside services’ in the consolidated statement of comprehensive income (nil in 2020, see Note 21).

   DMC-CERI operate, maintain and manage Parent Company’s marine vessel for use in shiploading and delivery of coal to its various costumer. The coal freight billing is on a per metric ton basis plus demurrage charges for delays in loading and unloading of coal cargoes. Expenses incurred for these services are included in cost of sales under ‘Hauling and shiploading costs’ in the consolidated statement of comprehensive income (see Note 21).

   In 2020, marine vessels were sold to DMC-CERI with a total cost of ₱564.28 million. Gain recognized from this transaction amounted to ₱56.30 million (see Notes 10 and 25).

Effective 2018, the Parent Company amended its Operations and Maintenance agreement with DMC-CERI wherein, DMC-CERI will be credited for all the despatch for the early loading and unloading of coal cargos in the Semirara Port. In addition, demurrage charges shall be charged to the account of DMC-CERI or the customer on the basis of who is at fault to cause the laytime delay.

Furthermore, DMC-CERI provides the Parent Company labor services relating to coal operations including those services rendered by consultants. Expenses incurred for said services are included in cost of sales under ‘Direct labor’ in the consolidated statement of comprehensive income (see Note 21).

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

f. The Group contracted DMCI for the construction of its 1x 5 MW Power Plant located at Semirara Island and the construction of SLPGC’s 2x150 MW coal-fired thermal power plants in Batangas. Other services include ongoing rehabilitation of existing power plant, and other constructions in compliance with its Corporate Social Responsibility (CSR) such as construction of covered tennis courts, track and field, perimeter fence and others.

   In addition, the Group have retention payable to DMCI which represents amounts withheld from payments to contractors as guaranty for any claims against them. These are noninterest-bearing and will be remitted to contractors at the end of the contracted work.

g. The Group engaged Sirawai Plywood & Lumber Corp. and South Davao Development Corporation to supply various raw materials, office supplies and refreshments.

h. DMC Urban Property Developers, Inc. (DMC-UPDI) had transactions with the Group representing long-term lease on land, warehouse space and other transactions rendered to the Parent Company necessary for the coal operations. Warehouse rental expenses are included in cost of sales under ‘Outside services’ while rental expenses related to land are included in cost of sales under ‘Depreciation and amortization’ in the consolidated statement of comprehensive income (see Note 21).

i. Royal Star Aviation Inc. provide maintenance services and hangarage for the Parent Company’s aircraft use to transport supplies, employees and visitors in and out the minesite. The related expenses are included in cost of sales under ‘Production overhead’ in the consolidated statement of comprehensive income (see Note 21).

j. In 2019, Vincent Arrastre and Cargo Services, Inc. had transactions with the Parent Company for shipsiding services.

All outstanding balances from affiliates are included in receivables under ‘Trade receivables - related parties’ and ‘Trade payables - related parties’ in the consolidated statements of financial position (see Notes 5 and 15).

Terms and conditions of transactions with related parties
Except as indicated otherwise, the outstanding accounts with other related parties shall be settled in cash. The transactions are made at terms and prices agreed upon by the parties. The Group has approval process and established limits when entering into material related party transactions.

There have been no guarantees and collaterals provided or received for any related party receivables or payables. These accounts are noninterest-bearing and are generally unsecured. Impairment assessment is undertaken each financial year through a review of the financial position of the related party and the market in which the related party operates. As of December31, 2020 and 2019, there were no impairment losses recognized on related party balances.

Compensation of key management personnel of the Group amounted to ₱66.96 million, ₱122.13 million and ₱255.96 million in 2020, 2019 and 2018, respectively.

There are no other agreements between the Group and any of its directors and key officers providing for benefits upon termination of employment, except for such benefits to which they may be entitled under the Group's pension plan.

20. Pension Plan

The Group has a funded, noncontributory defined benefit plan covering substantially all of its regular employees. The latest actuarial valuation is for the year ended December 31, 2020.

The Group accrues retirement costs (included in 'Pension liabilities' in the consolidated statements of financial position) based on an actuarially determined amount using the projected unit credit method.

The funds are administered by a trustee bank under the supervision of the BOD of the plan. The BOD is responsible for the investment of the assets. It defines the investment strategy as often as necessary, at least annually, especially in the case of the significant market developments or changes to the structure of the plan participants. When defining the investment strategy, it takes account of the plan's objectives, benefit obligation and risk capacity. The investment strategy is defined in the form of a long-term target structure (investment policy). The BOD delegates the implementation of the investment policy in accordance with the investment strategy as well as various principles and objectives to an Investment Committee, which also consists of members of the BOD, Vice-President for Treasury and Chief Finance Officer. The Vice-President for Treasury and Chief Finance Officer oversee the entire investment process.

Under the existing regulatory framework, Republic Act No. 7641 requires a provision for retirement pay to qualified private sector employees in the absence of any retirement plan in the entity, provided however that the employee's retirement benefits under any collective bargaining and other agreements shall not be less than those provided under the law. The law does not require minimum funding of the plan.

Provisions for pension liabilities are established for benefits payable in the form of retirement pensions. Benefits are dependent on years of service and the respective employee's final compensation. The Group updates the actuarial valuation every year by hiring the services of a third party professionally qualified actuary.

There are no plan amendments, curtailments or settlements in 2020, 2019 and 2018.

The cost of defined benefit pension plans and the present value of the pension liabilities are determined using actuarial valuations.

The actuarial valuation involves making various assumptions. The principal assumptions used in determining pension liabilities for the defined benefit plan are shown below:

	2020	2019	2018
Discount rate	**3.72% - 4.07%**	5.42% - 5.54%	7.53% - 7.70%
Salary increase rate	**3.00% - 6.00%**	3.00% - 6.00%	3.00% - 6.00%

The weighted average duration of significant defined benefit obligation per segment are as follows (average number of years) for 2020 and 2019:

	2020	2019
Mining	**5.7 years**	4.6 years
Power	**8.6-15.1 years**	7.2-12.7 years

The following table summarizes the components of pension expense in the consolidated statements of comprehensive income:

	2020	2019	2018
Current service cost	**₱54,382,566**	₱38,099,335	₱47,298,034
Interest expense related to the defined benefit liability	**23,339,604**	21,948,856	17,650,257
Interest income related to plan assets	**(6,833,040)**	(5,355,656)	(3,967,603)
	₱70,889,130	₱54,692,535	₱60,980,688

The above pension expense is included as ‘Direct labor’ under cost of sales and ‘Personnel costs’ under operating expenses in the consolidated statement of comprehensive income (see Notes 21 and 22).

The following tables provide analyses of the movement in the defined benefit liability, fair value plan assets and net pension liabilities recognized on consolidated statements of financial position:

	2020	2019
Defined benefit liability at beginning of year	**₱425,534,713**	₱285,553,528
Current service cost	**54,382,566**	38,099,335
Interest expense	**23,339,604**	21,948,856
Remeasurement losses arising from:		
Changes in financial assumptions	**59,066,951**	45,295,373
Experience adjustments	**(15,702,291)**	45,709,352
Benefits directly paid by the Group	**(13,348,477)**	(11,071,731)
Benefits paid from plan assets	**(6,789,263)**	−
Defined benefit liability at end of year	**₱526,483,803**	₱425,534,713

	2020	2019
Fair value of plan assets at beginning of year	**₱127,037,944**	₱69,553,974
Interest income	**6,833,040**	5,355,656
Benefits paid from plan assets	**(6,789,263)**	–
Contributions	**–**	54,000,000
Remeasurement losses arising from return on plan assets	**(1,886,525)**	(1,871,686)
Fair value of plan assets at end of year	**₱125,195,196**	₱127,037,944

	2020	2019
Net pension liability at beginning of year	**₱294,753,397**	₱215,999,554
Net pension expense	**70,889,130**	54,692,535
Actuarial losses recognized in OCI	**45,251,186**	89,133,039
Contributions	**–**	(54,000,000)
Benefit directly paid by the Group	**(13,348,477)**	(11,071,731)
Net pension liability at end of year	**₱397,545,236**	₱294,753,397

The Group does not expect any contribution into the pension fund for the next 12 months.

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

	2020	2019
Cash and cash equivalents	**₱–**	₱56,690,623
Equity instruments		
Financial institutions	**54,309,015**	1,650,991
Real estate	**–**	–
Debt instruments		
Government securities	**58,935,219**	59,147,376
Unquoted debt securities	**10,789,072**	8,896,349
Receivables	**1,161,890**	652,605
	₱125,195,196	₱127,037,944

Trust fee in 2020 and 2019 amounted to ₱33,464 and ₱35,887 respectively.

The composition of the fair value of the plan assets includes:

- *Cash and cash equivalents* - include savings and time deposit with banks and special deposit account with Bangko Sentral ng Pilipinas.

- *Investment in equity securities* - includes investment in common and preferred shares of financial institutions traded in the Philippine Stock Exchange.

- *Investment in debt securities - government securities* - include investment in Philippine Retail Treasury Bonds and Fixed Rate Treasury Notes.

- *Investments in unquoted debt securities* - include investment in long-term debt notes and retail bonds.

- *Receivables* - pertain to interest and dividends receivable on the investments in the fund.

The management performs a study of how to match its existing assets versus the pension liabilities to be settled. The overall investment policy and strategy of the Group's defined benefit plan is guided by the objective of achieving an investment return which, together with contributions, ensures that there will be sufficient assets to pay pension benefits as they fall due while also mitigating the various risks of the plan. The Group's current guiding strategic investment strategy consists of 56% and 47% of debt instruments, 0% and 45% of cash and cash equivalents, 43% and 1% of equity instruments and 1% and 7% of others for 2020 and 2019, respectively.

Each sensitivity analysis on the significant actuarial assumptions was prepared by remeasuring the Defined Benefit Obligation (DBO) at the reporting date after first adjusting one of the current assumptions according to the applicable sensitivity increment or decrement (based on changes in the relevant assumption that were reasonably possible at the valuation date) while all other assumptions remained unchanged. The sensitivities were expressed as the corresponding change in the DBO.

It should be noted that the changes assumed to be reasonably possible at the valuation date are open to subjectivity, and do not consider more complex scenarios in which changes other than those assumed may be deemed to be more reasonable.

		Effect on Defined Benefit Liability	
	Increase (Decrease)	**2020**	2019
Discount rates	+1%	**(₱36,128,233)**	(₱22,611,988)
	-1%	**42,488,899**	25,979,165
Future salary increases	+1%	**41,861,319**	26,100,560
	-1%	**(36,343,135)**	(23,132,699)

Shown below is the maturity analysis of the undiscounted benefit payment up to 10 years:

	2020	2019
Less than 1 year	**₱198,723,961**	₱177,397,851
More than 1 year to 5 years	**127,965,726**	138,197,252
More than 5 years to 10 years	**203,005,983**	202,158,634
	₱529,695,670	₱517,753,737

The Group has no other transactions with the fund.

21. **Cost of Sales**

Cost of coal sales consists of:

	2020	2019	2018
Cost of coal (Note 7)			
Materials and supplies (Note 19)	**₱3,763,516,229**	₱5,112,461,962	₱2,754,257,594
Fuel and lubricants	**3,204,687,126**	4,831,590,762	3,341,535,352
Depreciation and amortization (Notes 10, 11 and 12)	**2,642,045,362**	3,461,657,292	3,276,055,748
Direct labor (Notes 19 and 20)	**1,107,658,868**	1,364,754,071	856,743,901

(Forward)

	2020	2019	2018
Production overhead (Note 19)	**₱580,140,429**	₱1,593,169,230	₱1,046,686,558
Outside services (Note 19)	**542,297,370**	1,211,178,162	526,404,379
Provision for decommissioning and site rehabilitation costs (Note 16)	**–**	–	436,522,946
	11,840,345,384	17,574,811,479	12,238,206,478
Hauling and shiploading costs (Notes 10 and 19)	**439,966,574**	208,974,190	23,877,634
	₱12,280,311,958	₱17,783,785,669	₱12,262,084,112

Cost of power sales consists of:

	2020	2019	2018
Coal	**₱3,936,553,761**	₱2,947,448,354	₱4,321,480,004
Depreciation and amortization (Note 10)	**2,871,506,678**	2,483,914,467	2,444,928,202
Energy spot purchases	**411,055,081**	2,790,441,203	1,203,199,309
Diesel	**46,426,387**	190,885,580	164,674,176
Bunker	**39,740,981**	97,391,081	58,678,806
Market fees	**31,054,721**	31,233,740	55,504,243
Lube	**24,509,295**	29,791,624	37,695,635
Coal handling expense (Note 19)	**–**	217,012,723	278,321,004
Others	**58,258,633**	75,254,559	17,604,798
	₱7,419,105,537	₱8,863,373,331	₱8,582,086,177

The cost of coal on power sales consists of:

