Semirara Mining and Power Corporation and Subsidiaries

Consolidated Financial Statements
December 31, 2022 and 2021
and Years Ended December 31, 2022, 2021
and 2020

and

Independent Auditor's Report

SGV
Building a better working world

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INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the consolidated financial statements of Semirara Mining and Power Corporation and its subsidiaries (collectively, the Group), which comprise the consolidated statements of financial position as at December 31, 2022 and 2021, 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, 2022, 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, 2022 and 2021, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2022 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 amounting to ₱285.95 million as of December 31, 2022 for the open pit mines of its coal mining activities. This matter is important to our audit because the estimation of the provision requires significant management judgment in the use of assumptions, which are subject to higher level of estimation uncertainty. Key assumptions include costs of 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 14 to the consolidated financial statements.

Audit response

We obtained an understanding 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 comprehensive mine rehabilitation plan prepared by the Group's Mine Planning and Exploration Department and 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 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 and actual charges to billings, invoices and official receipts. We also evaluated the discount and inflation rates used by comparing these to external data.

Estimation of Mineable Ore Reserves

The Group's coal mining properties with a carrying value of ₱4,196.98 million as of December 31, 2022 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 9 to the consolidated financial statements.

Audit response

We obtained an understanding 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 by considering their qualifications, experience and reporting responsibilities. 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.

Presentation and valuation of 2x25 MW Gas Turbine Plant as Asset Held-for-Sale

The Group disclosed its intention to sell the 2x25 MW Gas Turbine Power Plant (the Asset) as discussed and approved in the minutes of meeting of the Board of Directors (BOD) held on August 2, 2022. The Group maintains that the carrying amount of the Asset will be recovered principally through a sale transaction rather than through continuing use. As of December 31, 2022, the Group has yet to complete the sale of the Asset with a carrying value of ₱789.31 million. The Group assessed that the Asset will be accounted for as asset held-for-sale in accordance with Philippine Financial Reporting Standards (PFRS) 5, *Non-current Assets Held-for-Sale and Discontinued Operations*.

This is a key audit matter because the presentation and valuation of asset held-for-sale involves significant management judgments and estimates in assessing whether the requirements under PFRS 5 have been met.

The relevant information on this matter is disclosed in Notes 3 and 8 to the consolidated financial statements.

Audit response

We obtained management's evaluation on whether the requirements of PFRS 5 have been met as regards the proper presentation of the Asset in the consolidated financial statements. We evaluated whether management is committed to sell the Asset, an active program to locate a buyer has been initiated, and the sale is highly probable to take place within 12 months upon classification, by inspecting documents such as minutes of BOD meetings and correspondences with potential buyers. We determined whether the Asset is available for immediate sale in its present condition by checking if the Asset is no longer used in operations and cleared of any regulatory requirements. We assessed the likelihood that the plan to sell the Asset will not be significantly changed or withdrawn by evaluating management's course of actions and its related impact.

We determined that the Asset is carried at the lower of carrying amount and fair value less costs to sell. We reviewed the fair value assessment made by management, including assessment of key assumptions applied and evaluation of the explanations provided by comparing key assumptions to market data, where available. We obtained an understanding and reviewed the appropriateness of the nature, scope and basis of estimates of costs to sell the Asset.

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, 2022, 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, 2022 are expected to be made available to us after the date of this auditor's report.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Jennifer D. Ticlao.

SYCIP GORRES VELAYO & CO.

Jennifer D. Ticlao

Jennifer D. Ticlao
Partner
CPA Certificate No. 109616
Tax Identification No. 245-571-753
BOA/PRC Reg. No. 0001, August 25, 2021, valid until April 15, 2024
SEC Partner Accreditation No. 109616-SEC (Group A)
Valid to cover audit of 2022 to 2026 financial statements of SEC covered institutions
SEC Firm Accreditation No. 0001-SEC (Group A)
Valid to cover audit of 2021 to 2025 financial statements of SEC covered institutions
BIR Accreditation No. 08-001998-110-2020, November 27, 2020, valid until November 26, 2023
PTR No. 9566008, January 3, 2023, Makati City

February 27, 2023

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

	December 31	
	2022	2021
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 4, 28, 29 and 30)	**₱20,056,558,463**	₱8,213,048,027
Receivables (Notes 5, 17, 28 and 29)	**10,198,812,587**	6,937,177,994
Inventories (Notes 6, 9 and 19)	**12,718,105,651**	10,559,081,495
Other current assets (Note 7)	**1,137,301,624**	1,223,362,466
	44,110,778,325	26,932,669,982
Asset held-for-sale (Note 8)	**789,312,800**	–
Total Current Assets	**44,900,091,125**	26,932,669,982
Noncurrent Assets		
Property, plant and equipment (Notes 9 and 11)	**40,961,238,063**	43,107,760,967
Right-of-use assets (Note 10)	**116,945,402**	137,017,373
Deferred tax assets - net (Note 24)	**486,751,049**	559,756,567
Other noncurrent assets (Notes 11, 28 and 29)	**637,757,385**	907,185,163
Total Noncurrent Assets	**42,202,691,899**	44,711,720,070
	₱87,102,783,024	₱71,644,390,052
LIABILITIES AND EQUITY		
Current Liabilities		
Trade and other payables (Notes 12, 17, 28 and 29)	**₱11,047,187,266**	₱10,370,383,326
Income tax payable (Note 24)	**897,302,520**	–
Current portion of long-term debt (Notes 13, 28 and 29)	**3,487,809,312**	4,208,923,654
Current portion of lease liabilities (Notes 10, 28 and 29)	**15,978,993**	14,837,120
Total Current Liabilities	**15,448,278,091**	14,594,144,100
Noncurrent Liabilities		
Long-term debt - net of current portion (Notes 13, 28 and 29)	**6,708,378,202**	10,857,711,507
Lease liabilities - net of current portion (Notes 10, 28 and 29)	**54,721,853**	73,539,062
Provision for decommissioning and site rehabilitation costs (Notes 3 and 14)	**315,050,224**	325,556,377
Deferred tax liabilities - net (Note 24)	**124,788,736**	–
Pension liabilities (Note 18)	**145,574,979**	124,049,009
Other noncurrent liabilities	**53,593,031**	59,493,190
Total Noncurrent Liabilities	**7,402,107,025**	11,440,349,145
Total Liabilities	**22,850,385,116**	26,034,493,245
Equity		
Capital stock (Notes 15 and 28)	**4,264,609,290**	4,264,609,290
Additional paid-in capital (Note 28)	**6,675,527,411**	6,675,527,411
Treasury shares (Notes 15 and 28)	**(739,526,678)**	(739,526,678)
Retained earnings (Notes 16 and 28):		
Unappropriated	**47,372,204,129**	28,753,790,517
Appropriated	**6,800,000,000**	6,800,000,000
Net remeasurement losses on pension plans (Notes 18 and 28)	**(120,416,244)**	(144,503,733)
Total Equity	**64,252,397,908**	45,609,896,807
	₱87,102,783,024	₱71,644,390,052

See accompanying Notes to Consolidated Financial Statements.

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

	Years Ended December 31		
	2022	2021	2020
REVENUE FROM CONTRACTS WITH CUSTOMERS (Note 31)			
Coal	**₱70,506,120,909**	₱35,592,978,667	₱16,488,547,162
Power	**20,622,571,798**	16,831,448,267	11,761,821,344
	91,128,692,707	52,424,426,934	28,250,368,506
COSTS OF SALES (Notes 19 and 31)			
Coal	**21,139,699,216**	17,324,282,391	12,280,311,958
Power	**8,615,452,181**	8,915,287,329	7,419,105,537
	29,755,151,397	26,239,569,720	19,699,417,495
GROSS PROFIT	**61,373,541,310**	26,184,857,214	8,550,951,011
OPERATING EXPENSES (Notes 20 and 31)	**(19,952,229,080)**	(9,265,160,273)	(4,554,061,716)
INCOME FROM OPERATIONS	**41,421,312,230**	16,919,696,941	3,996,889,295
OTHER INCOME (CHARGES) - Net			
Finance income (Notes 22 and 31)	**413,379,725**	22,542,252	45,872,939
Finance costs (Notes 21 and 31)	**(857,922,894)**	(976,358,612)	(1,094,820,551)
Foreign exchange gains - net (Notes 28 and 31)	**1,003,605,129**	339,601,233	154,685,877
Others - net (Notes 23 and 31)	**242,561,516**	239,739,686	316,719,609
	801,623,476	(374,475,441)	(577,542,126)
INCOME BEFORE INCOME TAX	**42,222,935,706**	16,545,221,500	3,419,347,169
PROVISION FOR INCOME TAX (Notes 24 and 31)	**2,351,777,882**	345,124,059	132,597,757
NET INCOME	**39,871,157,824**	16,200,097,441	3,286,749,412
OTHER COMPREHENSIVE INCOME			
Item not to be reclassified to profit or loss in subsequent periods			
Remeasurement gains (losses) on pension plan (Note 18)	**32,116,652**	(28,881,397)	(34,933,908)
Income tax effect	**(8,029,163)**	7,220,349	10,480,172
	24,087,489	(21,661,048)	(24,453,736)
TOTAL COMPREHENSIVE INCOME	**₱39,895,245,313**	₱16,178,436,393	₱3,262,295,676
Basic/Diluted Earnings Per Share (Note 25)	**₱9.38**	₱3.81	₱0.77

See accompanying Notes to Consolidated Financial Statements.

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

	Capital Stock (Note 15)	Additional Paid-in Capital	Treasury Shares (Note 15)	Retained Earnings Unappropriated (Note 16)	Retained Earnings Appropriated (Note 16)	Net Remeasurement Loss on Pension Plan (Note 18)	Total
				For the Year Ended December 31, 2022			
Balances as of January 1, 2022	**₱4,264,609,290**	**₱6,675,527,411**	**(₱739,526,678)**	**₱28,753,790,517**	**₱6,800,000,000**	**(₱144,503,733)**	**₱45,609,896,807**
Comprehensive income							
Net income	–	–	–	**39,871,157,824**	–	–	**39,871,157,824**
Other comprehensive income	–	–	–	–	–	**24,087,489**	**24,087,489**
Total comprehensive income	–	–	–	**39,871,157,824**	–	**24,087,489**	**39,895,245,313**
Cash dividends declared (Note 16)	–	–	–	**(21,252,744,212)**	–	–	**(21,252,744,212)**
Balances as of December 31, 2022	**₱4,264,609,290**	**₱6,675,527,411**	**(₱739,526,678)**	**₱47,372,204,129**	**₱6,800,000,000**	**(₱120,416,244)**	**₱64,252,397,908**
				For the Year Ended December 31, 2021			
Balances as of January 1, 2021	₱4,264,609,290	₱6,675,527,411	(₱739,526,678)	₱26,807,243,576	₱5,300,000,000	(₱122,842,685)	₱42,185,010,914
Comprehensive income (loss)							
Net income	–	–	–	16,200,097,441	–	–	16,200,097,441
Other comprehensive loss	–	–	–	–	–	(21,661,048)	(21,661,048)
Total comprehensive income (loss)	–	–	–	16,200,097,441	–	(21,661,048)	16,178,436,393
Cash dividends declared (Note 16)	–	–	–	(12,753,550,500)	–	–	(12,753,550,500)
Appropriation (Note 16)	–	–	–	(1,500,000,000)	1,500,000,000	–	–
Balances as of December 31, 2021	₱4,264,609,290	₱6,675,527,411	(₱739,526,678)	₱28,753,790,517	₱6,800,000,000	(₱144,503,733)	₱45,609,896,807
				For the Year Ended December 31, 2020			
Balances as of January 1, 2020	₱4,264,609,290	₱6,675,527,411	(₱739,526,678)	₱28,833,678,689	₱5,300,000,000	(₱98,388,949)	₱44,235,899,763
Comprehensive income (loss)							
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 16)	–	–	–	(5,313,184,525)	–	–	(5,313,184,525)
Balances as of December 31, 2020	₱4,264,609,290	₱6,675,527,411	(₱739,526,678)	₱26,807,243,576	₱5,300,000,000	(₱122,842,685)	₱42,185,010,914

See accompanying Notes to Consolidated Financial Statements.