	2020	2019	2018
Materials and supplies (Note 19)	**₱1,309,162,437**	₱946,901,917	₱1,131,940,919
Fuel and lubricants	**1,114,770,271**	894,880,508	1,373,299,507
Depreciation and amortization (Notes 10 and 12)	**519,986,937**	298,030,756	752,611,208
Direct labor (Notes 19 and 20)	**385,306,000**	252,772,198	352,103,405
Hauling and shiploading costs (Note 19)	**213,958,565**	34,791,561	7,571,574
Production overhead	**201,805,442**	295,077,990	430,165,773
Outside services (Note 19)	**191,564,109**	224,993,424	273,787,618
	₱3,936,553,761	₱2,947,448,354	₱4,321,480,004

22. **Operating Expenses**

	2020	2019	2018
Government share (Note 28)	**₱1,813,594,427**	₱3,927,055,360	₱3,569,015,013
Taxes and licenses	**552,966,795**	627,723,116	609,610,558
Personnel costs (Notes 19 and 20)	**508,983,157**	522,233,324	476,886,202
Operation and maintenance (Note 19)	**415,104,047**	455,298,286	418,287,094
Repairs and maintenance	**283,240,150**	249,052,444	402,427,446
Insurance and bonds	**257,761,191**	349,514,794	161,958,470
Depreciation and amortization (Notes 3, 10 and 11)	**194,002,240**	643,580,370	1,288,048,897
Write-down of property, plant and equipment (Notes 3 and 10)	**157,196,754**	83,535,586	–
Office expenses (Note 19)	**110,296,868**	140,504,952	252,947,300
Professional fees	**71,194,050**	82,956,495	91,302,820
Entertainment, amusement and recreation	**36,940,602**	37,704,730	73,506,431
Transportation and travel	**14,226,265**	25,533,655	25,685,337
Marketing	**2,591,716**	6,821,665	5,424,720
Provision for impairment losses (Notes 5 and 9)	**–**	82,939,079	25,330,965
Others (Notes 7, 8 and 10)	**135,963,454**	130,467,320	375,364,074
	₱4,554,061,716	₱7,364,921,176	₱7,775,795,327

In 2020, 2019 and 2018, the Group recorded accelerated depreciation for its power generation units amounting to ₱101.23 million, ₱549.95 million and ₱1,210.10 million, respectively, due to planned rehabilitation of the Group's coal-fired power plants in Calaca, Batangas.

Others pertain to various expenses such as advertising, utilities, Parent Company's equity in net earnings (losses) of SRPGC, information and communications technology (ICT) charges and other contracted services.

23. **Finance Costs**

	2020	2019	2018
Interest on:			
Long-term debt (Note 14)	**₱668,081,709**	₱538,199,923	₱717,642,152
Short-term loans (Note 13)	**318,752,682**	582,205,604	52,168,582
Accretion of provision for decommissioning and site rehabilitation costs (Note 16)	**24,282,185**	30,229,558	97,693,062
Lease liabilities (Note 11)	**7,850,348**	6,620,167	–
Amortization of debt issuance cost (Note 14)	**30,676,096**	14,837,763	11,095,035
Bank charges	**45,177,531**	144,774,497	64,336,144
	₱1,094,820,551	₱1,316,867,512	₱1,018,966,924

24. **Finance Income**

	2020	2019	2018
Interest on:			
Cash in banks (Note 4)	**₱6,078,596**	₱5,057,250	₱27,277,723
Cash equivalents (Note 4)	**39,548,131**	76,183,958	101,375,339
Others	**246,212**	201,741,824	515,305
	₱45,872,939	₱282,983,032	₱129,168,367

Others in 2019 includes interest income collected by SCPC in relation to the claims from Power Sector Assets and Liabilities Management (PSALM) and National Power Corporation (NPC) for the recovery of amounts charged and withheld by PSALM for spot purchases of SCPC in connection with NPC's over nomination of bilateral contracted capacity to a distribution utility company for the period January to June 2010.

25. **Other Income (Charges)**

	2020	2019	2018
Sale of fly ash (Note 29)	**₱180,213,166**	₱166,120,069	₱189,761,785
Gain (loss) on sale of equipment - net (Note 10)	**67,002,889**	(10,632,904)	22,683,458
Gain (loss) on financial asset at FVPL (Note 6)	**–**	(643,476,025)	91,593,548
Gain on pre-termination of option contract (Note 6)	**37,238,898**	–	–
Recoveries from insurance claims and claims from third party settlement (Notes 5 and 29)	**–**	668,393,238	287,765,808
Miscellaneous	**32,264,656**	5,794,226	16,607,255
	₱316,719,609	₱186,198,604	₱608,411,854

Recoveries from insurance claims and claims from third party settlement
Recoveries from insurance claims pertain to the amount reimbursed by the insurer on insured equipment that were damaged. In 2019 and 2018 (nil in 2020), the Group received insurance claims amounting to ₱699.69 million (inclusive of ₱7.62 million accrued as of December 31, 2018) and ₱476.14 million, respectively, to cover the cost of repair for the unplanned shutdown of Unit 3 of SLPGC's 2x150 MW coal-fired power plant. The amount of other income recognized from the insurance claims is net of related cost of repairs amounting to ₱23.69 million and ₱250.77 million in 2019 and 2018, respectively.

Gain (loss) on financial asset at FVPL
Net gain on financial asset at FVPL related to the fair value gain on the option contract with a retail electricity supplier. This includes realized loss of ₱398.03 million in 2019 and realized gain of ₱65.82 million and ₱36.60 million in 2018 (see Note 6).

Miscellaneous
Miscellaneous pertains to the one-time payment received from AC Energy Inc. related to the new Power Supply Agreement entered on March 26, 2020 and sale of sample products for its claystone business.

26. **Income Tax**

The provision for (benefit from) income tax consists of:

	2020	2019	2018
Current	**₱78,606,899**	₱137,373,974	₱704,272,857
Final	**7,460,349**	16,228,957	24,815,699
Deferred	**46,530,509**	(448,728,617)	412,402
	₱132,597,757	(₱295,125,686)	₱729,500,958

The reconciliation of the effective statutory income tax rate to the effective income tax rate shown in the consolidated statements of comprehensive income follows:

	2020	2019	2018
Statutory income tax rate	**30.00%**	30.00%	30.00%
Adjustments for:			
Nondeductible expense	**1.83**	0.56	0.29
Nondeductible interest expense	**0.17**	0.10	0.02
Movement in unrecognized deferred tax assets	**(1.31)**	(0.16)	0.24
Interest income already subject to final tax at a lower rate	**(0.17)**	(0.09)	(0.11)
Tax-exempt income	**(26.66)**	(33.56)	(24.72)
Effective income tax rate	**3.86%**	(3.15%)	5.72

The components of net deferred tax assets as of December 31, 2020 and 2019 follow:

	2020	2019
Deferred tax assets (liabilities) on:		
Allowance for expected credit losses and impairment losses	**₱510,416,398**	₱510,416,398
NOLCO	**192,787,790**	194,128,332
Accrual of pension obligation	**99,169,806**	104,636,520
Allowance for inventory obsolescence	**20,218,166**	20,218,166
Provision for decommissioning and site rehabilitation	**5,394,890**	4,791,123
Unrealized foreign exchange loss – net	**10,621,301**	41,767,971
Others	**16,388,187**	12,222,552
	₱854,996,538	₱888,181,062

Deferred tax assets are recognized only to the extent that taxable income will be available against which the deferred tax assets can be used.

The Group has the following deductible temporary differences that are available for offset against future taxable income or tax payable for which deferred taxes have not been recognized:

	2020	2019
NOLCO	**₱–**	₱418,554
Allowance for impairment losses	**157,196,754**	156,068,023
	₱157,196,754	₱156,486,577

Rollforward analysis of the Group's NOLCO follows:

	2020	2019
Balance at beginning of year	**₱647,512,994**	₱1,809,786,446
Addition	**–**	647,094,440
Expiration	**(4,887,027)**	(1,809,367,892)
Balance at the end of year	**₱642,625,967**	₱647,512,994

The Group did not recognize deferred tax assets on NOLCO incurred in 2017 amounting to ₱0.42 million which will expire by 2020.

Board of Investments (BOI) Incentives

Parent Company

On August 31, 2012 and February 24, 2016, BOI has granted the Parent Company Certificates of Registration as New Producer of Coal in accordance with the provisions of the Omnibus Investments Code of 1987 in relation to the operation in Narra Minesite (formerly Bobog) (Certificate of Registration No. 2012-183) and Molave Minesite (Certificate of Registration No. 2016-042). Pursuant thereto, the Parent Company shall be entitled to the following incentives for the two Certificates of Registration, among others:

a. ITH for four (4) years from January 2015 and January 2017 for Narra minesite and Molave minesite, respectively, or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration.

b. Income qualified for ITH availment shall not exceed by more than 10% of the projected income represented by the Parent Company in its application provided the project's actual investments and employment match the Parent Company's representation in the application.

On October 24, 2019, the BOI approved the request for suspension of Narra Mine until the slope stability of the Narra mine to resume production is ensured, as follows:

a. the suspension of mining operation of Narra Mine under its Certificate of Registration No. 2012-183 dated August 31, 2012, subject to the capping of ITH incentive of Molave mine to 9,697,165 MT under BOI Certificate of Registration No. 2016-042 dated February 24, 2016, which is the highest attained production volume for the last three (3) years of operation; and,

b. the suspension of the corresponding ITH under its Certificate of Registration No. 2012-183 dated August 31, 2012.

On November 28, 2019, the BOI approved the Parent Company's application for extension for one (1) year for ITH incentive. The approved bonus year under Certificate of Registration No. 2016-042 is for the period October 15, 2020 to October 14, 2021 using the Indigenous Raw Material Criterion pursuant to Executive Order No. 226.

The Parent Company received a letter from the BOI dated February 28, 2020, stating that the BOI per Board Resolution No. 04-14, Series of 2020, approved the motion for reconsideration of the Parent Company and that the portion of BOI Board Resolution No. 31-07, Series of 2019, capping the incentive of Molave mine to 9,697,165 MT be amended. The annual coal production rate of 16 million metric tons as specified in the Amended Environmental Compliance Certificate issued by the Department of Environment and Natural Resources-Environmental Management Bureau (DENR-

EMB) shall be imposed upon the Parent Company's two (2) projects under BOI Certificate of Registration No. 2012-183 dated August 31, 2012 and BOI Certificate of Registration No. 2016-042 dated February 24, 2016 as New Producer of Coal, pursuant to the provisions under the Executive Order No. 226. Any revenue arising from the coal production in excess of 16 million metric tons annual production rate shall not be entitled to ITH incentive.

The Parent Company availed of incentive in the form of ITH on its income under registered activities amounting to ₱978.86 million, ₱2,323.04 million and ₱3,060.71 million in 2020, 2019 and 2018, respectively.

SLPGC
On June 21, 2012, the application for registration of SLPGC as new operator of 300 MW (Phase 1) Batangas Coal Fired Power Plant on a Non-Pioneer Status under the Omnibus Investments Code of 1987 (Executive Order No. 226) was approved. Pursuant thereto, SLPGC shall be entitled to the following incentives, among others:

a. ITH for four (4) years from January 2015 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration.

b. For the first five (5) years from date of registration, the enterprise shall be allowed an additional deduction from taxable income of 50% of the wages corresponding to the increment in number of direct labor for skilled and unskilled workers in the year of availments as against the previous year if the project meets the prescribed ratio of capital equipment to the number of workers set by the Board and provided that this incentive shall not be availed of simultaneously with the ITH.

c. Importation of consigned equipment for a period of 10 years from date of registration, subject to posting of re-export bond.

d. Employment of foreign nationals. This may be allowed in supervisory, technical or advisory positions for five (5) years from date of registration; and,

e. Simplification of customs procedures for the importation of equipment, spare parts, raw materials and supplies.

On June 19, 2015, SLPGC wrote the BOI informing the latter of the delay in the start of commercial operations of Units 1 & 2 of the 2x150 MW coal-fired power plant citing as reason the delay in the substation interconnection of the plant due to legal and commercial issues between and among the National Power Corporation, National Transmission Corporation, First Gas Power Corporation, MERALCO, PSALM and National Grid Corporation.

On July 2, 2015, the BOI replied that the BOI may grant a request for deferment of start of commercial operations with justifiable cause for a maximum of one (1) year. The BOI may also grant a second request for deferment for six (6) months provided that the reason for the second request is different from the first. However, failure to start commercial operations as committed in a second request shall be a ground for automatic cancellation of registration without prejudice to filing a new application for registration.

On February 16, 2016, SLPGC informed the BOI that testing and commission commenced shortly after the interconnection issue was resolved on July 16, 2015. In said letter, SLPGC formally requested the BOI for extension of the reckoning period of ITH for the six (6) months or up to June 2016.