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

	Years Ended December 31		
	2022	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱42,222,935,706**	₱16,545,221,500	₱3,419,347,169
Adjustments for:			
Depreciation and amortization (Notes 9, 10, 19 and 20)	**6,176,939,560**	6,667,407,615	6,280,597,948
Finance costs (Note 21)	**857,922,894**	976,358,612	1,094,820,551
Pension expense (Note 18)	**79,442,426**	81,390,961	70,889,130
Loss (gain) on sale of equipment (Notes 9 and 23)	**(423,256)**	1,990,583	(67,002,889)
Write-down of inventories and property, plant and equipment (Notes 9 and 20)	**210,752,009**	–	157,196,754
Provision for impairment losses on receivable and advances (Note 20)	**30,987,428**	1,041,239	–
Net unrealized foreign exchange losses (gains)	**(1,202,246,647)**	(179,861,726)	68,737,670
Finance income (Note 22)	**(413,379,725)**	(22,542,252)	(45,872,940)
Rental income	**(5,900,159)**	(3,441,745)	–
Equity in net earnings of joint venture	**–**	–	(306,874)
Operating income before changes in operating assets and liabilities	**47,957,030,236**	24,067,564,787	10,978,406,519
Changes in operating assets and liabilities:			
Decrease (increase) in:			
Receivables	**(3,302,054,947)**	(3,168,141,133)	(47,706,197)
Other current assets	**(706,211,281)**	(417,869,734)	479,486,872
Inventories	**(2,159,024,156)**	181,060,862	(221,480,470)
Increase (decrease) in:			
Trade and other payables	**1,024,407**	1,725,410,866	(304,456,973)
Provision for decommissioning and site rehabilitation costs	**(21,589,768)**	36,556,723	–
Cash generated from operations	**41,769,174,491**	22,424,582,371	10,884,249,751
Proceeds from rent collected in advance	–	62,934,933	–
Interest received (Note 22)	**413,379,725**	21,364,129	75,968,005
Interest paid	**(681,824,135)**	(835,851,414)	(1,043,688,003)
Pension settlement (Note 18)	**(25,799,803)**	(374,664,423)	(13,348,477)
Income taxes paid	**(694,302,527)**	(18,589,382)	(78,615,783)
Actual usage of provision for decommissioning and site rehabilitation (Note 14)	**(5,739,744)**	–	–
Net cash provided by operating activities	**40,774,888,007**	21,279,776,214	9,824,565,493
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to:			
Property, plant and equipment (including borrowing cost) (Notes 9 and 30)	**(4,303,681,458)**	(3,864,464,580)	(5,483,531,298)
Computer software (Note 11)	**(449,549)**	(7,402,204)	(4,562,479)
Investment in a joint venture	**–**	–	(56,500,000)
Proceeds from sale of equipment (Note 9)	**618,006**	–	546,586,932
Decrease (increase) in other noncurrent assets	**266,832,339**	133,890,921	818,116,520
Net cash used in investing activities	**(4,036,680,662)**	(3,737,975,863)	(4,179,890,325)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from availments of loans (Notes 13 and 30)	**–**	5,304,970,000	4,980,000,000
Payments of:			
Dividends (Notes 16 and 30)	**(21,252,510,224)**	(12,751,642,860)	(5,313,211,592)
Loans (Notes 13 and 30)	**(4,901,914,286)**	(10,119,384,286)	(3,702,514,285)
Principal portion of lease liabilities (Notes 10, 28 and 30)	**(23,690,307)**	(21,747,446)	(13,096,262)
Net cash used in financing activities	**(26,178,114,817)**	(17,587,804,592)	(4,048,822,139)
EFFECT OF EXCHANGE RATE CHANGES IN CASH AND CASH EQUIVALENTS	**1,283,417,908**	174,462,772	31,651,758
NET INCREASE IN CASH AND CASH EQUIVALENTS	**11,843,510,436**	128,458,531	1,627,504,787
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**8,213,048,027**	8,084,589,496	6,457,084,709
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	**₱20,056,558,463**	₱8,213,048,027	₱8,084,589,496

See accompanying Notes to Consolidated Financial Statements.

SEMIRARA MINING AND POWER CORPORATION AND SUBSIDIARIES
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, 2022 and 2021 and for each of the three years in the period ended December 31, 2022, were authorized for issue by the Board of Directors (BOD) on February 27, 2023.

2. Summary of Significant Accounting Policies

Basis of Preparation

The consolidated financial statements of the Group have been prepared on a historical cost basis. 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.

Any other differences in the comparative amounts from the amounts in the consolidated financial statements for the year ended December 31, 2022 are solely the result of reclassifications for comparative purposes and are not material.

Statement of Compliance

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

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, 2022 and 2021, and for each of the three years ended December 31, 2022, 2021, and 2020:

	Effective Rates of Ownership					
	2022		2021		2020	
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 Materials and Resources, Inc. (SMRI)[2]	**100.00**		100.00		100.00	
Semirara Energy Utilities, Inc. (SEUI)	**100.00**		100.00		100.00	
Southeast Luzon Power Generation Corporation (SELPGC)	**100.00**		100.00		100.00	
St. Raphael Power Generation Corporation (SRPGC)[3]	**100.00**		100.00		100.00	
Semirara Ports Facilities, Inc. (SPFI)[4]	**100.00**		–		–	

1. Wholly owned subsidiary of SCPC. Started commercial operations on August 29, 2018.
2. Formerly Semirara Claystone, Inc. (SCI).
3. Previously accounted as an investment in a joint venture. In 2020, 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 (Note 3).
4. Wholly owned subsidiary of SCPC. Incorporated on December 20, 2022.

Change in Corporate Name of Semirara Claystone, Inc.
On April 15, 2022, SEC approved the change in name of Semirara Claystone, Inc. (SCI) to Semirara Materials and Resources, Inc.(SMRI).

Incorporation of Semirara Ports Facilities, Inc.
Semirara Ports Facilities, Inc. (SPFI) was incorporated on December 20, 2022 and is 100% owned by Sem-Calaca Power Corporation, a wholly owned subsidiary of SMPC. The Company is organized primarily to manage, operate and develop the ports in the Philippines.

Except for SCPC, SLPGC and SCRC, all other subsidiaries have not yet started commercial operations as of December 31, 2022.

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.

<u>Business Combination and Goodwill</u>
Business combinations are accounted for using the acquisition method. This involves recognizing identifiable assets (including previously unrecognized intangible assets) and liabilities (including contingent liabilities and excluding future restructuring) of the acquired business at fair value. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the 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 statements 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 statements 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.

Adoption of New and Amended Accounting Standards and Interpretations
The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those of the previous financial year, except for the adoption of the following new accounting pronouncements starting January 1, 2022. 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 financial statements of the Group.

- 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.

  This amendment has no material impact to the Group.

- 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.

  This amendment has no material impact to 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 Group applied this amendment to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period. This amendment has no material impact to the Group.

- *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.

    This amendment has no material impact to 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.

    This amendment has no material impact to the Group.

  - Amendments to PAS 41, *Agriculture, Taxation in fair value measurements*

    The amendment removes the requirement in paragraph 22 of PAS 41 that entities exclude cash flows for taxation when measuring the fair value of assets within the scope of PAS 41.

    This amendment is not applicable to the Group.

<u>Standards Issued but not yet Effective</u>
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, 2023
- Amendments to PAS 1 and PFRS Practice Statement 2, *Disclosure of Accounting Policies*

  The amendments provide guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by:
  - Replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies, and

- Adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures

The amendments to the Practice Statement provide non-mandatory guidance. Meanwhile, the amendments to PAS 1 are effective for annual periods beginning on or after January 1, 2023. Early application is permitted as long as this fact is disclosed.

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

- Amendments to PAS 8, *Definition of Accounting Estimates*

  The amendments introduce a new definition of accounting estimates and clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, the amendments clarify that the effects on an accounting estimate of a change in an input or a change in a measurement technique are changes in accounting estimates if they do not result from the correction of prior period errors.

  An entity applies the amendments to changes in accounting policies and changes in accounting estimates that occur on or after January 1, 2023 with earlier adoption permitted.

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

- Amendments to PAS 12, *Deferred Tax related to Assets and Liabilities arising from a Single Transaction*

  The amendments narrow the scope of the initial recognition exception under PAS 12, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences.

  The amendments also clarify that where payments that settle a liability are deductible for tax purposes, it is a matter of judgement (having considered the applicable tax law) whether Such deductions are attributable for tax purposes to the liability recognized in the financial statements (and interest expense) or to the related asset component (and interest expense).

  An entity applies the amendments to transactions that occur on or after the beginning of the earliest comparative period presented for annual reporting periods on or after January 1, 2023.

  This amendment has no material impact to the Group.

Effective beginning on or after January 1, 2024

- Amendments to PAS 1*, Classification of Liabilities as Current or Non-current*

  The amendments clarify:
  - That only covenants with which an entity must comply on or before reporting date will affect a liability's classification as current or non-current.
  - 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, 2024 and must be applied retrospectively. The Group is currently assessing the impact of adopting these amendments.

- Amendments to PFRS 16*, Lease Liability in a Sale and Leaseback*

  The amendments specify how a seller-lessee measures the lease liability arising in a sale and leaseback transaction in a way that it does not recognize any amount of the gain or loss that relates to the right of use retained.

  The amendments are effective for annual reporting periods beginning on or after January 1, 2024 and must be applied retrospectively. Earlier adoption is permitted and that fact must be disclosed.

  This amendment has no material impact to the Group.

Effective beginning on or after January 1, 2025

- PFRS 17, *Insurance Contracts*

  PFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, PFRS 17 will replace PFRS 4, *Insurance Contracts*. This new standard on insurance contracts applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply.

  The overall objective of PFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in PFRS 4, which are largely based on grandfathering previous local accounting policies, PFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of PFRS 17 is the general model, supplemented by:

  - A specific adaptation for contracts with direct participation features (the variable fee approach)
  - A simplified approach (the premium allocation approach) mainly for short-duration contracts

  On December 15, 2021, the FRSC amended the mandatory effective date of PFRS 17 from January 1, 2023 to January 1, 2025. This is consistent with Circular Letter No. 2020-62 issued by the Insurance Commission which deferred the implementation of PFRS 17 by two (2) years after its effective date as decided by the IASB.

  PFRS 17 is effective for reporting periods beginning on or after January 1, 2025, with comparative figures required. Early application is permitted.

  This standard is not applicable to the Group.

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 and Sustainability Reporting Standards Council deferred the original effective date of January 1, 2016 of the said amendments until the 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
The significant accounting policies that have been used in the preparation of financial statements are summarized below. These accounting policies have been consistently applied to all the years presented, unless otherwise stated.

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 either subsequently measured at amortized cost, at fair value through other comprehensive income (FVOCI), or at fair value through profit or loss (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, 2022 and 2021, the Group's financial assets comprise of financial assets at amortized cost.