On June 29, 2016, the BOI granted the request for the movement of the reckoning period for the ITH incentive from January 1, 2015 to January 1, 2016 due to the delay arising from interconnection issue which is considered as an operational force majeure. On February 5, 2020, the BOI approved SLPGC's application for extension of ITH incentives for one (1) year for the period of January 1, 2020 to December 31, 2020, using the Indigenous Raw Material criterion pursuant to Executive Order No. 226.

In 2020, SLPGC postponed the availment of the extended period of ITH.

Corporate Recovery and Tax Incentive for Enterprise (CREATE) Act

In February 2021, the Bicameral Conference Committee of both the Senate and the Congress have ratified the Bicameral Committee's version of the proposed "Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act", which seeks to reduce the corporate income tax rate and rationalize the current fiscal incentives by making them time-bound, targeted and performance-based. Once the approved bill is submitted to the Office of the President for approval, the President can either approve or veto the fully enrolled bill; or approve or veto only certain provisions of the bill. If the bill is approved or the 30-day time period for the Office of the President to veto the bill has lapsed, the bill will then be enacted as a law.

The key changes of the submitted CREATE bill for approval are as follows:
- Effective July 1, 2020, RCIT rate is decreased from 30% to 20% for corporations with total assets of ₱100.0 million or below and taxable income of ₱5.0 million and below. All other corporations not meeting the criteria will be subject to lowered RCIT rate of 25% from 30%;
- Effective July 1, 2020 and for a period of 3 years, MCIT rate will lowered from 2% to 1% of gross income; and,
- Improperly accumulated earnings tax of 10% will be repealed.

The RCIT and MCIT applied in the preparation of the consolidated financial statements as at and for the year December 31, 2020 are based on the substantially enacted tax rates existing as of the balance sheet date which are 30% RCIT and 2% MCIT. Should the CREATE bill be subsequently enacted as a law prior to the filing deadline of the 2020 annual income tax return on April 15, 2021 and the retrospective effectivity beginning July 1, 2020 for both RCIT and MCIT are carried in the enacted bill, the excess accrued RCIT and MCIT as of the balance sheet date will be considered as reversal of accrual in 2021.

27. Basic/Diluted Earnings Per Share

The following table presents information necessary to calculate earnings per share:

	2020	2019	2018
Net income	**₱3,286,749,412**	₱9,678,790,811	₱12,025,381,058
Divided by the weighted average number of common shares outstanding	**4,250,547,620**	4,250,547,620	4,250,547,620
Basic/diluted earnings per share	**₱0.77**	₱2.28	₱2.83

There have been no other transactions involving common shares or potential common shares between the reporting date and the date of authorization of these consolidated financial statements.

28. Coal Operating Contract with DOE

On July 11, 1977, the Government, through its former Energy Development Board, awarded a 35-year COC to a consortium led by Vulcan Industrial & Mineral Exploration Corporation and Sulu Sea Oil Development Corporation that subsequently assigned said COC to then Semirara Coal Corporation, now the Parent Company, on April 7, 1980. On July 27, 1977, Presidential Decree (PD) 972 was amended by PD 1174: (a) increasing coal operators' maximum cost recovery from an amount not exceeding 70% to 90% of the gross proceeds from production, and (b) increasing the amount of a special allowance for Philippine corporations from an amount not exceeding 20% to 30% of the balance of the gross income, after deducting all operating expenses. As a result, the Parent Company's COC was subsequently amended on January 16, 1981 reflecting said changes.

On May 13, 2008, the DOE granted the Parent Company's request for an extension of its COC for another 15-year or until July 14, 2027.

On November 12, 2009, the COC was amended further, expanding its contract area to include Caluya and Sibay Islands, Antique, covering an additional area of 3,000 hectares and 4,200 hectares, respectively.

On August 6, 2018, the COC was amended relinquishing the contract areas in Caluya and Sibay Islands, Antique. The contract areas under the COC was re-configured with an area of 13,000 hectares.

On April 29, 2013, the DOE issued a new COC to the Parent Company granting the Parent Company the exclusive right to conduct exploration, development and coal mining operations in the municipality of Bulalacao, province of Oriental Mindoro, up to a maximum of 36 years from its effective date. The COC covers two coal-bearing parcels of land covering areas of 2,000 and 5,000 hectares, respectively.

On June 7, 2013, the DOE issued a new COC to the Parent Company granting the Parent Company the exclusive right to conduct exploration, development and coal mining operations in the municipalities of Maitum and Kiamba, province of Sarangani, up to a maximum of 36 years from its effective date. The COC covers a coal-bearing parcel of land covering area of 5,000 hectares. On January 18, 2019, the old COC was voluntarily relinquished by the Parent Company.

In return for the mining rights granted to the Parent Company, the Government is entitled to receive annual royalty payments consisting of the balance of the gross income after deducting operating expenses, operator's fee and special allowance. The DOE, through the Energy Resources Development Bureau, approved the exclusion of coal produced and used solely by the Parent Company to feed its power plant used for mining operations in determining the amount due to DOE.

Royalty dues for DOE's share under this contract and to the different LGU in the province of Antique, under the provisions of the Local Government Code of 1991, amounted to ₱1,813.59 million, ₱3,927.06 million and ₱3,569.02 million in 2020, 2019 and 2018, respectively, included under 'Operating expenses' in the consolidated statements of comprehensive income (see Note 22). Payable to DOE and LGU, amounting to ₱1,034.08 million and ₱855.90 million as of December 31, 2020 and 2019, respectively, are included under the 'Trade and other payables' account in the consolidated statements of financial position (see Note 15).

29. Contingencies and Commitments

SCPC

a. Provision for billing disputes

On October 20, 2010, SCPC filed a Petition for dispute resolution ("Petition") before the ERC against NPC and PSALM involving over-nominations made by NPC during the billing periods January to June 2010 beyond the 169,000 kW MERALCO allocation of SCPC, as provided under the Schedule W of the APA.

In its Petition, SCPC sought to recover the cost of energy (a) sourced by SCPC from WESM in order to meet NPC's nominations beyond the 169,000 kW MERALCO contracted demand, or (b) procured by NPC from the WESM representing energy nominated by NPC in excess of the 169,000 kW limit set in Schedule W, cost of which was charged by PSALM against SCPC. In relation to this, NPC withheld the payments of MERALCO and remitted to SCPC the collections, net of the cost of the outsourced energy.

SCPC has likewise sought to recover interest on the withheld MERALCO payments collected by PSALM that is unpaid to SCPC as of due date, to be charged at the rate of 6% computed from the date of SCPC's extrajudicial demand until full payment by PSALM.

During the preliminary conference scheduled on November 25, 2010, the ERC's hearing officer directed the parties to explore the possibility of settling the dispute amicably. As the parties failed to arrive at a compromise during the prescribed period, hearings resumed with the conduct of preliminary conference on February 23, 2011, without prejudice to the result of any further discussions between the parties for amicable settlement. The ERC set the next hearing for the presentation of witnesses on March 22 and 23, 2011.

In 2010, SCPC wrote-off the total amount withheld by NPC, which amounted to ₱383.29 million. Though a provision has already been made, SCPC has not waived its right to collect the said amount in case the outcome of the dispute resolution would be a favorable settlement for SCPC. The provision will be reversed and an income would be recognized in the 'Other income - net' account upon collection of the said receivable.

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

On April 24, 2012, SCPC and PSALM each filed their Compliance submitting the reconciled computations of the over-nominations and other MERALCO payments withheld by PSALM, as agreed upon by the parties, in the principal amount of ₱476.00 million.

On December 4, 2013, SCPC filed a Motion for Issuance of Writ of Execution praying to direct PSALM to remit the Principal Amount, including interest of 6% per annum computed from August 4, 2010 until the date of actual payment, as well as the value added tax collected by PSALM from MERALCO, pursuant to the ERC's Decision dated July 6, 2011 and Order dated February 13, 2012.

On June 23, 2014, the ERC issued an Order granting the Writ of Execution in favor of SCPC and called a clarificatory conference on September 3, 2014 for the parties to discuss the details of the execution. PSALM filed a Motion for Reconsideration of the ERC's Order dated June 23, 2014.

On September 3, 2014 clarificatory conference, the ERC directed the parties to discuss how they could mutually carry out the execution granted by the ERC in favor of SCPC and likewise (1) granted SCPC 10 days to file its Comment/Opposition to PSALM's motion for reconsideration; and (2) ordered PSALM to file its Compliance and submit a copy of the 3rd Indorsement dated May 29, 2014 issued by the General Counsel of the Commission on Audit (COA) to PSALM.

On September 11, 2014, PSALM filed its Compliance and duly submitted the 3rd Indorsement. On September 15, 2014, SCPC filed its Opposition to PSALM's Motion for Reconsideration.

On July 18, 2017, the ERC issued an Order granting PSALM's Motion for Reconsideration (MR) and setting aside its Order dated June 23, 2014. In the said Order, the ERC stated that the grant of PSALM's motion is without prejudice to the filing of SCPC of the appropriate money claims with COA.

PSALM's Petition for Review before the Court of Appeals and Supreme Court of the Philippines

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

PSALM subsequently filed a Motion for Reconsideration dated September 26, 2012 and seeking the reconsideration of the Decision dated September 4, 2012. SCPC filed its Opposition to PSALM's Motion for Reconsideration on November 5, 2012.

Subsequently, the Court of Appeals issued a Resolution denying the Motion for Reconsideration filed by PSALM on November 27, 2012.

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

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

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

In a Resolution dated September 30, 2013, the Court granted PSALM's Motion for Extension to File Reply and noted the filing of PSALM's Reply.

On December 16, 2016, the Court issued a Notice of Decision and Decision dated December 5, 2016. In said Decision, the Court denied PSALM's Petition for Review on Certiorari with Prayer for issuance of Temporary Restraining Order and/or Preliminary injunction and affirmed the ruling of the Court of Appeals.

PSALM filed its Motion for Reconsideration dated January 19, 2017. On February 13, 2017, the Supreme Court rendered Decision denying with finality PSALM's Motion for Reconsideration.

On February 22, 2017, due to the denial with finality of PSALM's Motion for Reconsideration by the Supreme Court, the Company filed with the ERC an Urgent Motion for Resolution of PSALM's Motion for Reconsideration pending with the ERC. The Company prayed that that the MR be denied and a writ of execution be issued in favor of the Company.

Petition for Money Claim versus PSALM before the Commission on Audit (COA)

On November 27, 2017, SCPC filed before the COA a Petition for Money Claim against PSALM for the enforcement of the Decision dated July 6, 2011 and Order dated February 13, 2012 issued by the ERC in ERC Case No. 2010-058MC, as affirmed by the Court of Appeals in its Decision dated September 4, 2012 in CA-C.R. No. 123997, and by the Supreme Court in its Decision dated December 5, 2017 in G.R. No. 204719.

On December 11, 2017, SCPC received a copy of the Order dated November 29, 2017 issued by COA directing PSALM to submit its answer to SCPC's Petition dated November 27, 2017 within 15 days from receipt thereof. Upon confirmation from the Philippine Post Office - Quezon City, PSALM received a copy of the foregoing Order on December 14, 2017. Hence, PSALM has until December 29, 2017 within which to file its answer.

As of December 31, 2017, since this case involves issues which have been settled by no less than the Supreme Court in a final and executory judgment, i.e., PSALM's liability in the principal amount of ₱476.70 million inclusive of VAT, the recovery of SCPC's money claim is certain. The filing of Petition with COA is for the purpose of executing the money judgment since the ERC refused to execute the same based on the rule that all money claims against the government must first be filed with the COA.

On February 7, 2018, SCPC filed with COA a Motion to Declare Respondent PSALM Corporation in Default in view of PSALM's failure to file Answer within the period provided by COA in the Order dated November 29, 2017. However, on February 15, 2018, SCPC received a copy of PSALM's Motion to Admit Attached Answer with Answer both dated February 12,

2018. In its Answer, PSALM confirmed that it had not made any payments in connection with the ERC Decision dated July 6, 2011 but contended that SCPC's prayer for payment of interest should be denied because allegedly, SCPC's Petition dated November 27, 2017 and the ERC decision failed to state as to when the interest should be counted from. On March 1, 2018, SCPC filed its Reply to PSALM's Answer and refuted PSALM's claim regarding imposition of interest.

On November 29, 2018, SCPC filed an Urgent Motion for Resolution with the COA praying for immediate resolution of the case. On December 14, 2018, PSALM filed its Comment to SCPC Urgent Motion for Resolution raising the same arguments raised in its Answer. On January 4, 2018, SCPC filed its Reply to PSALM's Comment to the Urgent Motion for Resolution.

On April 22, 2019, the COA issued its decision granting SCPC's money claim in the amount of ₱476.70 million, plus 6% interest. On June 28, 2019, PSALM paid the said amount in favor of SCPC (see Note 24).

b. Power Supply Agreement with MERALCO

On December 20, 2011, SCPC entered into a new power supply agreement with MERALCO which took effect on December 26, 2011 and shall have a term of seven (7) years, extendable upon mutual agreement by the parties for another three (3) years. Based on this agreement, SCPC shall provide MERALCO with an initial contracted capacity of 210MW and shall be increased to 420MW upon commercial operation of the plant's Unit 1. Commercial operation of plant's Unit 1 started in June 2013.