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 excluding cash on hand, receivables (excluding nonfinancial assets) and environmental guarantee fund included under other noncurrent assets.

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 statements 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.

Modification of contractual cash flows
When the contractual cash flows of a financial asset are renegotiated or otherwise modified and the renegotiation or modification does not result in the derecognition of that financial asset, the Group(?) recalculates the gross carrying amount of the financial asset as the present value of the renegotiated or modified contractual cash flows discounted at the original EIR (or credit-adjusted EIR for purchased or originated credit-impaired financial assets) and recognizes a modification gain or loss in the consolidated statements of income.

When the modification of a financial asset results in the derecognition of the existing financial asset and the subsequent recognition of the modified financial asset, the modified asset is considered a 'new' financial asset. Accordingly, the date of the modification shall be treated as the date of initial recognition of that financial asset when applying the impairment requirements to the modified financial asset.

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, advances to supplier and contractors 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.

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 and 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 and long-term debt and lease liabilities.

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.

<u>Deferred Financing Costs</u>
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.

<u>Offsetting of financial instruments</u>
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 transferred, and that carrying amount becomes cost for recognition.

Assets Held-for-Sale
The Group classifies non-current assets and disposal groups as held-for-sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Noncurrent assets classified as held-for-sale are carried at the lower of carrying amount and fair value less costs to sell. Costs to sell are the incremental costs directly attributable to the disposal of an asset (disposal group), excluding finance costs and income tax expense.

The criteria for held-for-sale classification under PFRS 5, *Noncurrent Assets Held-for-Sale and Discontinued Operations* is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the decision to sell will be withdrawn. Management must be committed to the plan to sell the asset and the sale is expected to be completed within one year from the date of the classification.

Property, plant and equipment are not depreciated or amortized once classified as held-for-sale. Assets classified as held-for-sale are presented separately as current items in the consolidated statement of financial position.

Immediately before the initial classification of the asset as held-for-sale, the carrying amount of the Asset will be measured in accordance with applicable PFRSs. Any impairment loss on initial classification and subsequent measurement is recognized as an expense. Any subsequent increase in fair value less costs to sell (not exceeding the accumulated impairment loss that has been previously recognized) is recognized in profit or loss.

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 is 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
Machineries and mining equipment	2 to 3
Power plant and buildings	5 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 statements 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.

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.

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. If assets are expected to be realized within 12 months from end of reporting period, these are classified as current. Otherwise, these are classified as noncurrent.

Creditable withholding tax
Creditable withholding taxes are classified at the amount expected to be utilized and are available for offset against income tax payable in future periods. The assets expected to be expensed or consumed within 12 months from reporting date are classified as current assets; otherwise, they are classified as noncurrent assets.

Advances to Suppliers and Contractors
Advances to suppliers and contractors are recognized in the consolidated statement of financial position when it is probable that the future economic benefits will flow to the Group and the assets have cost or value that can be measured reliably. These assets are regularly evaluated for any impairment in value. Classification is based on actual realization of such advances considering the usage or realization of the asset to which it is intended for (e.g., inventory, property plant and equipment).

Prepayments
Prepayments are amounts paid in advance for goods and services that are yet to be delivered and from which future economic benefits are expected to flow to the Group within its normal operating cycle or within 12 months from end of reporting period. These are measured at amortized cost less any impairment loss.

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.

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 statements 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 once the performance obligation to the customer is satisfied. 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.

Contracted power sales
Contracted power sales pertain to sales of generated or purchased electricity to customers under Power Supply Agreement (PSA) and are recognized over time, using the output method. This is measured on actual energy delivered or nominated by the customer, net of adjustments, as agreed between parties.

Spot electricity sales
Revenue from spot electricity sales is derived from the sale to the spot market of excess generated electricity over the contracted energy using price determined by the spot market or Wholesale Electricity Spot Market (WESM) 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 generation delivered to trading participants of WESM.

Under PFRS 15, the Group has concluded that revenue from power sales (contracted and spot sales) 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.

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). The Group's finance income mainly pertains to interest on cash in banks and cash equivalents.

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 mine 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.

<u>Operating Expenses</u>
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.

Leases

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.

Income Tax
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 consolidated 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 Parent Company and subsidiaries neither result 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 costs

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, 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 31 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 PFRSs requires management to make judgments, estimates and assumptions that affect the amounts reported in the consolidated 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 from such estimates.

Judgment

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

a. *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 (i.e., when the coal passes the rail of the bulk carrier while loading at the SMPC's port, when the coal crosses the ship's rail of the related party) which is consistent with the point in time when customer obtains control of a promised asset under PFRS 15.

   On the other hand, the Group's revenue from power sales (both contracted power and spot electricity sales) is to be recognized over time since 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. *Classification of asset held-for-sale*
The Group classified its 2x25 MW gas turbine plant as asset held-for-sale under PFRS 5, *Noncurrent Assets Held-for-Sale and Discontinued Operations*, as result of the assessment that the assets' carrying amount will be recovered principally through a sale transaction rather than through continuing use.

The following criteria are met:
a) The asset is available for immediate sale in its present condition.
b) The sale is highly probable to be completed within 12 months from the classification date.
c) The Group is committed to sell the 2x25 MW gas turbine plant as evidenced by the approval of the Group's BOD on August 2, 2022, and the clearances obtained from relevant government agencies.
d) The Group has initiated an active programme to locate a buyer upon approval of the BOD.
e) The Group determined that it is unlikely that the plan will be significantly changed or withdrawn.

The Group identified that the above criteria are met in October 2022 upon completely securing all relevant clearances from regulatory bodies to disconnect, deregister, decommission and sell the asset and reclassified the asset as held-for-sale.

d. *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 Notes 27 and 32).

e. *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 yet enforceable (see Note 10).

f. *Impairment assessment of nonfinancial assets*
The Group reviews its nonfinancial assets for impairment. This includes considering certain indicators of impairment such as significant or prolonged decline in the fair value of the asset, 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 Parent Company operates.

Management believes that no impairment indicator exists on other nonfinancial assets of the Group. The information and related balances of these remaining nonfinancial assets are disclosed in Notes 7, 8, 9, 10 and 11.

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 reserves 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 internal specialists 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 ₱4,196.98 million and ₱4,562.64 million as of December 31, 2022 and 2021, respectively (see Note 9).

b. *Estimating provision for expected credit losses of trade and other receivables and advances to suppliers and contractors*
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 historically observed default rates. The Group then calibrates 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 historically observed default rates are updated and changes in the forward-looking estimates are analyzed.

The assessment of the correlation between historically observed default rates, forecasted economic conditions, and ECL is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecasted 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 the recent economic developments 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 recent economic developments did not materially affect the allowance for ECLs.

Additional provision for expected credit losses recognized for the years ended December 31, 2022 and 2021 amounted to ₱30.99 million and ₱1.04 million, respectively (see Notes 5, 7 and 11).

As of December 31, 2022 and 2021, allowance for allowance for expected credit losses amounted to ₱1,602.28 million and ₱1,571.30 million, respectively. The total carrying value of trade and other receivables and advances to suppliers and contractors, net of allowance for impairment losses, amounted to ₱10,664.64 million and ₱7,391.86 million as of December 31, 2022 and 2021, respectively (see Notes 5, 7 and 11.).

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, 2022 and 2021 amounted to ₱2,557.12 million and ₱1,515.20 million, respectively (see Note 6).

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 amounts of spare parts and supplies are disclosed in Note 6.

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 11.

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. The Group is also contractually required to fulfill certain obligations under Section 8 of the Land Lease Agreement (LLA) upon its termination or cancellation. 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 site rehabilitation plan, (e.g., 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. The Group also records the present value of estimated costs of legal and constructive obligations required to restore operating locations of power generating plants in the period in which the obligation is incurred. The nature of these restoration activities includes dismantling and removing of structures, dismantling operating facilities, closure of plant and waste sites, and restoration, reclamation and re-vegetation of affected areas.

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 costs are disclosed in Note 14.

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:

	2022	2021
Asset held-for-sale (Note 8)	**₱789,312,800**	₱–
Property, plant and equipment (Note 9)	**40,961,238,063**	43,107,760,967
Right-of-use assets (Note 10)	**116,945,402**	137,017,373
Other current assets (Note 7)	**1,137,301,624**	1,223,362,466
Other noncurrent assets (Note 11)	**637,757,385**	907,185,163

Impairment losses on other current and noncurrent assets were recognized upon assessment that its carrying amounts exceeded the assets' recoverable values. As of December 31, 2022 and 2021, the allowance for impairment losses on other current and noncurrent assets amounted to ₱2.31 million and ₱1.04 million, respectively (see Notes 7 and 11).

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 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 9.

i. *Recoverability of 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 24.

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 18 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 ₱70.70 million and ₱88.38 million as of December 31, 2022 and 2021, respectively (see Note 10).

l. Determination of fair value less cost to sell

The Group estimated the recoverable amount of the 2 x 25 MW gas turbine plant based from offers received from buyers in the advanced stage of negotiations, conducted at arm's length, for similar assets or observable market prices less incremental costs of disposing the asset (e.g. dismantling and handling costs).

4. Cash and Cash Equivalents

	2022	2021
Cash on hand	**₱4,087,070**	₱3,928,514
Cash in bank	**2,999,408,650**	6,983,150,088
Cash equivalents	**17,053,062,743**	1,225,969,425
	₱20,056,558,463	₱8,213,048,027

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. Interest rates ranges from 0.01% to 6.00%, 00.01% to 1.75%, and 0.50% to 4% in 2022, 2021 and 2020, respectively.

In 2022, 2021 and 2020, total interest income earned from cash and cash equivalents amounted to ₱410.58 million, ₱20.60 million and ₱45.63 million, respectively (see Note 22).

5. Receivables

	2022	2021
Trade receivables - outside parties	**₱10,562,538,314**	₱8,161,013,954
Trade receivables - related parties (Note 17)	**944,474,856**	192,083,313
Others (Note 23)	**291,772,470**	154,335,168
	11,798,785,640	8,507,432,435
Less allowance for impairment losses (Note 20)	**1,599,973,053**	1,570,254,441
	₱10,198,812,587	₱6,937,177,994

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 participants and other customers for the sale of contracted power and spot sales transactions. These are generally on a 30-day credit term and are carried at original invoice amounts less discounts and rebates.

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

Trade receivables - related parties
Receivables from related parties are noninterest-bearing and are generally on a 30-day credit term. 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 days credit terms.

Allowance for impairment losses
The movements in the allowance for impairment losses are as follows:

	2022	2021
Balance at beginning of year	**₱1,570,254,441**	₱1,570,254,441
Provision for impairment losses (Note 20)	**29,718,612**	–
Balance at end of year	**₱1,599,973,053**	₱1,570,254,441

6. Inventories

	2022	2021
At cost		
Coal pile inventory	**₱2,557,122,848**	₱1,515,195,082
At NRV		
Spare parts and supplies	**10,430,014,825**	9,273,937,860
Less allowance for inventory obsolescence	**(269,032,022)**	(230,051,447)
	10,160,982,803	9,043,886,413
	₱12,718,105,651	₱10,559,081,495

Coal pile inventory is 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 ₱20,039.12 million and ₱16,001.58 million in 2022 and 2021, respectively (see Note 19).

Coal pile inventory at cost includes capitalized depreciation of ₱324.22 million and ₱278.09 million in 2022 and 2021, respectively (see Note 9).

Movement in the Group's allowance for inventory obsolescence are as follows:

	2022	2021
Balance at beginning of year	**₱230,051,447**	₱61,511,927
Provision for inventory write-down (Notes 8, 19 and 20)	**38,980,575**	168,539,520
Balance at end of year	**₱269,032,022**	₱230,051,447

The Group recognized provision for inventory write down amounting to ₱38.98 million and ₱168.54 million in 2022 and 2021, respectively. This amount includes provision of ₱36.77 million in 2022 which pertains to the spare parts of the 2x25 MW gas turbine plant classified as "Asset held-for-sale" under PFRS 5 (see Notes 8 and 20). Provision for loss on write-down of inventories amounting to ₱168.54 million in 2021 is included in "Materials and supplies" under cost of coal in profit or loss (see Note 19).

As of December 31, 2022 and 2021, the allowance for inventory write-down amounted to ₱269.03 million and ₱230.05 million, respectively.

7. Other Current Assets

	2022	2021
Creditable withholding tax	**₱734,390,397**	₱832,952,871
Advances to suppliers and contractors - current portion	**288,249,904**	239,258,095
Prepaid insurance	**70,121,733**	72,348,445
Input VAT - net	**12,638,481**	11,491,368
Prepaid rent	**3,030,748**	3,030,748
Others	**30,802,306**	64,930,739
	1,139,233,569	1,224,012,266
Less allowance for impairment losses (Note 20)	**1,931,945**	649,800
	₱1,137,301,624	₱1,223,362,466

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. The balance, net of related allowance of ₱1.93 million and ₱0.65 million as of December 31, 2022 and 2021, respectively (see Note 20). This will be recouped upon rendering of services or delivery of assets within the Group's normal operating cycle. In 2021, the Parent Company was able to recover the previously recognized provision for impairment loss amounting to ₱82.94 million.

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 within 12 months.

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

8. Asset Held-for-Sale

In 2022, the Group assessed that the carrying amount of its 2x25 MW gas turbine plant will be recovered principally through a sale transaction rather than continuing use.

The gas turbine pertains to two (2) units of GE TM2500 G6 Generator ("Asset") which was acquired in 2016 to provide ancillary services. However, since its withdrawal from the ancillary contract, the gas turbine continued to run and supply electricity directly to the spot market. The gas turbine is one of the power generating assets of SLPGC under the Power Segment.

The plan to decommission and sell the Asset was approved on August 2, 2022 by the BOD.
On October 3, 2022, the Group has completely secured all relevant clearances from regulatory bodies to disconnect, deregister, decommission, and sell the Asset.

The Group has launched an active search for interested buyers of the gas turbine and had ongoing negotiations in the advanced stages. Management believes that the sale transaction will be finalized within 12 months from end of reporting period.

In accordance with PFRS 5, the Group measured the Asset at the lower of carrying amount and fair value less costs to sell while depreciation ceased immediately upon reclassification. Consequently, a loss on write-down amounting to ₱171.77 million was recognized to bring the Asset's carrying amount to its net realizable value or fair value less costs to sell (see Note 20).

9. Property, Plant and Equipment

	2022					
	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	₱429,990,622	₱40,258,148,797	₱55,586,931,794	₱846,946,929	₱930,175,792	₱98,052,193,934
Additions	–	3,830,141,239	–	–	473,540,219	4,303,681,458
Transfer from inventory	–	–	695,205,692	–	–	695,205,692
Reclassifications	–	–	1,030,361,709	–	(1,030,361,709)	–
Asset held-for-sale (Note 8)	–	–	(1,415,603,377)	–	–	(1,415,603,377)
Retirement	–	(3,808,358)	–	–	–	(3,808,358)
Disposals (Note 23)	–	(92,254,786)	–	–	–	(92,254,786)
Adjustments (Note 14)	–	(18,449,304)	–	–	–	(18,449,304)
At December 31	429,990,622	43,973,777,588	55,896,895,818	846,946,929	373,354,302	101,520,965,259
Accumulated Depreciation and Impairment						
At January 1	–	33,304,850,616	20,891,764,562	747,817,789	–	54,944,432,967
Depreciation and amortization (Notes 3, 6, 19 and 20)	–	3,145,907,149	2,955,723,220	50,162,397	–	6,151,792,766
Write-down of property, plant and equipment (Notes 8 and 20)	–	–	171,771,434,	–	–	171,771,434
Asset held-for-sale (Note 8)	–	–	(626,290,577)	–	–	(626,290,577)
Disposals (Note 23)	–	(78,171,036)	–	–	–	(78,171,036)
Retirement	–	(3,808,358)	–	–	–	(3,808,358)
At December 31	–	36,368,778,371	23,392,968,639	797,980,186	–	60,559,727,196
Net Book Value	₱429,990,622	₱7,604,999,217	₱32,503,927,179	₱48,966,743	₱373,354,302	₱40,961,238,063

	2021					
	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	₱37,329,144,380	₱53,605,314,573	₱846,946,929	₱1,932,864,417	₱94,101,155,089
Additions	43,105,832	2,616,941,122	29,040,000	–	924,849,093	3,613,936,047
Reclassifications	–	352,745,163	1,420,990,283	–	(1,773,735,446)	–
Transfer from inventory	–	–	531,586,938	–	–	531,586,938
Disposals (Note 23)	–	(3,769,000)	–	–	–	(3,769,000)
Adjustment (Note 14)	–	(36,912,868)	–	–	(153,802,272)	(190,715,140)
At December 31	429,990,622	40,258,148,797	55,586,931,794	846,946,929	930,175,792	98,052,193,934
Accumulated Depreciation and Impairment						
At January 1	–	29,713,258,734	17,901,003,009	694,155,178	–	48,308,416,921
Depreciation and amortization (Notes 3, 6, 19 and 20)	–	3,593,370,299	2,990,761,553	53,662,611	–	6,637,794,463
Disposals (Note 23)	–	(1,778,417)	–	–	–	(1,778,417)
At December 31	–	33,304,850,616	20,891,764,562	747,817,789	–	54,944,432,967
Net Book Value	₱429,990,622	₱6,953,298,181	₱34,695,167,232	₱99,129,140	₱930,175,792	₱43,107,760,967

Land

- On June 30, 2021 the Group availed of the option to purchase parcels of land or "Optioned Assets" under Option Existence Notice (OEN) dated February 3, 2020 and in accordance with the provisions of the Land Lease Agreement (LLA) with PSALM. Total acquisition cost of the optioned assets amounted to ₱43.11 million (see Notes 10 and 27).

Mine properties, mining tools and other equipment

- In 2022, the Group sold property, plant and equipment amounting to ₱14.51 million with a book value of ₱14.08 million. As of December 31, 2022, the ₱13.89 million remain outstanding (see Note 23).

- Fully depreciated asset with original cost of ₱77.50 million was donated to a third party in 2022.

- In 2022, the Group acquired various property, plant and equipment amounting to ₱4,303.68 million.

- Mine properties, mining tools and other equipment includes the mining properties and stripping activity assets amounting to ₱4,196.98 million and ₱4,562.64 million as of December 31, 2022 and 2021, respectively, that are depreciated using the units-of-production method (see Note 3).

- 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 14).

- In 2021, parts and supplies amounting to ₱168.54 million from a dismantled coal washing plant were provided with an allowance for obsolescence (see Note 6).

Power Plant and Buildings

- The Group reclassified its 2x25 MW gas turbine plant to "Asset held-for-sale" on October 2022. Depreciation of the asset ceased immediately upon reclassification.

Immediately before the classification of the 2x25 MW gas turbine plant as asset held-for-sale, loss on write-down of asset amounting to ₱171.77 million was recognized to bring the Asset's carrying amount to its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use, amounting to ₱789.31 million. Subsequently, the carrying value of the 2x25 MW gas turbine plant amounting to ₱789.31 million was reclassified as "Asset held-for-sale" (see Note 8).

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, 2022 and 2021.

- In 2022 and 2021, there were reclassifications from "Equipment in Transit and Construction in progress" to "Power Plant and Buildings" upon completion of construction and regular rehabilitation works which amounted to ₱1,030.36 million and ₱1,420.99 million, respectively.

- This also includes capitalized pre-construction costs for the thermal power plant of SRPGC amounting to ₱112.67 million and ₱104.84 million as of December 31, 2022 and 2021, respectively. As of December 31, 2022, construction of the plant itself has yet to commence pending completion of the connectivity to the grid c/o NGCP. Based on management's estimation of the recoverable amount, there is no resulting impairment loss for both 2022 and 2021.

Depreciation and amortization follow:

	2022	2021	2020
Included under:			
Inventories (Note 6)	**₱324,223,934**	₱278,093,673	₱324,707,108
Mine properties, mining tools and other equipment	**30,461,990**	–	261,445,280
Cost of coal sales (Note 19):			
Depreciation and amortization	**2,953,823,251**	3,206,865,763	2,346,583,325
Hauling and shiploading costs	**21,957,414**	284,506,848	61,458,508
Cost of power sales (Note 19):			
Depreciation and amortization	**2,713,660,463**	2,712,156,415	2,871,506,678
Cost of coal:			
Depreciation and amortization	**63,249,788**	102,492,872	519,986,937
Operating expenses (Note 20)	**69,562,720**	83,292,044	194,002,240
	₱6,176,939,560	₱6,667,407,615	₱6,579,690,076
Depreciation and amortization of:			
Property, plant and equipment	**₱6,151,792,766**	₱6,637,794,463	₱6,549,087,638
Right-of-use assets (Note 10)	**20,071,971**	21,604,934	19,857,722
Computer software (Note 11)	**5,074,823**	8,008,218	10,744,716
	₱6,176,939,560	₱6,667,407,615	₱6,579,690,076

10. **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 twenty-five (25) 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 are the movements in the Group's right-of-use assets and lease liabilities during the year:

	Right-of-use Assets	
	2022	2021
At Cost		
Beginning balance	**₱200,617,375**	₱195,701,664
Additions	**–**	4,915,711
Ending balance	**200,617,375**	200,617,375
Accumulated Amortization		
Beginning balance	**63,600,002**	38,852,689
Amortization (Notes 19 and 20)	**20,071,971**	21,604,934
Others	**–**	3,142,379
Ending balance	**83,671,973**	63,600,002
	₱116,945,402	₱137,017,373

On June 30, 2021, the Group purchased the parcels of land under PSALM OEN which amounted to ₱43.11 million (see Notes 9 and 27). The unused rental payments as of option exercise date amounting to ₱1.13 million was applied against the total purchase price.

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.

	Lease Liabilities	
	2022	2021
Beginning balance	**₱88,376,182**	₱103,018,715
Accretion of interest (Note 21)	**6,014,971**	7,104,913
Lease payments	**(23,690,307)**	(21,747,446)
Ending balance	**70,700,846**	88,376,182
Less current portion of lease liabilities	**15,978,993**	14,837,120
Noncurrent lease liabilities	**₱54,721,853**	₱73,539,062

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% in 2022 and 2021, respectively.

As of December 31, 2022 and 2021, future minimum lease payments under operating leases are as follows:

	2022	2021
Within one year	**₱20,827,207**	₱20,852,090
After one year but not more than five years	**46,073,462**	57,260,835
More than five years	**29,189,453**	37,410,573
	₱96,090,122	₱115,523,498

11. Other Noncurrent Assets

	2022	2021
Deferred input VAT	**₱365,221,588**	₱601,149,166
Advances to suppliers and contractors – net of current portion	**179,889,628**	216,466,415
Computer software	**4,389,135**	9,014,409
Others	**88,635,144**	80,946,612
	638,135,495	907,576,602
Less allowance for impairment losses (Note 20)	**378,110**	391,439
	₱637,757,385	₱907,185,163

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.