On March 12, 2012, MERALCO filed an application for the Approval of the PSA between MERALCO and SCPC, with a Prayer for Provisional Authority, docketed as ERC Case No. 2011-037 RC.

In the said application, MERALCO alleged and presented on the following: a.) the salient provisions of the PSA; b.) payment structure under the PSA; c.) the impact of the approval of the proposed generation rates on MERALCO's customers; and d.) the relevance and urgent need for the implementation of the PSA.

On December 17, 2012, the ERC issued a Decision approving the application with modification. On January 7, 2013, applicant MERALCO filed a Motion for Partial Reconsideration of the ERC Decision dated December 17, 2012 to introduce additional material evidence not available at the time of the filing of the application, in support of the reconsideration of the approved Fixed O&M (FOM) fee of ₱4,785.12/kW per year. On February 8, 2013, MERALCO filed its Supplemental Motion for Partial Reconsideration with Motion for Clarification (Supplemental Motion) to include the recovery of cost of diesel not as part of the variable O&M Fee.

On May 2, 2018, the ERC issued an Order of even date, requiring submission of documentary requirements to support its Motion for Partial Reconsideration and the Supplemental Motion. On May 23, 2018, SCPC submitted its Compliance with Motion for Early Resolution to the ERC. On May 29, 2018, SCPC received an Order from the ERC allowing recovery of the cost of diesel during Power Plant's Startup and Shutdown under Reimbursable Cost but deferred MERALCO's prayer to adjust the approved FOM fee of ₱4,785.12/kW-Year to ₱4,977.45/kW-Year.

On July 17, 2018, further to ERC Order dated May 29, 2018, SCPC issued a Debit Memo to MERALCO and MERALCO RES in the amounts of ₱1,170.44 million and ₱407.46 million, respectively.

On August 20, 2018, SCPC received a copy of MERALCO's Motion for Clarification with Manifestation seeking to clarify the details of the approved components of the FOM fee, including the amounts pertaining to diesel and bunker oil. MERALCO also sought to clarify that the ERC grant of the Power Plant's Startup and Shutdown under Reimbursable Cost refers to Component E of the Payment Structure discussed in Appendix E of the PSA to avert any erroneous/invalid billing from SCPC regarding Reimbursable Costs. On August 30, 2019 MERALCO filed with the ERC its Urgent Motion for Resolution of its earlier Motion for Clarification with Manifestation.

As of March 3, 2021, ERC has yet to resolve the pending motions filed by MERALCO.

c. Power Supply Agreement with MERALCO RES

On May 5, 2017, SCPC entered into a new power supply agreement with MPower, MERALCO's local retail electricity supply business segment which will take effect on June 26, 2019 with a term of 10 years, extendable upon mutual agreement for another four (4) years. On February 24, 2020, SCPC and MPower amended the agreement, shortening the term until October 25, 2021 and reducing the contract capacity of 170MW until the end of the term.

d. Dispute Resolution Proceedings with MERALCO (Line Loss Rental)

On August 29, 2013, MERALCO filed a Petition for Dispute Resolution before the ERC against SCPC and other generating companies praying for refund of the amount of line loss allegedly collected by the said generating companies.

On September 20, 2013, the generating companies filed a Joint Motion to Dismiss arguing that MERALCO's Petition failed to state a cause of action and the ERC has no jurisdiction over the subject matter of the case.

On September 25, 2013, the ERC directed MERALCO to file its comments on the Joint Motion to Dismiss. The ERC likewise set the hearing on the Joint Motion to Dismiss on October 14, 2013.

On October 14, 2013 during the hearing on the Joint Motion to Dismiss, ERC directed MERALCO to furnish the generating companies of its Comment and Pre-Trial Brief; granted MERALCO a period of three (3) days from receipt of the generating companies Reply within which to file a Rejoinder; granted the generating companies a period of five (5) days from receipt of MERALCO's Rejoinder to file a Sur-Rejoinder.

The ERC denied the generating companies prayer to hold in abeyance the conduct of the initial heating on October 17, 2013 and shall proceed on said date only insofar as the jurisdictional hearing is concerned without prejudice to the ERC's resolution of the Joint Motion to Dismiss.

The generating companies' Joint Motion to Dismiss has been submitted for resolution. As of March 3, 2021, the Joint Motion to Dismiss has yet to be resolved.

e. *Temporary Restraining Order on MERALCO*

On December 23, 2013, the Supreme Court (SC) issued a temporary restraining order (TRO) to MERALCO enjoining it from increasing the generation rates it charges to its consumers arising from the increased generation costs from its suppliers for the supply month of November 2013. The said TRO also enjoined the ERC from implementing its December 9, 2013 Order authorizing MERALCO to stagger the collection of its increased generation costs for the supply month of November 2013. The TRO was for a period of 60 days from December 23, 2013 to February 21, 2014.

On January 10, 2014, the SC impleaded MERALCO's suppliers of generation costs, including Philippine Electricity Market Corporation (PEMC), the operator of the WESM, as parties-respondents in the cases.

On February 18, 2014, the SC extended the TRO for another 60 days up to April 22, 2014.

On April 24, 2014, the SC issued a resolution and corresponding TRO, extending indefinitely the TRO issued on December 23, 2013 and February 18, 2014.

As a result of the TRO, MERALCO has not been able to fully bill its consumers for the generation costs for the supply month of November 2013; and in turn, it has not been able to fully pay its suppliers of generation costs, including PEMC.

On March 11, 2014, the ERC released its ERC Order (Case No 2014-021MC, dated March 3, 2014) voiding the Luzon WESM prices during the November and December 2013 supply months and declaring the imposition of regulated prices in lieu thereof. PEMC was hereby directed within 7 days from receipt of the Order to calculate these regulated prices and implement the same in the revised WESM bills of the concerned Distribution Utilities (DUs) in Luzon for the November and December 2013 supply months for their immediate settlement, except for MERALCO whose November 2013 WESM bill shall be maintained in compliance with the TRO issued by the SC.

Several generation companies and distribution companies filed their respective Motions for Reconsideration of the March 3, 2014 ERC Order. SCPC filed its Motion for Reconsideration with Motion for Deferment of implementation of the Order dated March 3, 2014 on March 31, 2014. The said Motions were set for hearing on April 28, 2014.

In the meantime, PEMC issued the adjusted WESM bills to the market participants, including SCPC. In an Order dated March 27, 2014, the ERC directed PEMC to provide the market participants an additional period of 45 days from receipt of the Order within which to comply with the settlement of the adjusted WESM bills in view of the pendency of the various submissions before the ERC.

During the hearing held on April 28, 2014, the ERC directed the parties to submit their respective memoranda by May 2, 2014. In compliance with the directive, SCPC filed a Manifestation on May 2, 2014 that it is adopting its Motion for Reconsideration in lieu of filing a Memorandum. In an Order dated October 15, 2014, the ERC denied SCPC's Motion for Reconsideration.

On December 11, 2014, SCPC filed a Petition for Review with Prayer for Issuance of Temporary Restraining Order and/or Writ of Injunction with the Court of Appeals seeking reversal of the ERC Orders dated March 3, 2014 and October 15, 2014. In a resolution dated April 30, 2015, the SCPC's Petition was consolidated with other related cases filed by other generation companies before the Court of Appeals. PEMC and ERC filed their respective Consolidated Comments on the consolidated Petitions to which the SCPC filed its Reply.

MERALCO filed its Consolidated Motion for Leave to Intervene with Opposition to Prayers for issuance of Temporary Restraining Order and/or Writ of Injunction. SCPC filed its Comment to MERALCO's Consolidated Motion on November 2, 2015.

Pending the finality of the ERC Order dated March 3, 2014 on recalculation of the WESM prices for the November and December 2013 supply months and its effect on each generation company that trade in the WESM, SCPC estimated its exposure to the said ERC order. In relation to the ERC Order, SCPC entered into a special payment arrangement with PEMC for the payment of the customer's reimbursement, through PEMC, in excess of the regulated price for the purchases through spot market in November and December 2013. The payments are over 24 months from June 2014 to May 2016. Total payments amounted to ₱674.00 million.

On December 14, 2017, SCPC received Meralco's and ERC's Motion for Reconsideration of the Court Appeal's Decision dated December 8 and 12, 2017, respectively. Likewise, SCPC received Motions for Leave to Intervene with Motion to Admit Attach Motion for Reconsideration filed by several third parties such as Mercury Drug Corporation, Riverbanks Development Corporation, Philippine Steelmakers Association and Ateneo de Manila University, seeking intervention in the instant case and reconsideration of the Court of Appeal's Decision.

On July 30, 2018, SCPC filed its Consolidated Comment on MERALCO's and ERC's Motion for Reconsideration. On November 29, 2018, the CA directed SCPC to comment on the Motion for Leave to Intervene and to Admit Motion for Reconsideration in Intervention of the CA's decision filed by movant-intervenors PRHC Property Managers Inc. and the Philippine Stock Exchange Centre Condominium Corporation. On December 2018, SCPC instead submitted a Manifestation in lieu of a comment since the grounds relied upon by the movants are similar to the grounds to the other movants already addressed by SCPC in its Consolidated Comment and duly passed upon by the CA in its Resolution dated March 22, 2018.

As of March 3, 2021, the CA has yet to resolve ERC and MERALCO'S Motion for Reconsideration.

f. Land Lease Agreement with PSALM

SCPC entered into an LLA with PSALM for the lease of land in which its plant is situated, for a period of 25 years, renewable for another 25 years, with the mutual agreement of both parties.

Provisions of the LLA include that SCPC has the option to buy the Option Assets upon issuance of an Option Existence Notice (OEN) by the lessor. Optioned assets are parcels of land that form part of the leased premises which the lessor offers for the sale to the lease.

In the event that the lessor issues an OEN and SCPC buys the option assets, the land purchase price should be equivalent to the highest of the following and/or amounts: (i) assessment of the Provincial Assessors of Batangas Province; (ii) the assessment of the Municipal or City Assessor having jurisdiction over the particular portion of the leased premises; (iii) the zonal valuation of Bureau of Internal Revenue or, (iv) 21.00 per square meter (dollar). Valuation basis for (i) to (iii) shall be based on the receipt of PSALM of the option to exercise notice.

On July 12, 2010, PSALM issued an OEN and granted SCPC the "Option" to purchase parcels of land (Optioned Assets) that form part of the leased premises. SCPC availed of the "Option" and paid the Option Price amounting to US$0.32 million (or ₱14.72 million), exercisable within one year from the issuance of the OEN.

On April 28, 2011, SCPC sent a letter to PSALM requesting for the assignment of the option to purchase a lot with an area of 82,740 sqm in favor of its Parent Company (SMPC). On May 5, 2011, PSALM approved the assignment. On June 1, 2011, SCPC exercised the land lease option at a purchase price of ₱292.62 million and is included as part of 'Property, plant and equipment. The 82,740 sqm lot was later assigned to and purchased by SLPGC.

On October 12, 2011, SCPC reiterated its proposal to purchase the remainder of the Leased Premises not identified as Optioned Assets. One of the salient features of the proposal included the execution of CTS between SCPC and PSALM. This included the proposal of SCPC to assign its option to purchase and sublease in favor of SLPGC.

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

On February 14, 2014, SCPC reiterated its proposal to purchase the Calaca Leased Premises not identified as Optioned Assets. On February 1, 2017, SCPC again reiterated to PSALM its proposal to purchase the Calaca Leased Premises.

On September 24, 2019, PSALM informed SCPC regarding lots ready for OEN issuance. On February 11, 2020, SCPC wrote PSALM seeking clarifications on the status of lots available for OEN. On December 3, 2020, PSALM replied addressing SCPC's clarifications.

As of March 3, 2021 , SCPC is still evaluating its position on whether to proceed with the purchase taking into considerations the status of the lots and its current zonal valuations.

Foreshore lease
On April 2009, NPC and the Department of Environment and Natural Resources – Community Environment and Natural Resources Office (DENR-CENRO) entered to a 25-year foreshore lease agreement. On July 29, 2009, DMCI Holdings, Inc. (DHI) won the open and competitive bidding of the 600MW Batangas Coal-Fired Thermal Power Plant. PSALM and SCPC executed the Deed of Sale on the power plant. On December 29, 2011, NPC transferred its rights over the foreshore lease with DENR-CENRO thru an execution of Deed of Assignment in which SCPC unconditionally agrees to assume all rights and obligations under the Foreshore Lease Contract. Lease payments is subject to reappraisal every 10 years of the contract. On the first 10 years of the lease, the rate is ₱2.65 million. The rate was reappraised in May 3, 2019. Starting April 2019, the rate will be ₱3.88 million until reappraised in 2029.

g. *Contract for the Fly Ash of the Power Plant*

After the expiration of the old Pozzolanic contract with NPC, which was inherited by SCPC, as new owner, sealed a new contract on April 30, 2012 with Pozzolanic, effective for a period of 15 years beginning February 1, 2012. Pozzolanic, as agreed, shall purchase 100% percent of fly ashes produced or generated by the Power Plant.