Advances to suppliers and contractors
Advances to suppliers and contractors under noncurrent assets (net of related allowance of ₱0.38 million and ₱0.39 million recognized in 2022 and 2021, respectively) represent prepayment for the acquisition and construction of property, plant and equipment and other capitalized development costs (see Note 20).

Computer software
Movements in computer software account follows:

	2022	2021
At Cost		
At January 1	**₱86,006,768**	₱78,604,564
Additions	**449,549**	7,402,204
At December 31	**86,456,317**	86,006,768
Accumulated Amortization		
At January 1	**76,992,359**	68,984,141
Amortization (Note 9)	**5,074,823**	8,008,218
At December 31	**82,067,182**	76,992,359
Net Book Value	**₱4,389,135**	₱9,014,409

Others
Others include environmental guarantee fund and advances for the cost of the right-of-way grants on lots affected by the transmission lines to be developed by the Group.

12. **Trade and Other Payables**

	2022	2021
Trade:		
Payable to suppliers and contractors	**₱7,140,909,261**	₱6,589,509,917
Related parties (Note 17)	**217,158,369**	457,833,928
Payable to DOE (Note 26)	**2,169,246,696**	2,059,611,932
Accrued expenses and other payables	**671,613,671**	369,326,217
Deferred output tax	**701,292,194**	562,896,767
Output VAT - net	**146,967,075**	331,204,565
	₱11,047,187,266	₱10,370,383,326

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 ₱3,839.89 million (US$68.42 million) and ₱3,647.10 million (US$71.84 million) as of December 31, 2022 and 2021, respectively, payable to various foreign suppliers for open account purchases of equipment, and equipment parts and supplies (see Note 28).

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

Payable to DOE
Payable to DOE represent the share of DOE in the gross income of the Parent Company's coal production computed in accordance with the Coal Operating Contract (COC) between the Parent Company and DOE dated July 11, 1977 (see Note 26).

Accrued expenses and other payables
Details of this account follow:

	2022	2021
Taxes, permits and licenses	**₱368,502,478**	₱82,737,824
Financial benefit payable	**79,094,729**	84,210,168
Interest	**49,791,044**	76,448,257
Salaries and wages	**10,825,172**	71,097,153
Dividends payable (Note 30)	**3,334,682**	3,100,694
Professional fees	**291,000**	9,154,000
Others	**159,774,566**	42,578,121
	₱671,613,671	₱369,326,217

Others include accruals on contracted services, spot purchases, utilities, supplies and other administrative expenses.

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

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

13. Short-term and Long-term Debt

Short-term debt

The Group obtained ₱350.00 million short-term debt in 2021. Short-term debt represents various unsecured promissory notes from local banks with interest rates ranging from 2.50% to 4.00% in 2021 and are payable within one (1) year. Total short-term debt amounting to ₱5,775.00 million was fully paid as of December 31, 2021 (see Note 30).

Interest expense on these short-term loans recognized under 'Finance costs' amounted to ₱58.42 million and ₱318.75 million in 2021 and 2020, respectively (nil in 2022) (see Note 21).

Long-term debt

	2022	2021
Principal	**₱10,231,157,144**	₱15,133,071,429
Less unamortized deferred financing cost	**34,969,630**	66,436,268
	10,196,187,514	15,066,635,161
Less current portion	**3,487,809,312**	4,208,923,654
	₱6,708,378,202	₱10,857,711,507

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

	2022	2021
SMPC	**₱948,056,291**	₱3,363,603,264
SCPC	**7,582,435,288**	9,208,243,465
SLPGC	**1,665,695,935**	2,494,788,432
Total long-term debt	**10,196,187,514**	15,066,635,161
Less current portion	**3,487,809,312**	4,208,923,654
Long-term debt - net of current portion	**₱6,708,378,202**	₱10,857,711,507

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

Loan Type	Year of Availment	Outstanding Balance Gross of Deferred Financing Costs 2022	2021	Maturity	Interest Rate	Payment Terms	Covenants
Peso loan 1	2020	**₱952,000,000**	₱1,176,000,000	Various quarterly maturities starting 2020 until 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 2	2020	–	2,200,000,000	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
		₱952,000,000	₱3,376,000,000				

Peso loan 2 was pre-terminated in 2022.

b. Details of the SLPGC's bank loans are as follows:

Loan Type	Year of Availment	Outstanding Balance Gross of Deferred Financing Costs 2022	2021	Maturity	Interest Rate	Payment Terms	Covenants
Peso loan 1	2019	**₱800,000,000**	₱1,200,000,000	Various quarterly maturities starting 2019 until 2024	Fixed rate of 5.1253%	Interest payable every 3 months, principal to be paid on maturity date	Debt-to-Equity Ratio not exceeding 2.0x
Peso loan 2	2019	**470,800,000**	706,000,000	Various quarterly maturities starting 2019 until 2024	Fixed rate of 5.1337%	Interest payable every 3 months, principal to be paid on maturity date	Current Ratio of at least 1.0x
Peso loan 3	2019	**400,000,000**	600,000,000	Various quarterly maturities starting 2019 until 2024	Fixed rate of 5.0000%	Interest payable every 3 months, principal to be paid on maturity date	Debt Service Coverage Ratio of not more than 1.20x
		₱1,670,800,000	₱2,506,000,000				

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

Loan Type	Year of Availment	Outstanding Balance Gross of Deferred Financing Costs 2022	2021	Maturity	Interest Rate	Payment Terms	Covenants
Peso loan 1	2017	**₱1,500,000,000**	₱2,250,000,000	Various quarterly maturities starting 2017 until 2024	Fixed rate of 4.9000%	Interest payable every 3 months, principal to be paid on maturity date	Debt-to-Equity Ratio of 2.0x and Historical debt Service Coverage Ratio of 1.2x
Peso loan 2	2019	**1,142,857,143**	1,428,571,429	Various quarterly maturities starting 2019 until 2026	Fixed rate of 4.8760% to be repriced at the two-year Bloomberg Valuation Service (BVAL) benchmark rate plus 60 basis points for the remainder of its tenor	Interest payable every 3 months, principal to be paid on maturity date	Debt-to-Equity Ratio of 2.0x and Historical Debt Service Coverage Ratio of 1.1x
Peso loan 3	2019	**1,728,000,000**	2,160,000,000	Various quarterly maturities starting 2019 until 2026	Fixed rate of 4.8770% to be repriced at the two-year BVAL benchmark rate plus 60 basis points for the remainder of its tenor	Interest payable every 3 months, principal to be paid on maturity date	Debt-to-Equity Ratio of 2.0x and Current Ratio of at least 1.0x
Peso loan 4	2021	**3,237,500,000**	3,412,500,000	Various quarterly maturities starting 2021 until 2025	Fixed rate of 4.6258%	Interest payable every 3 months, principal to be paid on maturity date	Debt-to-Equity Ratio of 2.0x and Prospective Debt Service Coverage Ratio of 1.2x
		₱7,608,357,143	₱9,251,071,429				

All bank loans are clean and are compliant with loan covenants. As of December 31, 2022 and 2021, the Group has not been cited by bank as in default.

The movements in unamortized debt issue cost are as follows:

	2022	2021
Balance at beginning of year	**₱66,436,268**	₱73,413,900
Additions	**–**	26,250,000
Amortization (Note 21)	**(31,466,638)**	(33,227,632)
Balance at end of year	**₱34,969,630**	₱66,436,268

Interest expense on long-term debt recognized under 'Finance cost' amounted to ₱646.02 million, ₱774.63 million and ₱668.08 million in 2022, 2021 and 2020, respectively (see Note 21).

The Group's remaining borrowing facility that can be drawn as of December 31, 2022 and 2021 amounted to ₱24,037.75 million and ₱22,331.56 million, respectively.

Future payments of long-term debt of the Group as of December 31, 2022 and 2021 follow:

	2022	2021
Within one year	**₱3,489,414,286**	₱4,214,414,286
After one year but not more than five years	**6,741,742,858**	10,363,657,143
More than five years	**–**	555,000,000
	₱10,231,157,144	₱15,133,071,429

14. Provision for Decommissioning and Site Rehabilitation Costs

	2022	2021
At January 1	**₱325,556,377**	₱279,202,621
Effect of change in estimates (Note 9)	**(21,589,768)**	36,556,722
Actual usage	**(5,739,744)**	–
Accretion of interest (Note 21)	**16,823,359**	9,797,034
At December 31	**₱315,050,224**	₱325,556,377

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:

	2022	2021
Mining	**₱285,945,139**	₱298,756,686
Power	**29,105,085**	26,799,691
	₱315,050,224	₱325,556,377

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 6.65% to 8.77% in 2022, 4.82% to 6.67% in 2021 and 2.99% to 4.48% in 2020.

There are currently two (2) mine sites identified with coal deposits – Molave and Narra. In October 2022, Narra resumed its operation which was non-operational since March 2019 due to implementation of geotechnical solutions on the continuous increase of water seepage in Narra pit. The Panian mine site has been depleted and its operation was closed in September 2016. All mine sites are located in Semirara Island, Province of Antique.

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 a reduction of ₱21.59 million in 2022 and an addition of ₱36.56 million in 2021 (recognized as adjustment to 'Mine properties, mining tools and other equipment' under property, plant and equipment account) (see Note 9).

15. **Capital Stock**

The details of the Parent Company's capital stock as of December 31, 2022 and 2021 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

Treasury shares

As of December 31, 2022 and 2021, the Parent Company has bought-back 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 ₱47,372.20 million and ₱28,753.79 million as of December 31, 2022 and 2021, 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 recognized deferred tax assets which did not flow through profit or loss (see Note 16).

Below is the summary of the Parent Company's track record of registration of securities with the SEC as of December 31, 2022:

	Number of shares registered	**Number of holders as of yearend**
December 31, 2020	4,250,547,620	731
Add: Movement	–	10
December 31, 2021	4,250,547,620	741
Add: Movement	–	(5)
December 31, 2022	4,250,547,620	736

16. **Retained Earnings**

As of December 31, 2022, and 2021, retained earnings amounted to ₱54,172.20 million and ₱35,553.79 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 15).

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, 2022 and 2021 amounted to ₱31,140.44 million and ₱15,322.63 million, respectively.

Cash Dividends
On October 17, 2022, the Parent Company's BOD authorized the Parent Company to declare and distribute special cash dividends of ₱3.50 per share or ₱14,876.92 million to stockholders of record as of October 31, 2022 and payable on November 15, 2022.

On March 31, 2022, the Parent Company's BOD authorized the Parent Company to declare and distribute special cash dividends of ₱1.50 per share or ₱6,375.82 million to stockholders of record as of April 18, 2022 and payable on November 15, 2022.

On October 11, 2021, the Parent Company's BOD authorized the Parent Company to declare and distribute special cash dividends of ₱1.75 per share or ₱7,300.57 million to stockholders of record as of October 25, 2021 and payable on November 9, 2021.

On March 25, 2021, the Parent Company's BOD authorized the Parent Company to declare and distribute special cash dividends of ₱1.25 per share or ₱5,452.98 million to stockholders of record as of April 13, 2021 and payable on April 23, 2021.

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.

Appropriations
On October 28, 2022, the BOD approved the re-appropriation of ₱5,300.00 million from the appropriated retained earnings as of 2020 for capital expenditures and power expansion projects which are expected to be completed by 2026.

On October 28, 2021, the BOD approved the appropriation of ₱1,500.00 million from the unappropriated retained earnings as of December 31, 2021 for other investments of the Group. This appropriation is intended for the renewable energy investments of the Group which are expected to be completed by 2026.

17. **Related Party Transactions**

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence which include affiliates. Related parties may be individuals or corporate entities. Transactions entered into by the Group with affiliates are made at normal commercial prices and terms. These are settled in cash, unless otherwise specified.

The significant related party transactions entered into by the Group with its related parties and the amounts included in the accompanying consolidated financial statements with respect to these transactions are as follows:

	2022				
	Reference	**Amount/ Volume**	**Receivable (Payable)**	**Terms**	**Conditions**
Trade receivables (Note 5)					
Entities under common control					
Sale of coal	**(a)**	**₱936,967,262**	**₱862,122,326**	**Noninterest-bearing, 30 days**	**Unsecured, no impairment**
Sale of materials, services and reimbursement of shared expenses	**(b)**	**15,272,945**	**82,352,530**	**Noninterest-bearing, 30 days**	**Unsecured, no impairment**
			₱944,474,856		

	2022				
	Reference	**Amount/ Volume**	**Receivable (Payable)**	**Terms**	**Conditions**
Trade payables (Note 12)					
Entities under common control					
Operation and maintenance fees	**(c)**	**(₱324,000,000)**	**(₱29,700,000)**	**30 days, noninterest-bearing**	
Coal handling services	**(d)**	**(721,408,109)**	**(65,084,773)**	**30 days, noninterest-bearing**	**Unsecured**
Mine exploration and hauling services	**(e)**	**(176,612,602)**	**(62,393,850)**	**30 days, noninterest-bearing**	**Unsecured**
Repairs and maintenance services	**(f)**	**(155,197,419)**	**(38,327,450)**	**30 days for monthly billings and portion after expiration of, retention period, noninterest-bearing**	**Unsecured**
Purchases of raw materials	**(g)**	**(1,024,645)**	**(3,800,335)**	**30 days, noninterest-bearing**	**Unsecured**
Land and warehouse rental expenses	**(h)**	**(1,469,610)**	**(1,785,076)**	**30 days, noninterest-bearing**	**Unsecured**
Aviation services	**(i)**	**(33,968,706)**	**(14,480,563)**	**30 days, noninterest-bearing**	**Unsecured**
Others	**(b)**	**(643,393)**	**(1,586,322)**	**30 days, noninterest-bearing**	**Unsecured**
			(₱217,158,369)		

	2021				
	Reference	Amount/ Volume	Receivable (Payable)	Terms	Conditions
Trade receivables (Note 5)					
Entities under common control					
Sale of coal	(a)	₱193,838,467	₱62,074,857	Noninterest-bearing, 30 days	Unsecured, no impairment
Sale of materials, services and reimbursement of shared expenses	(b)	48,785,747	130,008,456	Noninterest-bearing, 30 days	Unsecured, no impairment
			₱192,083,313		
Trade payables (Note 12)					
Entities under common control					
Operation and maintenance fees	(c)	(₱297,000,000)	₱–	30 days, noninterest-bearing	
Coal handling services	(d)	(458,912,857)	(35,292,720)	30 days, noninterest-bearing	Unsecured
Mine exploration and hauling services	(e)	(110,976,310)	(239,006,451)	30 days, noninterest-bearing	Unsecured

(Forward)

	2021				
	Reference	Amount/ Volume	Receivable (Payable)	Terms	Conditions
Repairs and maintenance services	(f)	(₱229,825,611)	(₱130,764,070)	30 days for monthly billings and portion after expiration of, retention period, noninterest-bearing	Unsecured
Purchases of raw materials	(g)	(751,564)	(2,775,691)	30 days, noninterest-bearing	Unsecured
Land and warehouse rental expenses	(h)	(517,392)	(315,466)	30 days, noninterest-bearing	Unsecured
Aviation services	(i)	(21,209,834)	(48,449,269)	30 days, noninterest-bearing	Unsecured
Others	(b)	(688,234)	(1,230,261)	30 days, noninterest-bearing	Unsecured
			(₱457,833,928)		

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 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), an affiliate. Freight cost charged by DMC CERI are included as part of the cost of coal inventory. The total inventory cost including the freight charges are recorded as expenses under ‘Cost of power sales’ depending on the level of coal consumed for the period. Outstanding payable balance as of year-end to DMC CERI are included in the ‘Accounts and other payables’ account.

e. DMC CERI had transactions with the Parent Company for services rendered relating to the Parent Company’s coal operations. Expenses incurred for said services are included in ‘Outside services’ under ‘Cost of sales’ in the consolidated company statements of comprehensive income (see Note 19).

   DMC CERI also provides service requirements needed by the Parent Company to operate and maintain barges, vessels and tugboats for the purpose of transporting coal. Expenses incurred for these services are included in ‘Hauling and shiploading costs’ under ‘Cost of sales’ in the consolidated company statements of comprehensive income (see Note 19).

   Furthermore, DMC CERI provides labor services relating to coal operations, including those services rendered by consultants. Expenses incurred for said services are included in ‘Direct labor’ under ‘Cost of sales’ in the consolidated company statements of comprehensive income (see Note 19).

In 2020, marine vessels were sold to DMC CERI for ₱620.58 million, of which ₱13.39 million remained uncollected as of December 31, 2022.

f. The Group contracted DMCI for various repairs and maintenance services for the plane runway and mine site cut-off walls at Semirara Island.

g. Transactions with other affiliates pertain to supply of various raw materials.

h. DMC Urban Property Developers, Inc. (DMC-UPDI) had transactions with the Parent Company representing long-term lease on land, warehouse space and other transactions necessary for the coal operations. Rental expenses on warehouse space are included in cost of sales under ‘Outside services’, while payments related to lease of land are accounted as reduction to lease liabilities upon adoption of PFRS 16 (see Notes 9 and 19).

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 of the minesite. The related expenses are included in cost of sales under ‘Production overhead’ in the consolidated statement of comprehensive income (see Note 19).

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 12).

Terms and conditions of transactions with related parties
The outstanding accounts with other related parties are 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 December 31, 2022 and 2021, there were no impairment losses recognized on related party balances.

Compensation of key management personnel of the Group amounted to ₱140.33 million, ₱83.84 million and ₱66.96 million in 2022, 2021 and 2020, 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.

18. **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, 2022.

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 consists of members of the BOD, the President and Senior Vice President and Chief Risk, Compliance and Performance Officer. The Vice President and Chief Finance Officer oversees 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 2022, 2021 and 2020.

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:

	2022	2021	2020
Discount rate	**7.16% - 7.34%**	5.01% - 5.18%	3.72% - 4.07%
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 2022 and 2021:

	2022	2021
Mining	**4.6 years**	5.8 years
Power	**10.3-12.2 years**	9.0-14.2 years

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

	2022	2021	2020
Current service cost	**₱73,125,395**	₱72,465,030	₱54,382,566
Interest expense related to the defined benefit liability	**28,530,762**	19,846,410	23,339,604
Interest income related to plan assets	**(22,213,731)**	(10,920,479)	(6,833,040)
	₱79,442,426	₱81,390,961	₱70,889,130

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 19 and 20).

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:

	2022	2021
Defined benefit liability at beginning of year	**₱565,615,066**	₱526,483,803
Current service cost	**73,125,395**	72,465,030
Interest expense	**28,530,762**	19,846,410
Remeasurement losses (gains) arising from:		
Changes in demographic assumptions	**(25,425,974)**	57,468,576
Changes in financial assumptions	**(81,097,001)**	(55,020,913)
Experience adjustments	**9,349,514**	(11,300,365)
Benefits directly paid by the Group	**(25,799,803)**	(27,858,782)
Benefits paid from plan assets	–	(16,468,693)
Defined benefit liability at end of year	**₱544,297,959**	₱565,615,066

	2022	2021
Fair value of plan assets at beginning of year	**₱441,566,057**	₱125,195,196
Contributions	–	343,649,989
Interest income	**22,213,731**	10,920,479
Remeasurement losses arising from return on plan assets	**(65,056,808)**	(21,730,914)
Benefits paid from plan assets	–	(16,468,693)
Fair value of plan assets at end of year	**₱398,722,980**	₱441,566,057

	2022	2021
Net pension liability at beginning of year	**₱124,049,009**	₱397,545,236
Net pension expense	**79,442,426**	81,390,961
Actuarial losses (gains) recognized in OCI	**(32,116,653)**	16,621,583
Contributions	–	(343,649,989)
Benefit directly paid by the Group	**(25,799,803)**	(27,858,782)
Net pension liability at end of year	**₱145,574,979**	₱124,049,009

The Group is not required to pre-fund the future defined benefits payable under the Retirement Plan before they become due. For this reason, the amount and timing of contributions to the Retirement Fund are at the Group's discretion. However, in the event a benefit claim arises and the Retirement Fund is insufficient to pay the claim, the shortfall will then be due and payable from the Group to the Retirement Fund.

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

	2022	2021
Cash and cash equivalents	**₱38,585,207**	₱71,547,815
Equity instruments		
Financial institutions	**94,457,947**	93,046,697
Debt instruments		
Government securities	**214,791,490**	273,013,653
Unquoted debt securities	**49,702,996**	2,475,888
Receivables	**1,185,340**	1,482,004
	₱398,722,980	₱441,566,057

Trust fee in 2022 and 2021 amounted to ₱163,942 and ₱193,824 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 65% and 60% of debt instruments, 10% and 20% of cash and cash equivalents, 24% and 20% of equity instruments and 1% and 1% of others for 2022 and 2021, 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.

	Increase (Decrease)	Effect on Defined Benefit Liability **2022**	2021
Discount rates	+1%	**(₱29,918,931)**	(₱37,813,545)
	-1%	**34,418,756**	44,105,672
Future salary increases	+1%	**35,149,785**	44,071,162
	-1%	**(31,047,650)**	(38,501,086)

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

	2022	2021
Within one year	**₱240,620,989**	₱226,863,069
After one year but not more than five years	**157,818,343**	192,879,476
More than five years	**267,849,943**	230,891,824
	₱666,289,275	₱650,634,369

The Group has no other transactions with the fund.

19. **Cost of Sales**

Cost of coal sales consists of:

	2022	2021	2020
Cost of coal (Note 6)			
Fuel and lubricants	**₱8,662,032,669**	₱5,151,443,587	₱3,500,149,163
Materials and supplies (Note 17)	**4,894,599,127**	4,814,829,506	3,763,516,229
Depreciation and amortization (Notes 9, 10 and 11)	**2,953,823,251**	3,206,865,763	2,346,583,325
Direct labor (Notes 17 and 18)	**2,000,915,792**	1,740,399,466	1,107,658,868
(Forward)			
Production overhead (Note 17)	**1,229,839,584**	617,330,942	580,140,429
Outside services (Note 17)	**297,911,144**	470,713,991	542,297,370
	20,039,121,567	16,001,583,255	11,840,345,384
Hauling and shiploading costs (Notes 9 and 17)	**1,100,577,649**	1,322,699,136	439,966,574
	₱21,139,699,216	₱17,324,282,391	₱12,280,311,958

In 2021, the Parent Company recognized provision for inventory obsolescence amounting to ₱168.54 million, which is included in "Materials and supplies' under cost of coal in the statements of financial position. There was no recognized provision for inventory obsolescence in 2022.