On February 24, 2015, SLPGC, owner of the 2x150 MW CFB Power Plant and Transpacific Resource Recovery Inc. executed a Contract for CFB fly ash valid until January 31, 2027.

SLPGC

a. *Application for Approval of the Ancillary Services Procurement Agreement (ASPA) between the NGCP and SLPGC, with Prayer for the Issuance of Provisional Authority*

On July 12, 2018, SLPGC and NGCP filed an Application for approval of the Ancillary Services Procurement Agreement, with a Prayer for the Issuance of Provisional Authority, docketed as ERC Case No. 2018-074-RC, where NGCP agreed to procure and SLPGC agreed to supply Ancillary Services in the form of Regulating Reserve under a firm and non-firm arrangement and Contingency Reserve and Dispatchable Reserve under a non-firm arrangement.

Both SLPGC and NGCP filed their Joint Pre-trial brief and filed their Compliance with the Jurisdictional Requirements before the ERC. On October 11, 2018, the case was set for jurisdictional hearing, expository presentation, pre-trial conference and evidentiary hearing. ERC directed SLPGC and NGCP to submit additional documents to file its Formal Offer of Evidence.

On November 9, 2018, SLPGC and NGCP filed their Formal Offer of Evidence and Compliance.

On May 21, 2019, SLPGC received the ERC Order dated May 20, 2019 granting interim relief in favor of SLPGC and NGCP to implement the ASPA. The ERC Order, however, disallowed the recovery of the cost of minimum stable load (Pmin) Capacity of the ancillary gas turbine.

On June 6, 2019, SLPGC filed a Motion for Partial Reconsideration with Manifestation of the Order dated May 20, 2019, praying for the recovery of the cost of Pmin capacity of ancillary gas turbine. On September 5, 2019, the ERC resolved to deny SLPGC's Motion for Partial Reconsideration with Manifestation for lack of merit.

On November 19, 2019, SLPGC and NGCP filed their Joint Manifestation with Motion to Withdraw in view of the decision to terminate the ASPA. As of March 3, 2021, ERC has yet to rule on the Joint Manifestation with Motion to Withdraw filed by SLPGC and NGCP. While no supply agreement has been secured yet, the plant is being used by SLPGC for electricity generation and sale through WESM (see Note 10).

SMPC

a. *Effectivity of Revenue Regulations (RR) 1-2018*

On January 5, 2018, RR 1-2018 took effect pursuant to the effectivity of the Tax Reform for Acceleration and Inclusion (TRAIN) law beginning January 1, 2018. Among others, the new tax law raised the excise tax rates on domestic and imported coal from ₱10.0 per metric ton (MT) to ₱50.0 per MT in the first year of implementation, ₱100.0/MT in the second year, and ₱150.0/MT in the third and succeeding years. Based also on the RR, coal produced under coal operating contracts entered into by the government pursuant to PD No. 972, as well as those exempted from excise tax on mineral products under other laws, shall now be subject to the applicable rates beginning January 1, 2018.

On February 21, 2018, SMPC requested for a clarification on this with the tax bureau and submitted a supplemental letter explaining why the excise tax provisions on coal under the TRAIN law will not apply to SMPC under the terms and conditions of its Coal Operating Contract (COC) with the Department of Energy. In response, on December 17, 2018, Revenue Memorandum Circular (RMC) No. 105-2018 was issued, clarifying the payment of excise tax on domestic coal sales and specifically identifying SMPC as merely a collecting agent (SMPC collected from customers and remitted to the tax bureau). The RMC did not provide for the excise tax treatment of coal export sales (per RMC, this will be tackled in a separate revenue memorandum issuance), but management believes that SMPC is similarly not liable for this under the terms of its existing COC. Given this, management believes that both the timing and the amount of excise tax on exported coal that will be due from SMPC, if any, are uncertain as of December 31, 2020 and 2019 and will only be confirmed when the said issuance will be issued by the tax bureau.

b. *DOE Resolution on Violation of Accreditation of Coal Traders*

On May 23, 2019, the trial shipment of 4,768.737 MT of SMPC was shipped and delivered to Gold Anchorage Stevedoring and Arrastre Services, Inc. (GASAI). On June 6, 2019, SMPC received an Order dated June 4, 2019 from the DOE directing SMPC to: (a) File a verified Answer within 30 days from receipt; and (b) cease and desist from doing coal trading activities and operations. Order also states that the coal trader accreditation of SMPC is suspended until further notice.

On July 5, 2019, SMPC filed its Verified Answer arguing that: (a) sale and delivery of coal to GASAI was done in good faith; (b) the cease and desist order (CDO) and suspension is disproportionately severe under the circumstances as it should only be directed to trading done with GASAI; and c) imposition of fines is only applicable to those entities who are not accredited.

On July 10, 2019, SMPC wrote the DOE requesting deferment of the that implementation of the CDO and/or suspension pending resolution of the DOE.

On July 12, 2019, the DOE held in abeyance the imposition of the implementation of the CDO subject to the following conditions:

a. Order of abeyance is effective only for 30 days or until resolution of the Answer, whichever comes earlier;
b. SMPC to continue with its existing coal contracts, but shall not enter as party to any new coal supply agreement; and,
c. SMPC should faithfully comply with its commitments and obligations as an accredited coal trader.

On November 19, 2019, SMPC received the DOE Resolution dated 15 October 2019 imposing the following penalties:

- Suspension of coal trading activities for 1 month, except to SMPC owned and other powerplants with existing coal supply agreements; and,
- Monetary penalty of ₱1.74 million.

On November 20, 2019, a motion for reconsideration to the Resolution dated October 15, 2019 was filed with the following prayer:

- The Resolution is null and void as it was issued in violation of the DOE Rules of Procedure; and,
- The CDO and Resolution are onerous and overbroad in scope as it was applied to unrelated transactions (not GASAI's) and inconsistent with the objectives of the Accreditation Guidelines.

On November 25, 2019, an amended motion for reconsideration was filed by SMPC.

On January 3, 2020, SMPC received letter from the DOE dated December 26, 2019 directing the former to file its position paper relative to the CDO. SMPC filed the said paper on January 10, 2020.

As of March 3, 2021, the case is presently pending for decision with the DOE.

d. DOE Suspension of Mining Activities

On October 2, 2019, a mudflow incident in the Molave Pit South Wall transpired. On October 11, 2019, SMPC submitted to the DOE its Final Report on said incident.

Thereafter, on November 19, 2019, the DOE issued an Order dated November 14, 2019 suspending all mining activities at the site until compliance with certain conditions (hereafter "DOE Order").

In a series of submissions on November 25, 29 and December 6, 2019, SMPC submitted to the DOE a request to lift the suspension of mining operations and a list of compliances to the conditionalities required by the latter.

On December 26, 2019, the DOE, in a letter dated December 23, 2019, lifted the suspension order as SMPC substantially complied with the conditions for the lifting. As of December 31, 2019, all liquefiable materials in the concerned area have been removed and a Safety Consultant has been hired. Consequently, all mining operations at the mine site has resumed.

The Group is contingently liable with respect to certain assessments, lawsuits and other claims which are being contested by management, the outcome of which are not presently determinable. Management believes that the final resolution of these claims will not have a material effect on the consolidated financial statements. The information usually required by PAS 37 is not disclosed as it will prejudice the outcome of the assessments, lawsuits and claims.

30. Financial Risk Management Objectives and Policies

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

The Group's financial liabilities comprise trade and other payables, short-term loans, lease liabilities, 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
- WESM price risk - movement of WESM price for energy
- Interest rate risk - market interest rate on loans
- Foreign currency risk - yearly movement in the foreign exchange rates

The assumption used in calculating the sensitivity analyses of the relevant income statement item is the effect of the assumed changes in respective market risks. This is based on the financial assets and financial liabilities held at December 31, 2020 and 2019.

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

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

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

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

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

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

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

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

	2020	2019
Domestic market	**24.96%**	21.46%
Export market	**75.04%**	78.54%

The following table shows the effect on income before income tax should the change in the prices of coal occur based on the inventory of the Group as of December 31, 2020 and 2019 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 one (1)-year historical price movements in 2020 and 2019.

	Effect on income before income tax Increase (decrease)	
Change in coal price	**2020**	2019
Based on ending coal inventory		
Increase by 22% in 2020 and 27% in 2019	**₱501,215,811**	₱302,989,128
Decrease by 22% in 2020 and 27% in 2019	**(501,215,811)**	(302,989,128)
Based on coal sales volume		
Increase by 22% in 2020 and 27% in 2019	**₱4,745,718,121**	₱3,422,916,272
Decrease by 22% in 2020 and 27% in 2019	**(4,745,718,121)**	(3,422,916,272)

Price Risk
This is the risk relating to the movement of WESM and its impact to the derivatives arising from the Contract for Differences discussed in Note 6.

The following table demonstrates the sensitivity to a reasonably possible change in WESM prices compared to the strike price of ₱3.75 in 2019 (nil in 2020), with all variables held constant of the Group's income before taxes (amounts in thousands).

	Movement in average WESM price	Increase (decrease) in financial assets at FVPL
2020	**+2%**	**(₱14,069,563)**
	-2%	**219,000**
2019	+2%	(₱1,069,563)
	-2%	219,000

Interest rate risk
The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt 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 Philippine Peso-denominated and 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:

		2020					
	Interest	Within 1 year	More than 1 year to 2 years	More than 2 years to 3 years	More than 3 years to 4 years	More than 4 years	Carrying Value
Cash in banks and cash equivalents	**0.50% to 4.00%**	**₱8,080,535,922**	**₱–**	**₱–**	**₱–**	**₱–**	**₱8,080,535,922**
Peso (PHP) long-term debt							
a. ₱3,000.00 million loan	**Fixed annual interest rate of 4.9% per annum**	**747,253,960**	**748,007,198**	**748,700,005**	**749,486,037**	**–**	**2,993,447,200**
b. ₱4,000.00 million loan	**Fixed annual interest rate of 5.00% - 5.13% per annum**	**827,050,882**	**829,203,986**	**831,460,819**	**834,145,064**	**–**	**3,321,860,751**
c. ₱2,750.00 million loan	**Floating rate to be repriced every 3 years**	**269,257,491**	**1,508,997,973**	**136,016,464**	**136,317,024**	**410,941,943**	**2,461,530,895**
d. ₱1,400.00 million loan	**Floating rate to be repriced every 3 months**	**221,653,357**	**222,014,512**	**222,395,026**	**222,792,205**	**502,869,060**	**1,391,724,160**
e. ₱2,700.00 million loan	**Fixed annual interest rate of 4.88% per annum**	**427,601,404**	**428,308,325**	**429,051,906**	**429,833,514**	**862,178,909**	**2,576,974,058**
f. ₱2,000.00 million loan	**Fixed annual interest rate of 4.88% per annum**	**282,538,660**	**283,054,936**	**283,598,096**	**284,169,044**	**570,174,014**	**1,703,534,750**
		₱2,775,355,754	**₱4,019,586,930**	**₱2,651,222,316**	**₱2,656,742,888**	**₱2,346,163,926**	**₱14,449,071,814**

		2019					
	Interest	Within 1 year	More than 1 year to 2 years	More than 2 years to 3 years	More than 3 years to 4 years	More than 4 years	Carrying Value
Cash in banks and cash equivalents	0.13% to 4.45%	₱6,452,904,714	₱–	₱–	₱–	₱–	₱6,452,904,714
Peso (PHP) long-term debt							
a. ₱1,400.00 million loan	Floating rate to be repriced every 3 months	1,400,000,000	–	–	–	–	1,400,000,000
b. ₱750.00 million loan	Floating rate to be repriced every 3 months	750,000,000	–	–	–	–	750,000,000
c. ₱2,750.00 million loan	Floating rate to be repriced every 3 years	275,000,000	275,000,000	1,512,500,000	137,500,000	550,000,000	2,750,000,000
d. ₱3,000.00 million loan	Fixed annual interest rate of 4.9% per annum	–	744,312,226	747,968,040	748,719,092	749,506,109	2,990,505,467
e. ₱4,000.00 million loan	Fixed annual interest rate of 5.00% - 5.13% per annum	649,187,947	826,834,712	829,160,884	939,971,993	725,619,596	3,970,775,132
f. ₱2,700.00 million loan	Fixed annual interest rate of 4.88% per annum	104,330,139	428,824,374	429,340,650	429,883,811	1,293,200,201	2,685,579,175
g. ₱2,000.00 million loan	Fixed annual interest rate of 4.88% per annum	280,915,458	281,315,690	282,022,611	282,766,191	853,155,280	1,980,175,230
		₱3,459,433,544	₱2,556,287,002	₱3,800,992,185	₱2,538,841,087	₱4,171,481,186	₱16,527,035,004