Cost of power sales consists of:

	2022	2021	2020
Coal	**₱3,382,073,706**	₱3,515,523,065	₱3,936,553,761
Depreciation and amortization (Note 9)	**2,713,660,463**	2,712,156,415	2,871,506,678
Energy spot purchases	**1,885,580,927**	2,187,503,217	411,055,081
Chemicals, lubricants and limestone	**330,111,016**	75,615,195	24,509,295
Diesel	**204,960,352**	295,562,474	46,426,387
Market fees	**17,258,131**	14,706,578	31,054,721
Bunker	**–**	–	39,740,981
Others	**81,807,586**	114,220,385	58,258,633
	₱8,615,452,181	₱8,915,287,329	₱7,419,105,537

The cost of coal on power sales consists of:

	2022	2021	2020
Fuel and lubricants	**₱1,030,987,549**	₱747,530,776	₱1,114,770,271
Materials and supplies	**1,491,607,366**	1,815,056,200	1,309,162,437
Hauling and shiploading costs	**376,233,907**	440,003,812	213,958,565
Direct labor	**238,156,487**	252,552,230	385,306,000
Production overhead	**146,380,110**	89,581,119	201,805,442
Depreciation and amortization (Note 9)	**63,249,788**	102,492,872	519,986,937
Outside services	**35,458,499**	68,306,056	191,564,109
	₱3,382,073,706	₱3,515,523,065	₱3,936,553,761

20. **Operating Expenses**

	2022	2021	2020
Government share (Note 26)	**₱15,963,371,469**	₱6,354,771,211	₱1,813,594,427
Repairs and maintenance	**1,007,559,364**	453,607,978	283,240,150
Personnel costs (Notes 17 and 18)	**811,695,278**	673,300,883	508,983,157
Taxes and licenses	**496,057,322**	600,942,907	552,966,795
Insurance and bonds	**398,102,708**	300,864,581	257,761,191
Operation and maintenance (Note 17)	**324,000,000**	297,000,000	415,104,047
Office expenses (Note 17)	**227,484,743**	177,644,604	110,296,868
Write-down of inventories and property, plant and equipment (Notes 3, 6, 8 and 9)	**210,752,009**	–	157,196,754
Professional fees	**77,288,700**	60,366,134	71,194,050
Depreciation and amortization (Notes 3, 9 and 10)	**69,562,720**	83,292,044	194,002,240
Provision for impairment losses (Notes 5, 7 and 11)	**30,987,428**	–	–
Entertainment, amusement and recreation	**₱30,860,344**	₱67,133,369	₱36,940,602
Transportation and travel	**21,979,008**	17,479,977	14,226,265
Marketing	–	–	2,591,716
Others (Note 24)	**282,527,987**	178,756,585	135,963,454
	₱19,952,229,080	₱9,265,160,273	₱4,554,061,716

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

Others include the accrued interest on the 2020 income tax due amounting to ₱184.00 million (see Note 24). Others also pertain to various expenses such as advertising and utilities.
Prior to acquisition of the 50% shareholdings of Meralco PowerGen Corporation, MGen (the other joint venturer in SRPGC), the Parent Company recognized equity in net losses of SRPGC amounting to ₱0.31 million in 2020 and is included under "Others" in profit or loss.

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 of the shareholdings of MGen for ₱115.0 million (remained unpaid as of December 31, 2022). SRPGC has started pre-construction work and the related capitalized costs amounting to ₱112.67 million and ₱104.84 million is recorded under "Property, plant and equipment" as of December 31, 2022 and 2021, respectively (see Note 9).

21. **Finance Costs**

	2022	2021	2020
Interest on:			
Long-term debt (Note 13)	**₱646,024,986**	₱774,632,597	₱668,081,709
Short-term debt (Note 13)	–	58,416,679	318,752,682

(Forward)

	2022	2021	2020
Accretion of provision for decommissioning and site rehabilitation costs (Note 14)	**₱16,823,359**	₱9,797,034	₱24,282,185
Lease liabilities (Note 10)	**6,014,971**	7,104,913	7,850,348
Amortization of debt issuance cost (Note 13)	**31,466,638**	33,227,632	30,676,096
Bank charges and others	**157,592,940**	93,179,757	45,177,531
	₱857,922,894	₱976,358,612	₱1,094,820,551

22. **Finance Income**

	2022	2021	2020
Interest on:			
Cash in banks (Note 4)	**₱13,227,156**	₱5,498,252	₱6,078,596
Cash equivalents (Note 4)	**397,348,429**	15,097,453	39,548,131
Others	**2,804,140**	1,946,547	246,212
	₱413,379,725	₱22,542,252	₱45,872,939

23. **Other Income**

	2022	2021	2020
Sale of fly ash	**₱220,674,227**	₱167,589,713	₱180,213,166
Gain (loss) on sale of equipment – net (Note 9)	**423,256**	(1,990,583)	67,002,889
Gain on pre-termination of option contract	**–**	–	37,238,898
Miscellaneous	**21,464,033**	74,140,556	32,264,656
	₱242,561,516	₱239,739,686	₱316,719,609

Gain on pre-termination of option contract
On March 25, 2020, the Group and a retail-electricity supplier (RES) has agreed to pre-terminate the five (5)-year option agreement with respect to its exposure to the WESM. The pre-termination gain recognized amounted to ₱37.24 million in 2020. The pre-termination did not constitute any default of either party and did not give rise to any termination fee.

Miscellaneous
Miscellaneous pertains to liquidated damages received and amortization of deferred rental income.

24. **Income Tax**

	2022	2021	2020
Current	**₱2,099,546,578**	₱18,859,250	₱78,606,899
Final	**72,342,178**	112,133,683	7,460,349
Deferred	**179,889,126**	214,131,126	46,530,509
	₱2,351,777,882	₱345,124,059	₱132,597,757

The current provision for income tax in 2022 includes the accrual of income tax due for its 2020 income amounting to ₱897.30 million.

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

	2022	2021	2020
Statutory income tax rate	**25.00%**	25.00%	30.00%
Adjustments for:			
Nondeductible expense	**0.81**	0.09	1.83
Nondeductible interest expense	**0.06**	0.00	0.17
Movement in unrecognized deferred tax assets	**(0.29)**	0.53	(1.31)
Interest income already subject to final tax at a lower rate	**(0.07)**	(0.01)	(0.17)
Tax-exempt income	**(22.66)**	(26.20)	(26.66)
Adjustment of prior year income taxes due to change in tax rate (CREATE)	–	0.82	–
Others	**2.72**	–	–
Effective income tax rate	**5.57%**	0.23%	3.86%

Deferred tax assets and deferred tax liabilities are offset on a per entity level and the net amount is reported in the consolidated statements of financial position as follows:

Deferred tax assets - net

	2022	2021
Deferred tax assets on:		
Allowance for expected credit losses and impairment losses (Notes 5, 7 and 10)	**₱389,465,331**	₱385,904,657
Write-down of PPE (Note 9)	**42,942,859**	–
Accrual of pension obligation	**26,048,335**	120,127,774
Provision for decommissioning and site rehabilitation costs (Note 14)	**5,771,879**	3,341,973
Lease liabilities (Note 10)	**126,393**	10,066,804
Allowance for inventory obsolescence	**9,745,143**	57,512,862
Allowance for doubtful accounts (Note 5)	–	18,707,571
Others	**15,850,474**	19,551,577
	489,950,414	615,213,218
Deferred tax liabilities on:		
Right-of-use assets	**₱–**	(₱9,548,634)
Unrealized foreign exchange gains	–	(45,046,270)
Other comprehensive income	**(3,199,365)**	(861,747)
	(₱3,199,365)	(55,456,651)
	₱486,751,049	559,756,567

Deferred tax liabilities - net

	2022
Deferred tax assets on:	
Accrual of pension obligation	₱96,704,138
Allowance for inventory obsolescence	57,512,862
Allowance for doubtful accounts (Note 5)	18,707,571
Lease liabilities (Note 10)	6,348,719
Allowance for expected credit losses and impairment losses (Notes 7 and 10)	3,823,014
	183,096,304
Deferred tax liabilities on:	
Right-of-use assets	(7,323,379)
Unrealized foreign exchange gains	(300,561,661)
	(307,885,040)
	(₱124,788,736)

There were no net deferred tax liabilities on a per entity level reported in the consolidated statement of financial position as of December 31, 2021.

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:

	2022	2021
NOLCO	**₱42,654,944**	₱477,906,468
Allowance for impairment losses and other probable losses	**287,861,508**	286,408,831
MCIT	**14,904,246**	14,904,246
Others	**57,682,916**	63,246,572

Unrecognized deferred tax assets on temporary differences amounted to ₱100.78 million and ₱210.62 million as of December 31, 2022 and 2021, respectively.

On September 30, 2020, the BIR issued Revenue Regulations No. 25-2020 implementing Section 4 of Bayanihan to Recover as One Act (Bayanihan 2) which states that the NOLCO incurred for taxable years 2020 and 2021 can be carried over as a deduction from gross income for the next five (5) consecutive years immediately following the year of such loss.

As of December 31, 2022, the Group has available NOLCO that can be claimed as deduction from future taxable income as follows:

Period	Amount	Applied	Expired	Balance	Expiry Year
2019	₱17,137,838	₱–	(₱17,137,838)	₱–	2022
2021	460,768,630	(420,448,547)	–	40,320,083	2026
2022	2,334,861	–	–	2,334,861	2025
	₱480,241,329	(₱420,448,547)	(₱17,137,838)	₱42,654,944	

As of December 31, 2022, the excess MCIT that is available for offset against future income tax payable follow:

Year incurred	Amount	Applied	Expired	Balance	Expiry Year
2020	₱14,904,246	₱–	₱–	₱14,904,246	2023

Board of Investments (BOI) Incentives

Parent Company

In relation to the Parent Company's operation in Panian mine site, on September 26, 2008, the BOI issued in favor of the Parent Company a Certificate of Registration as an Expanding Producer of Coal in accordance with the provisions of the Omnibus Investments Code of 1987. Pursuant thereto, the Parent Company shall be entitled to the following incentives, among others:

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. 2017-042). 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.

On July 12, 2021, the Parent Company applied for another extension of one (1) year of ITH incentive for Molave Mine. On December 16, 2021, the BOI approved the Parent Company's application for extension for one (1) year of ITH incentive for Molave Mine.

The approved bonus year under Certificate of Registration No. 2016-042 is for the period October 15, 2021 to October 14, 2022 using the net foreign exchange earnings criterion pursuant to Executive Order No. 226.

On July 2, 2020, through Board Resolution No. 12-13, Series of 2020, the BOI approved the request for deferment of the ITH incentive availment for Molave mine for taxable year 2020, noting that the operation has been affected or disrupted by COVID-19 pandemic and since the project has not fully enjoyed the incentives granted to it for reasons beyond the Company's control pursuant to Article 7(14) of Executive Order No. 226, otherwise known as the Omnibus Investments Code of 1987, as amended, subject to the following:

(1) the income tax due for the taxable year covered by the deferment period shall be paid by the Parent Company;
(2) the Parent Company will only be entitled to ten (10) months of ITH incentive in the next taxable year since the deferment period, taxable year 2020, is the project's last year of ITH availment period;
(3) that this deferment shall not prejudice the project's approved bonus year under Certificate of Registration No. 2016-042 for the period October 15, 2020 to October 14, 2021 using the Indigenous Raw Material Criterion pursuant to Art. 39(a)(ii) of E.O. 226 pursuant to Board Resolution No. 31-07, Series of 2019. Noting the deferment of its ITH incentive for taxable year 2020, the bonus year shall correspondingly be amended from October 15, 2021 to October 24, 2022.