The following table demonstrates the sensitivity of the Group's income before income tax to a reasonably possible change in interest rates on December 31, 2020 and 2019, with all variables held constant, through the impact on floating rate borrowings:

	Effect on income before income tax Increase (decrease)	
Basis points	**2020**	2019
+100	**(₱248,900)**	(₱276,400)
-100	**248,900**	276,400

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 financial liabilities as of December 31, 2020 and 2019 based on contractual payments:

	2020					
	Less than 6 months	**More than 6 months to 12 months**	**More than 1 year to 2 years**	**More than 2 years to 3 years**	**More than 3 years**	**Total**
Financial Assets						
Cash in banks and cash equivalents	**₱8,080,535,922**	**₱–**	**₱–**	**₱–**	**₱–**	**₱8,080,535,922**
Receivables						
Trade:						
Outside parties	**1,541,419,267**	**–**	**–**	**–**	**1,564,439,082**	**3,105,858,349**
Related parties	**307,412,820**	**–**	**–**	**–**	**–**	**307,412,820**
Others*	**196,655,363**	**–**	**–**	**–**	**5,815,359**	**202,470,722**
Environmental guarantee fund	**–**	**–**	**–**	**–**	**3,520,000**	**3,520,000**
	10,126,023,372	**–**	**–**	**–**	**1,573,774,441**	**11,699,797,813**
Financial Liabilities						
Trade and other payables						
Trade:						
Payable to suppliers and contractors	**5,487,316,399**	**–**	**–**	**–**	**–**	**5,487,316,399**
Related parties	**510,862,019**	**–**	**–**	**–**	**–**	**510,862,019**
Accrued expenses and other payables**	**431,576,478**	**–**	**–**	**–**	**–**	**431,576,478**
Short term loans* **	**5,450,955,679**	**–**	**–**	**–**	**–**	**5,450,955,679**
Lease liabilities	**6,961,846**	**6,961,845**	**14,703,241**	**15,365,724**	**59,026,059**	**103,018,715**
Peso long-term debt with interest payable in arrears* **						
₱3,000.00 million loan	**446,152,083**	**437,959,896**	**846,851,563**	**809,591,146**	**772,458,333**	**3,313,013,021**
₱4,000.00 million loan	**498,165,160**	**488,750,876**	**944,172,673**	**901,415,268**	**859,178,799**	**3,691,682,776**
₱2,750.00 million loan	**192,696,904**	**190,399,581**	**1,577,772,806**	**166,041,839**	**600,466,864**	**2,727,377,994**
₱1,400.00 million loan	**145,487,179**	**143,196,928**	**277,387,600**	**266,091,093**	**786,881,107**	**1,619,043,907**
₱2,700.00 million loan	**276,449,680**	**272,134,938**	**527,515,978**	**506,447,338**	**1,392,942,634**	**2,975,490,568**
₱2,000.00 million loan	**182,428,125**	**179,575,045**	**348,071,742**	**334,140,313**	**918,842,796**	**1,963,058,021**
	₱13,629,051,552	**₱1,718,979,109**	**₱4,536,475,603**	**₱2,999,092,721**	**₱5,389,796,592**	**₱28,273,395,577**

**excludes nonfinancial assets*
***excludes statutory liabilities*
****includes future interest*

	2019					
	Less than 6 months	More than 6 months to 12 months	More than 1 year to 2 years	More than 2 years to 3 years	More than 3 years	Total
Financial Assets						
Cash in banks and cash equivalents	₱6,452,904,714	₱–	₱–	₱–	₱–	₱6,452,904,714
Receivables						
Trade:						
Outside parties	1,852,135,996	–	–	–	1,564,439,082	3,416,575,078
Related parties	120,559,433	–	–	–	–	120,559,433
Others*	74,159,551	–	–	–	5,815,359	79,974,910
Environmental guarantee fund	–	–	–	–	3,520,000	3,520,000
	8,499,759,694	–	–	–	1,573,774,441	10,073,534,135
Financial Liabilities						
Trade and other payables						
Trade:						
Payable to suppliers and contractors	5,747,420,342	–	–	–	–	5,747,420,342
Related parties	551,694,807	–	–	–	–	551,694,807
Accrued expenses and other payables**	584,907,025	–	–	–	–	584,907,025
Short term loans	2,070,000,000	–	–	–	–	2,070,000,000
Lease liabilities	7,085,685	7,085,684	13,218,031	14,366,768	65,781,450	107,537,618
Peso long-term debt with interest payable in arrears						
₱2,750.00 million loan	137,500,000	137,500,000	275,000,000	1,512,500,000	687,500,000	2,750,000,000
₱1,400.00 million loan	1,400,000,000	–	–	–	–	1,400,000,000
₱750.00 million loan	–	750,000,000	–	–	–	750,000,000
₱4,000.00 million loan	324,593,974	324,593,974	826,834,711	829,160,884	1,665,591,589	3,970,775,132
₱3,000.00 million loan	–	–	744,312,226	747,968,040	1,498,225,201	2,990,505,467
₱2,700.00 million loan	52,165,070	52,165,070	428,824,374	429,340,650	1,723,084,012	2,685,579,176
₱2,000.00 million loan	140,457,729	140,457,729	281,315,690	282,022,610	1,135,921,471	1,980,175,229
	₱11,015,824,632	₱1,411,802,457	₱2,569,505,032	₱3,815,358,952	₱6,776,103,723	₱25,588,594,796

**excludes nonfinancial assets*
***excludes statutory liabilities*

Foreign currency risk
Majority of the Group's revenue are generated in Philippine Peso, however, there are also significant export coal sales as well as capital expenditures which are in US$.

The Group manages this risk by matching receipts and payments in the same currency and monitoring. Approximately, 57.76% and 66.48% of the Group's sales in 2020 and 2019, respectively, were denominated in US$ whereas approximately 7.75% and 4.57% of debts as of December 31, 2020 and 2019, respectively, were denominated in US$.

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

	December 31, 2020		December 31, 2019	
	US Dollar	**Peso Equivalent**	US Dollar	Peso Equivalent
Assets				
Cash and cash equivalents	**$18,465,858**	**₱886,785,883**	$44,695,558	₱2,263,383,058
Trade receivables	**12,607,855**	**605,467,024**	3,935,590	199,298,266
Liabilities				
Trade payables	**(46,714,548)**	**(2,243,372,743)**	(45,030,082)	(2,280,323,347)
Net exposure	**($15,640,835)**	**(₱751,119,836)**	$3,601,066	₱182,357,977

The exchange rates used were ₱48.02 to $1 and ₱50.64 to $1 in 2020 and 2019, 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 income tax (due to changes in the fair value of monetary assets and liabilities) as of December 31, 2020 and 2019.

Reasonably possible change in the Philippine Peso-US$ exchange rate	Increase (decrease) in income before income tax	
	2020	**2019**
₱3	**(₱46,922,505)**	**(₱7,202,132)**
(3)	**46,922,505**	**7,202,132**

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

The Group recognized net foreign exchange gains (losses) (realized and unrealized) amounting to ₱154.69 million, (₱8.67 million) and (₱388.31 million) in 2020, 2019 and 2018, respectively, arising from the translation of the Group's cash and cash equivalents, trade receivables, trade payables, short-term loans and long-term debt.

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

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

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

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

The credit risk is concentrated to the following markets:

	2020	2019
Trade receivables - outside parties	**85.70%**	93.00%
Trade receivables - related parties	**8.38**	4.13
Others	**5.92**	2.87
	100.00%	100.00%

As of December 31, 2020 and 2019, the credit quality per class of financial assets is as follows:

	2020				
	Neither Past Due nor Impaired		**Substandard**	**Past due and/or Individually**	
	Grade A	**Grade B**	**Grade**	**Impaired**	**Total**
Cash in banks and cash equivalents	**₱8,080,535,922**	**₱–**	**₱–**	**₱–**	**₱8,080,535,922**
Receivables:					
Trade receivables - outside parties	**2,426,468,243**	**–**	**–**	**2,282,538,247**	**4,709,006,489**
Trade receivables - related parties	**289,660,688**	**–**	**–**	**17,752,132**	**307,412,820**
Others*	**202,470,722**	**–**	**–**	**5,815,359**	**208,286,081**
Environmental guarantee fund	**3,520,000**	**–**	**–**	**–**	**3,520,000**
	₱11,002,655,575	**₱–**	**₱–**	**₱2,306,105,738**	**₱13,308,761,312**

**excludes nonfinancial assets*

	2019				
	Neither Past Due nor Impaired		Substandard	Past due and/or Individually	
	Grade A	Grade B	Grade	Impaired	Total
Cash in banks and cash equivalents	₱6,452,904,714	₱–	₱–	₱–	₱6,452,904,714
Receivables:					
Trade receivables - outside parties	3,094,160,150	–	–	1,856,861,392	4,951,021,542
Trade receivables - related parties	150,552,051	–	–	–	150,552,051
Others*	79,974,910	–	–	5,815,359	85,790,269
Environmental guarantee fund	3,520,000	–	–	–	3,520,000
	₱9,781,111,825	₱–	₱–	₱1,862,676,751	₱11,643,788,576

**excludes nonfinancial assets*

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 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 receivables - related parties are apportioned between Grade A and Past due and/or individually impaired. 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 the 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 with reputable and creditworthy companies.

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

As of December 31, 2020 and 2019, the aging analyses of the Group's past due and/individually impaired receivables presented per class are as follows:

	2020			
	Past Due but not Impaired		**Impaired Financial Assets**	**Total**
	30 Days and Less	**More than 30 Days**		
Receivables				
Trade receivables - outside parties	**₱445,612,772**	**₱272,486,392**	**₱1,564,439,082**	**₱2,282,538,247**
Trade receivables - related parties	**17,752,132**	–	–	**17,752,132**
Others*	–	–	**5,815,359**	**5,815,359**
Total	**₱463,364,904**	**₱272,486,392**	**₱1,570,254,441**	**₱2,306,105,738**

	2019			
	Past Due but not Impaired		Impaired Financial Assets	Total
	30 Days and Less	More than 30 Days		
Receivables				
Trade receivables - outside parties	₱146,337,901	₱146,084,409	₱1,564,439,082	₱1,856,861,392
Others	–	–	5,815,359	5,815,359
Total	₱146,337,901	₱146,084,409	₱1,570,254,441	₱1,862,676,751

Capital management
The primary objective of the Group's capital management strategy is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value. The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders or issue new shares.

No changes were made in the objectives, policies and processes from the previous years.

The Group manages its capital using debt-to-equity ratio, which is interest-bearing loans divided by equity, and EPS. The following table shows the Group's capital ratios as of December 31, 2020 and 2019.

	2020	2019
Interest-bearing loans	**₱19,874,071,814**	₱18,597,035,004
Total equity	**42,185,010,914**	44,235,899,763
Debt-equity ratio	**0.47:1**	0.42:1
EPS (Note 27)	**₱0.77**	₱2.28

The debt-to-equity ratio, expressed in percentage, 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 Group considers short-term loans and long-term debt as 'interest-bearing loans' in determining debt-to-equity ratio.

The following table shows the components of the Group's capital as of December 31, 2020 and 2019:

	2020	2019
Total paid-up capital	**₱10,940,136,701**	₱10,940,136,701
Acquisition of treasury shares	**(739,526,678)**	(739,526,678)
Net remeasurement losses on pension plan	**(122,842,685)**	(98,388,949)
Retained earnings - unappropriated	**26,807,243,576**	28,833,678,689
Retained earnings - appropriated	**5,300,000,000**	5,300,000,000
	₱42,185,010,914	₱44,235,899,763

The Group is not subject to any externally imposed capital requirements.

31. **Fair Values**

Fair Value Information
The fair values of cash and cash equivalents, receivables, environmental guarantee fund, trade payables, accrued expenses and other payables, and short-term loans approximate its carrying values since most of these financial instruments are relatively short-term in nature.

Financial asset at FVPL
The fair value of the derivative was determined using the market data approach, MCS valuation which is categorized within Level 3 of the fair value hierarchy.

Long-term debt and lease liabilities
The fair values approximated the carrying values because of recent and regular repricing of interest rates (e.g., monthly, quarterly, semi-annual or annual basis) based on current market conditions. In 2019 and 2018, interest rate ranges from 3.85% to 5.14% and 0.50% to 5.01%, respectively, for long-term debt, while 7.64% to 7.88% for lease liabilities (nil in 2018).

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

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities
Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly
Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data

There has been no reclassification from Level 1 to Level 2 or 3 category in 2020 and 2019.

32. Notes to Consolidated Statements of Cash Flows

Supplemental disclosure of noncash investing activities follows:

	2020	2019	2018
Depreciation capitalized as coal inventory (Note 10)	**₱324,707,108**	₱443,040,632	₱891,667,535
Transfers from property, plant and equipment to inventories (Notes 7 and 10)	–	182,722,425	–
Write-down of property, plant and equipment (Notes 10 and 22)	**157,196,754**	83,535,586	–

Changes in liabilities arising from financing activities in 2020 and 2019 follows:

	For the Year Ended December 31, 2020				
	January 1, 2020	**Net cash flows**	**Foreign exchange movement**	**Others**	**December 31, 2020**
Short-term loans (Note 13)	**₱2,070,000,000**	**3,355,000,000**	**₱–**	**₱–**	**₱5,425,000,000**
Long-term debt (Note 14)	**16,527,035,004**	**(2,077,514,285)**	–	**(448,905)**	**14,449,071,814**
Dividend payable (Note 15)	**1,220,121**	**(5,313,211,592)**	–	**5,313,184,525**	**1,193,054**
Lease liabilities (Note 11)	**107,537,618**	**(5,245,912)**	–	**727,009**	**103,018,715**
	₱18,705,792,743	**(₱4,040,971,789)**	**₱–**	**₱5,313,462,629**	**₱19,978,283,583**

	For the Year Ended December 31, 2019				
	January 1, 2019	Net cash flows	Foreign exchange movement	Others	December 31, 2019
Short-term loans (Note 13)	₱5,872,231,984	(₱3,802,231,984)	₱–	₱–	₱2,070,000,000
Long-term debt (Note 14)	14,596,796,383	1,878,569,755	36,831,188	14,837,678	16,527,035,004
Dividend payable (Note 15)	1,329,303	(5,313,293,707)	–	5,313,184,525	1,220,121
Lease liabilities (Note 11)	114,055,187	(10,868,143)	–	4,350,574	107,537,618
	₱20,584,412,857	(₱7,247,824,079)	₱36,831,188	₱5,332,372,777	₱18,705,792,743

Others include noncash changes pertaining to amortization of deferred financing costs and cash dividend declaration by the Parent Company, additions to lease liabilities, accretion of interest, and payment of deferred costs. Others in 2019 include recognition of lease liabilities as a result of adoption of PFRS 16.

33. **Operating Segments**

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

Reportable operating segments are as follows:

- Mining - engaged in surface open cut mining of thermal coal; and,
- Power - involved in generation of energy available for sale thru bilateral contracts, wholesale electricity market and trading.

No operating segments have been aggregated to form the above reportable operating segments.

The chief operating decision maker (CODM) monitors the operating results of the Group for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on revenue, operating profit and pretax income which are measured similarly in the consolidated financial statements. Transactions between operating segments are made at terms and prices agreed upon by the parties.

	2020 (In thousands)				
	Mining	**Power**	**Others**	**Adjustments and Eliminations**	**Consolidated**
Revenue					
Sales to external customers	**₱16,488,547**	**₱11,761,822**	**₱–**	**₱–**	**₱28,250,369**
Inter-segment sales	**4,458,634**	**–**	**–**	**(4,458,634)**	**–**
	20,947,181	**11,761,822**	**–**	**(4,458,634)**	**28,250,369**
Cost of sales*	**(12,088,956)**	**(6,208,388)**	**–**	**4,692,924**	**(13,604,420)**
Depreciation and amortization	**(3,223,491)**	**(2,871,507)**	**–**	**–**	**(6,094,998)**
Gross profit	**5,634,734**	**2,681,927**	**–**	**234,290**	**8,550,951**
Operating expenses*	**(2,181,808)**	**(2,170,876)**	**(7,375)**	**–**	**(4,360,059)**
Depreciation	**(46,484)**	**(147,519)**	**–**	**–**	**(194,003)**
Operating profit (loss)	**3,406,442**	**363,532**	**(7,375)**	**234,290**	**3,996,889**
Other income (expense) - net	**2,071,809**	**251,014**	**7,727**	**(2,013,830)**	**316,720**
Finance income	**21,029**	**24,596**	**697**	**(449)**	**45,873**
Foreign exchange gain (loss) - net	**157,953**	**(3,267)**	**–**	**–**	**154,686**
Finance costs	**(357,881)**	**(737,416)**	**–**	**476**	**(1,094,821)**
Pretax income (loss)	**5,299,351**	**(101,541)**	**1,049**	**(1,779,513)**	**3,419,347**
Provision for (benefit from) income tax	**60,008**	**74,664**	**(2,074)**	**–**	**132,598**
Net income (loss)	**₱5,239,344**	**(₱176,205)**	**₱3,123**	**(₱1,779,513)**	**₱3,286,749**
Segment assets	**₱42,648,511**	**₱45,982,500**	**₱49,209**	**(₱18,389,492)**	**₱70,290,728**
Deferred tax assets	**151,453**	**701,341**	**2,203**	**–**	**854,997**
	₱42,799,964	**₱46,683,841**	**₱51,412**	**(₱18,389,492)**	**₱71,145,725**
Segment liabilities	**₱8,720,822**	**₱7,319,036**	**₱222,438**	**(₱1,750,654)**	**₱14,511,642**
Long-term debt	**3,853,255**	**10,595,817**	**–**	**–**	**14,449,072**
	₱12,574,077	**₱17,914,853**	**₱222,438**	**(₱1,750,654)**	**₱28,960,714**
Cash flows arising from:					
Operating activities	**₱6,853,207**	**₱4,507,770**	**₱52,247**	**(₱1,596,509)**	**₱9,816,715**
Investing activities	**29,159**	**(2,441,833)**	**2,784**	**(1,770,000)**	**(4,179,890)**
Financing activities	**(4,349,015)**	**308,043**	**–**	**–**	**(4,040,972)**
Other disclosures					
Capital expenditures	**₱2,863,750**	**₱2,468,800**	**₱368,006**	**₱–**	**₱5,700,556**

**Excluding depreciation and/or amortization*

	2019 (In thousands)				
	Mining	Power	Others	Adjustments and Eliminations	Consolidated
Revenue					
Sales to external customers	₱29,085,433	₱15,166,672	₱–	₱–	₱44,252,105
Inter-segment sales	3,196,974	–	–	(3,196,974)	–
	32,282,407	15,166,672	–	(3,196,974)	44,252,105
Cost of sales*	(15,965,115)	(7,759,265)	–	3,356,685	(20,367,695)
Depreciation and amortization	(3,795,550)	(2,483,914)	–	–	(6,279,464)
Gross profit	12,521,742	4,923,493	–	159,711	17,604,946
Operating expenses*	(4,575,637)	(2,130,048)	(15,656)	–	(6,721,341)
Depreciation	(46,912)	(596,668)	–	–	(643,580)
Operating profit (loss)	7,899,193	2,196,777	(15,656)	159,711	10,240,025
Other income (expense) - net	(8,008)	193,946	338	(77)	186,199
Finance income	23,773	259,128	468	(386)	282,983
Foreign exchange loss - net	(6,922)	(1,752)	–	–	(8,674)
Finance costs	(534,900)	(781,968)	–	–	(1,316,868)
Pretax income (loss)	7,373,136	1,866,131	(14,850)	159,248	9,383,665
Benefit from (provision for) income tax	59,068	236,152	(94)	–	295,126
Net income (loss)	₱7,432,204	₱2,102,283	(₱14,944)	₱159,248	₱9,678,791
Segment assets	₱41,408,334	₱49,119,354	₱40,913	(₱19,247,658)	₱71,320,943
Deferred tax assets	196,973	691,208	–	–	888,181
	₱41,605,307	₱49,810,562	₱40,913	(₱19,247,658)	₱72,209,124
Segment liabilities	₱6,406,696	₱7,311,206	₱215,540	(₱2,487,253)	₱11,446,189
Long-term debt	4,900,000	11,627,035	–	–	16,527,035
	₱11,306,696	₱18,938,241	₱215,540	(₱2,487,253)	₱27,973,224
Cash flows arising from:					
Operating activities	₱13,251,420	₱9,063,685	₱24,903	₱1,798,051	₱24,138,059
Investing activities	(2,622,079)	(8,066,040)	2,784	(1,689,999)	(12,375,334)
Financing activities	(8,288,424)	1,040,600	–	–	(7,247,824)
Other disclosures					
Capital expenditures	₱3,328,138	₱8,354,746	₱8,175	₱–	₱11,691,059

**Excluding depreciation and/or amortization*

	2018 (In thousands)				
	Mining	Power	Others	Adjustments and Eliminations	Consolidated
Revenue					
Sales to external customers	₱23,185,658	₱18,782,855	₱–	₱–	₱41,968,513
Inter-segment sales	7,509,845	–	–	(7,509,845)	–
	30,695,503	18,782,855	–	(7,509,845)	41,968,513
Cost of sales*	(11,704,564)	(10,025,836)	–	7,382,656	(14,347,744)
Depreciation and amortization	(4,051,498)	(2,444,928)	–	–	(6,496,426)
Gross profit	14,939,441	6,312,091	–	(127,189)	21,124,343
Operating expenses*	(4,496,082)	(1,971,473)	(20,191)	–	(6,487,746)
Depreciation	(31,955)	(1,256,094)	–	–	(1,288,049)
Operating profit (loss)	10,411,404	3,084,524	(20,191)	(127,189)	13,348,548
Other income	2,036,953	571,412	47	(2,000,000)	608,412
Finance income	63,360	65,520	288	–	129,168
Foreign exchange loss – net	(365,574)	(22,736)	–	–	(388,310)
Finance costs	(425,147)	(517,788)	–	–	(942,935)
Pretax income (loss)	11,720,996	3,180,932	(19,856)	(2,127,189)	12,754,883
Provision for income tax	(19,906)	(709,577)	(18)	–	(729,501)
Net income (loss)	₱11,701,090	₱2,471,355	(₱19,874)	(₱2,127,189)	₱12,025,382
Segment assets	₱42,354,519	₱45,908,359	₱40,201	(₱17,689,225)	₱70,613,854
Deferred tax assets	66,828	368,256	–	–	435,084
	₱42,421,347	₱46,276,615	₱40,201	(₱17,689,225)	₱71,048,938

	2018 (In thousands)				
	Mining	Power	Others	Adjustments and Eliminations	Consolidated
Segment liabilities	₱8,564,551	₱8,473,182	₱199,838	(₱779,912)	₱16,457,659
Deferred tax liability	–	61,796	–	–	61,796
Long-term debt	5,656,388	8,940,409	–	–	14,596,797
	₱14,220,939	₱17,475,387	₱199,838	(₱779,912)	₱31,116,252
Cash flows arising from:					
Operating activities	₱9,192,381	₱132,620	(₱14,381)	₱192,539	9,503,159
Investing activities	(7,539,776)	945,719	14,431	(1,992,612)	(8,572,238)
Financing activities	(6,636,935)	(2,852,992)	–	2,000,120	(7,489,807)
Other disclosures					
Capital expenditures	₱6,332,006	₱3,182,035	₱14,431	₱–	₱9,528,472

**Excluding depreciation and/or amortization*

Intersegment revenues, other income, cost and expenses are eliminated in the consolidation under adjustments and eliminations.

Significant noncash items charged to comprehensive income include change in rehabilitation plan in 2018, impairment of capitalized development cost for clay business in 2017, loss on property, plant and equipment write-down in 2016, and depreciation and amortization.

Segment assets exclude deferred tax assets amounting to ₱855.00 million, ₱888.18 million and ₱435.08 million in 2020, 2019 and 2018, respectively.

Capital expenditures consist of additions to property, plant and equipment.

All noncurrent assets other than financial instruments are located in the Philippines.

Disaggregation of Revenue Information

Set out below is the disaggregation of the Group's revenue from contracts with customers:

Revenues from coal sales

	2020	2019	2018
Domestic market	**₱4,939,825,531**	₱6,973,910,841	₱10,125,347,705
Export market	**11,548,721,631**	22,111,522,547	13,060,310,428
	₱16,488,547,162	₱29,085,433,388	₱23,185,658,133

Substantially all revenues from external customer are from open cut mining and sales of thermal coal. Local and export classification above is based on the geographic location of the customer. Customers on the export sales are significantly from China.

All of the Group's sales of coal are revenue from contracts with customers recognized at point in time.

Revenues from power sales

	2020	2019	2018
Bilateral contracts			
Distribution utility	**₱1,233,792,000**	₱1,376,375,687	₱8,409,364,280
RES	**4,879,102,971**	6,222,128,463	7,197,606,624
Others	**17,802,399**	111,848,219	30,228,640
	6,130,697,370	7,710,352,369	15,637,199,544
Spot sales			
WESM	**5,631,123,974**	7,456,319,551	3,145,655,146
	₱11,761,821,344	₱15,166,671,920	₱18,782,854,690

All revenues from power are derived from the Philippine market and are revenue from contracts with customers recognized over time.

Set out below is the reconciliation of contracts with customers with the amounts disclosed in segment information:

	For the Year Ended December 31, 2020				
	Domestic coal sales	**Export coal sales**	**Bilateral contracts**	**Spot sales**	**Total**
Revenue					
External customers	**₱4,939,825,531**	**₱11,548,721,631**	**₱6,130,697,370**	**₱5,631,123,974**	**₱28,250,368,506**
Inter-segment	**4,458,634,145**	**–**	**–**	**–**	**4,458,634,145**
	9,398,459,676	**11,548,721,631**	**6,130,697,370**	**5,631,123,974**	**32,709,002,651**
Inter-segment adjustments and eliminations	**(4,458,634,145)**	**–**	**–**	**–**	**(4,458,634,145)**
	₱4,939,825,531	**₱11,548,721,631**	**₱6,130,697,370**	**₱5,631,123,974**	**₱28,250,368,506**

	For the Year Ended December 31, 2019				
	Domestic coal sales	Export coal sales	Bilateral contracts	Spot sales	Total
Revenue					
External customers	₱6,973,910,841	₱22,111,522,547	₱7,710,352,369	₱7,456,319,551	₱44,252,105,308
Inter-segment	3,196,974,312	–	–	–	3,196,974,312
	10,170,885,153	22,111,522,547	7,710,352,369	7,456,319,551	47,449,079,620
Inter-segment adjustments and eliminations	(3,196,974,312)	–	–	–	(3,196,974,312)
	₱6,973,910,841	₱22,111,522,547	₱7,710,352,369	₱7,456,319,551	₱44,252,105,308

34. Other Matters

a. *Electric Power Industry Reform Act (EPIRA)*
In June 2001, the Congress of the Philippines approved and passed into law R.A. No. 9136, otherwise known as the EPIRA, providing the mandate and the framework to introduce competition in the electricity market. EPIRA also provides for the privatization of the assets of NPC, including its generation and transmission assets, as well as its contract with Independent Power Producers (IPPs). EPIRA provides that competition in the retail supply of electricity and open access to the transmission and distribution systems would occur within three years from EPIRA's effective date. Prior to June 2002, concerned government agencies were to establish

WESM, ensure the unbundling of transmission and distribution wheeling rates and remove existing cross subsidies provided by industrial and commercial users to residential customers. The WESM was officially launched on June 23, 2006 and began commercial operations for Luzon. The ERC has already implemented a cross subsidy removal scheme. The inter-regional grid cross subsidy was fully phased-out in June 2002. ERC has already approved unbundled rates for Transmission Company (TRANSCO) and majority of the distribution utilities.

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

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

WESM

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

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

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

In 2017, the Board of PEMC has approved the transition plan for the creation of an independent market operator (IMO), paving the way for the state firm to finally relinquish control of the WESM.

On February 4, 2018, the DOE published Department Circular No. DC2018-01-0002, "Adopting Policies for the Effective and Efficient Transition to the Independent Market Operator for the Wholesale Electricity Spot Market". This Circular shall take effect immediately after its publication in two newspapers of general circulation and shall remain in effect until otherwise revoked. Pursuant to Section 37 and Section 30 of the EPIRA, jointly with the electric power participants, the DOE shall formulate the detailed rules for the wholesale electricity spot market. Said rules shall provide the mechanism for determining the price of electricity not covered by bilateral contracts between sellers and purchasers of electricity users. The price determination methodology contained in said rules shall be subject to the approval of ERC. Said rules shall also reflect accepted economic principles and provide a level playing field to all electric power industry participants.

b. *Clean Air Act*
On November 25, 2000, the Implementing Rules and Regulations (IRR) of the Philippine Clean Air Act (PCAA) took effect. The IRR contains provisions that have an impact on the industry as a whole and on SCPC in particular, that need to be complied within 44 months (or until July 2004) from the effectivity date, subject to the approval by DENR. The power plant of SCPC uses thermal coal and uses a facility to test and monitor gas emissions to conform with Ambient and Source Emissions Standards and other provisions of the Clean Air Act and its IRR. Based on SCPC's initial assessment of its power plant's existing facilities, SCPC believes that it is in full compliance with the applicable provisions of the IRR of the PCAA.

c. *Competitive Selection Process (CSP)*
On June 11, 2015, DOE Circular No. DC2015-06-0008, "Mandating All Distribution Utilities to Undergo CSP In Securing PSAs", was signed, requiring all DUs to conduct a CSP in procuring PSAs. The CSP shall be conducted by a qualified third party duly recognized by the DOE and ERC and, in the case of Electric Cooperatives (ECs), shall be recognized by the National Electrification Administration (NEA). The CSP shall conform with aggregation of DU's un-contracted demand requirement, annual conduct of CSP, and a uniform PSA Template on the terms and conditions to be issued by the ERC and DOE. The circular does not apply to PSAs with tariff rates already approved and/or have been applied for approval by the ERC before the effectivity of the circular. The DOE shall enforce and monitor compliance and the penalty provision through ERC.

On October 20, 2015, the DOE and ERC released Joint Resolution No. 1 (2015), "A Resolution Enjoining All Distribution Utilities to Conduct Competitive Selection Process (CSP) in the Procurement of Supply for Their Captive Market". The DOE and ERC recognize that CSP in the procurement of PSAs by the DUs engenders transparency, enhances security of supply, and ensure stability of electricity prices to captive electricity end-users in the long-term.

On the same day, the ERC signed Resolution No. 13, Series of 2015, "A Resolution Enjoining All Distribution Utilities to Conduct Competitive Selection Process (CSP) in the Procurement of Supply for Their Captive Market". The resolution prescribes that all PSAs shall be awarded to the winning Generation Company following a successful transparent CSP, or by Direct Negotiation in the event of two failed CSPs, and that DUs may adopt any accepted form of CSP. This resolution does not apply to PSAs already filed with the ERC as of its effectivity.

On March 15, 2016, the ERC released Resolution No. 1 Series of 2016, "A Resolution Clarifying the Effectivity of ERC Resolution No.13, series of 2015". The resolution postponed the effectivity of ERC Resolution No.13, Series of 2015 to April 30, 2016. All PSAs executed on or after the said date shall be required, without exception, to comply with the provisions of the CSP resolution. There should be at least two qualified bids for the CSP to be considered as successful and lastly, the DU shall adopt the Terms of Reference prescribed in Section 2 of ERC Resolution No. 13, Series of 2015. On PSA's with provisions on automatic renewal or extension of term, it shall apply that PSA's approved by ERC or filed before the effectivity of Resolution No. 1, may have one automatic renewal or extension for a period not exceeding one year from the end of their respective terms. There will be no automatic renewal or extension of PSAs upon effectivity of Resolution No. 1.

d. *Retail Competition and Open Access (RCOA)*
Under Section 31 of the Electric Power Industry Reform Act (EPIRA) of 2001, RCOA shall be implemented. In Retail Competition, the Contestable Market are provided electricity by Retail Suppliers through Open Access, wherein qualified Persons are allowed to use the Transmission, and/or Distribution Systems and their associated facilities. The implementation of RCOA is subject to the following conditions; a. Approval of the unbundled transmission and distribution wheeling charges; b. initial implementation of the cross subsidy removal scheme; c. Establishment of the WESM; d. Privatization of at least 70% of the total capacity of generating assets of NPC in Luzon and Visayas; and e. Transfer of the management and control of at least 70% of the total energy output of power plants under contract with NPC to the IPP Administrators.

Upon satisfying these conditions, the ERC declared December 26, 2012 as the Open Access Date where end-users who have an average monthly peak demand for the preceding 12 months, as indicated by a single utility meter, of at least 1MW (the threshold level) qualifies as Contestable Customers (CCs) making up the Contestable Market (Phase 1). After a six-month Transition Period, on June 26, 2013, Retail Supply Contracts (RSCs) entered into by and between the Ccs and their chosen Suppliers where implemented. Phase 2 implementation was set to begin two years after Phase 1. During Phase 2, the threshold level shall be reduced to 750 kW and Aggregators shall be allowed to supply electricity to End-users whose aggregate monthly average peak demand within a Contiguous Area is at least seven hundred fifty kilowatts (750 kW). Subsequently and every year thereafter, the ERC shall evaluate the performance of the market. On the basis of such evaluation, it shall gradually reduce the threshold level until it reaches the household demand level.

On May 12, 2016, ERC Resolution No. 10 (2016), “A Resolution Adopting the Revised Rules for Contestability”, was signed. These revised rules aim to clarify and establish the conditions and eligibility requirements for End-users to be part of the Contestable Market; to set the threshold level for the Contestable Market; to ensure the efficient transition towards full contestability and to ensure consumer protection and enhance the competitive operation of the retail electricity market.

The Resolution states that the Threshold Reduction Date covering End-users with an average monthly peak demand of at least 750 kW for the preceding 12 months, is set to June 26, 2016. Thus, on such date, all End-users with an average monthly peak demand of at least 1 MW (1MW Customers) and 750 kW (750 kW Customers), which have been issued Certificates of Contestability by the ERC, shall be allowed to contract with any RES on a voluntary basis. Thereafter, an End-user with an average monthly peak demand of at least 1MW is hereby mandated to enter into RSC with a RES by its mandatory contestability date of December 26, 2016 (This was moved by the ERC to February 26, 2017 through ERC Resolution No. 28 (2016), “Revised Timeframe for Mandatory Contestability, Amending Resolution No. 10, series of 2016, entitled Revised Rules for Contestability” signed on November 15, 2017. Subsequently, an End-user with an average monthly peak demand of at least 750kW is hereby mandated to enter into an RSC with a RES by its mandatory contestability date of June 26, 2017. The lowering of the threshold to cover an end-user with an average monthly peak demand of at least 500kW is set on June 26, 2018, subject to the review of the performance of the retail market by the ERC. Corollary, in its review of the performance of the retail market, the ERC shall establish a set of criteria as basis for the lowering of the contestability threshold. Retail Aggregation shall subsequently be allowed on June 26, 2018. During this phase, suppliers of electricity shall be allowed to contract with end-users whose aggregate demand within a Contiguous Area is at least 750 kW. Retail Competition and Open Access shall be effective only in grids where the WESM is operational.

On February 21, 2017, the Supreme Court issued a Temporary Restraining Order (TRO), G.R. No. 228588, on the implementation of several ERC Resolutions and a DOE Circular concerning the RCOA. ERC Res 10 & 28, Series of 2016 were among them. In a joint advisory on February 24, 2018, the DOE, ERC and PEMC said that they are in a process of drafting a general advisory for the guidance of RCOA Stakeholders. Issues to be considered are: 1) those who have already executed RSCs and were already registered and switched shall continue to honor their respective RSCs; 2) ongoing applications for registration filed before the Central Registration Body (CRB) may proceed voluntarily; 3) applicants who wish to withdraw or defer their registration before the CRB may do so consistent with the Retail Market Rules provided that the CRB shall not be liable for any legal repercussions that may arise out of the contestable customers' contractual obligations; and 4) remaining contestable customers who have not yet secured their RSCs may continue to negotiate and exercise their power to choose.

e. *Renewable Portfolio Standards (RPS)*
The implementation of the RPS is an important development for the Renewable Energy (RE) Market, and impacts the public as a whole. Republic Act No. 9513 or the Renewable Energy Law gives both fiscal and non-fiscal incentives to investors in order to encourage the promotion and development of renewable energy in the Philippines. Toward this end, the RPS serves as a market-based policy mechanism which makes use of the RE Market to facilitate and commercialize trading in RE Certificates, the latter which are used to satisfy the RPS requirements and increases RE generation in the country.

On December 30, 2017, DOE Circular No. DC2017-12-0015, or the RPS On-Grid Rules, took effect, requiring DUs, electricity suppliers, generating companies supplying directly connected customers, and other mandated energy sector participants to source or produce a certain share of electricity from their Energy Mix from eligible RE resources. These eligible RE facilities include the following technologies: biomass, waste to energy technology, wind, solar, hydro, ocean, geothermal, and other RE technologies later identified by the DOE.

The RPS On-Grid Rules mandates energy sector participants to comply with the minimum annual RPS requirement in order to meet the aspirational target of thirty-five (35%) in the generation mix by 2030.

This minimum RE requirement, however, will not be imposed immediately but in 2020. The 2018 and 2018 years are considered transition years to help the mandated participants comply with the DOE Circular. Additionally, the RPS On-Grid Rules implements a Minimum Annual Incremental RE Percentage to be sold by mandated participants. It is initially set at a minimum of one percent (1%) and applied to net electricity sales or annual energy demand for the next 10 years and used to determine the current year's requirement for RE Certificates (RECs) of the Mandated Participant.

f. *COVID-19 outbreak*

The declaration of COVID-19 by the World Health Organization (WHO) as a pandemic and declaration of nationwide state of calamity and implementation of community quarantine measures throughout the country starting March 16, 2020 have caused disruptions in the Group's business activities. However, there have been easing of the quarantine measures in key areas in the Philippines and the rollout of the national vaccination program is expected to further improve market activities.

The Group continues to implement measures to alleviate the effects and believes that its business would remain relevant despite the challenges posed by the COVID-19 pandemic.