The Parent Company has not availed of this deferment of the ITH incentive in 2020.

In 2022, the BOI provided the Parent Company the option to amend the ITH incentive (bonus) expiration year for Molave mine to October 2023 subject to the Parent Company paying the Taxable Year 2020 income tax due amounting to ₱897.30 million and the related interest.

In 2022, the Parent Company recognized ₱897.30 million of income tax due on its income in 2020, as part of its provision for current income tax.

In January 2023, the Parent Company settled the income tax due for the Taxable Year 2020 at ₱1,088.46 million inclusive of interest amounting to ₱191.16 million. Hence, the ITH incentive (bonus) will expire beginning October 2023 and the income from the registered activities of the BOI project (Molave mine pit) from October 2023 will be subjected to regular corporate tax of 25%.

The BOI corrected the ITH availment period of the BOI project pursuant to Art. 39(a)(1)(iii) of E.O. 226 under Certificate of Registration No. 2016-042 from October 15, 2021 to October 14, 2022 to October 15, 2022 to October 14, 2023.

The Parent Company availed of incentive in the form of ITH on its income under registered activities. The income under registered activities amounted to ₱36,375.37 million, ₱14,316.71 million and ₱7,743.47 million in 2022, 2021 and 2019, 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 the date of registration, the enterprise shall be allowed an additional deduction from taxable income of fifty percent (50%) of the wages corresponding to the increment in number of direct labor for skilled and unskilled workers in the year of availments as against the previous year if the project meets the prescribed ratio of capital equipment to the number of workers set by the BOI 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 the 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 the date of registration; and,

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

On June 29, 2016, the BOI granted the request of SLPGC 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.

On September 14, 2020, SLPGC was granted a maximum postponement of 2 years of its ITH bonus year on grounds of COVID-19 pandemic. SLPGC opted to exercise the deferral of its ITH bonus year in 2020, or a period of one (1) year only. The bonus year was availed for the period of January 1, 2021 to December 31, 2021.

Corporate Recovery and Tax Incentive for Enterprise (CREATE) Act

On March 26, 2021, Republic Act No. 11534, Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act, was signed into law and took effect on April 11, 2021. The CREATE Act introduces reforms to the corporate income tax and incentive systems by implementing changes to the current tax regulations. Some of these changes, which became effective beginning July 1, 2020, are as follows:

- Reduction in the RCIT rate from 30% to 20% for entities with net taxable income not exceeding ₱5.0 million and with total assets not exceeding ₱100.0 million (excluding the value of land on which the business entity's office, plant and equipment are situated);

- Reduction in the RCIT from 30% to 25% for all other corporations;
- Reduction in the MCIT rate from 2% to 1% of gross income for 3 years or until June 30, 2023;
- Repeal of the imposition of 10% improperly accumulated earnings tax (IAET).

25. Basic/Diluted Earnings Per Share

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

	2022	2021	2020
Net income	**₱39,871,157,824**	₱16,200,097,441	₱3,286,749,412
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	**₱9.38**	₱3.81	₱0.77

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.

26. Coal Operating Contract with DOE

The DOE issued Coal Operating Contract (COC) to the Parent Company which gives it the exclusive right to conduct exploration, development and coal mining operations in Semirara Island. 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.

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.

Royalty dues for DOE's share under this contract, amounted to ₱15,963.37 million, ₱6,354.77 million and ₱1,813.59 million in 2022, 2021 and 2020, respectively, included under 'Operating expenses' in the consolidated statements of comprehensive income (see Note 20). Payable to DOE, amounting to ₱2,169.25 million and ₱2,059.61 million as of December 31, 2022 and 2021, respectively, are included under the 'Trade and other payables' account in the consolidated statements of financial position (see Note 12).

27. Contingencies and Commitments

The Group is a party to certain proceedings and legal cases with other parties in the normal course of business. The ultimate outcome of these proceedings and legal cases cannot be presently determined. Management, in consultation with its legal counsels, believes that it has substantial legal and factual bases for its positions and is currently of the opinion that the final resolution of these claims will not have a material effect on the consolidated financial statements.

The Group is also contingently liable with respect to certain taxation matters, 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 Group's consolidated financial statements.

There is no resulting provision in 2022, 2021 and 2020 for these lawsuits, claims and assessments based on management's assessment. The other information usually required by PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, are not disclosed on the grounds that it can be expected to prejudice the outcome of pending lawsuits, claims and assessments.

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, the Group 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 the Group under the terms and conditions of its COC with the DOE. 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 the Group as merely a collecting agent (the Group collected from customers and remitted to the tax bureau). The RMC did not provide for the excise tax treatment of export coal sales (per RMC, this will be tackled in a separate revenue memorandum issuance), but management believes that the Group 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 the Group, if any, are uncertain as of December 31, 2022 and 2021 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 the Group was shipped and delivered to Gold Anchorage Stevedoring and Arrastre Services, Inc. (GASAI). On June 6, 2019, the Group received an Order dated June 4, 2019 from the DOE directing the 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, the Group 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, the Group wrote the DOE requesting deferment of the 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. the Group to continue with its existing coal contracts, but shall not enter as party to any new coal supply agreement; and,
c. the Group should faithfully comply with its commitments and obligations as an accredited coal trader.

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

- Suspension of coal trading activities for 1 month, except to the Group-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 the Group.

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

On March 16, 2021, DOE modified its October 15, 2019 resolution as follows:

- Ordering payment of a fine of ₱610,000. instead
- Removal of the penalty of one-month suspension of the coal trader accreditation.

The Group paid the penalty on March 31, 2021.

c. *Land Lease Agreement*

As discussed in Note 9, the Group entered into an LLA with PSALM for the lease of land where the Power Plant is situated, for the period of 25 years, renewable for another 25 years upon mutual agreement. In 2009, the Group paid US$3.19 million or its Peso equivalent ₱150.57 million as advance rental for the 25-year land lease.

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

The Group was also required to deliver and submit to the lessor a performance security amounting to ₱34.83 million in the form of Stand-by Letter of Credits. The Performance Security shall be maintained by the Group in full force and effect continuously without any interruption until the Performance Security expiration date. The Performance Security initially must be effective for the period of one year from the date of issue, to be replaced prior to expiration every year thereafter and shall at all times remain valid.

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

The exchange rate to be used should be the Philippine Dealing Exchange rate at the date of receipt of PSALM of the option to exercise notice.

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

On April 28, 2011, the Group sent a letter to PSALM requesting for the assignment of the option to purchase a lot with an area of 82,740 square meters in favor of its Parent Company. On May 5, 2011, PSALM approved the assignment. On June 1, 2011, the Group exercised the land lease option at a purchase price of ₱292.62 million and is included as part of "Property, plant and equipment".

On October 12, 2011, the Group reiterated its proposal to purchase the remainder of the Leased Premises not identified as Optioned Assets. One of the salient features of the proposal included the execution of Contract to Sell (CTS) between the Group and PSALM. This included the proposal of the Group to assign its option to purchase and sub-lease 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 Board has approved the Group'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, the Group reiterated its proposal to purchase the Calaca Leased Premises not identified as Optioned Assets.

On February 1, 2017, the Group again reiterated to PSALM its proposal to purchase the Calaca Leased Premises.

On August 15, 2017, the Group exercised its option to purchase for a lot with an area of 9,548 square meters at a price of ₱10.56 million.

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 June 30, 2021, the Group exercised its option to purchase lots with a total area of 19,304 square meters for a consideration of ₱43.11 million (see Note 9).

Foreshore lease

On April 2009, National Power Corporation (NAPOCOR or "NPC") and the Department of Environment and Natural Resources -CENRO (DENR-CENRO) entered to a 25-year foreshore lease agreement. On July 29, 2009, DMCI HI won the open and competitive bidding of the 600MW Batangas Coal-Fired Thermal Power Plant conducted by PSALM. Subsequently, the rights of DMCI HI on the 600MW Batangas Coal-Fired Thermal Power Plant was assigned to SCPC. 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 the Group unconditionally agrees to assume all rights and obligations under the Foreshore Lease Agreement. 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. Refer to Note 10 for the information and related disclosures.

d. Application for Approval of the ASPA between the Group and NGCP, with Prayer for the Issuance of Provisional Authority

   On July 12, 2018, the Group and NGCP filed an application for approval of the ASPA, with a prayer for the issuance of provisional authority, docketed as ERC Case No. 2018-074-RC, where NGCP agreed to procure and the Group 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 parties 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 the Group and NGCP to submit additional documents to file its formal offer of evidence.

   On November 9, 2018, the Group and NGCP filed their formal offer of evidence and compliance.

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

   On June 6, 2019, the Group filed a Motion for Partial Reconsideration with Manifestation of the Order dated May 20, 2019 praying for the recovery of the cost Pmin Capacity of 2 MW.

   On September 5, 2019, the ERC resolved to deny the Group's Motion for Partial Reconsideration with Manifestation for lack of merit.

   On November 19, 2019, the Group 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 the Group and NGCP.

While no supply agreement has been secured yet, the plant is being used by the Group for electricity generation and sale through WESM.

On July 12, 2021, the Group received an order from the ERC dated June 22, 2021 requiring both NGCP and the Group to comply with DOE Department Circular No. DC2019-12-0018 or Adopting a General Framework Governing the Provision and Utilization of Ancillary Services in the Grid. The Group manifested to the ERC that the circular is no longer applicable as the ASPA has long been terminated as jointly manifested to the ERC in November 19, 2019.

The ERC has yet to rule on the Motion to Withdraw filed jointly by NGCP and the Group.

28. **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 and movement of WESM price for power
- 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, 2022 and 2021.

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 global 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 referenced to coal indices such as New Castle Index and Indonesian Coal Index. Global 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 global 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 is no assurance that global coal prices will remain higher than pre-pandemic level 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):

	2022	2021
Domestic market	**41.76%**	27.33%
Export market	**58.24%**	72.67%

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, 2022 and 2021 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 2022 and 2021.

	Effect on income before income tax increase (decrease)	
Change in coal price	**2022**	2021
Based on ending coal inventory		
Increase by 19% in 2022 and 83% in 2021	**₱1,088,406,194**	₱916,186,257
Decrease by 19% in 2022 and 83% in 2021	**(1,088,406,194)**	(916,186,257)
Based on coal sales volume		
Increase by 18% in 2022 and 155% in 2021	**9,880,537,599**	12,103,657,136
Decrease by 18% in 2022 and 155% in 2021	**(9,880,537,599)**	(12,103,657,136)

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 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:

	2022						
	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**	**Total**
Cash in banks and cash equivalents	**0.01% to 6.00%**	**₱20,052,471,393**	**₱–**	**₱–**	**₱–**	**₱–**	**₱20,052,471,393**
Peso (PHP) long-term debt*							
a) 3,000.00 million loan	**Fixed annual interest rate of 4.9% per annum**	**847,770,313**	**810,509,896**	**773,377,083**	**–**	**–**	**2,431,657,292**
b) 4,000.00 million loan	**Fixed annual interest rate of 5.00% - 5.13% per annum**	**947,378,234**	**914,620,829**	**862,386,243**	**–**	**–**	**2,724,385,306**
c) 1,400.00 million loan	**Floating rate to be repriced every 3 months**	**279,461,205**	**264,915,019**	**250,183,136**	**235,544,101**	**56,711,835**	**1,086,815,296**
d) 2,700.00 million loan	**Fixed annual interest rate of 4.88% per annum**	**527,515,978**	**506,447,338**	**485,391,157**	**464,310,058**	**443,241,418**	**2,426,905,949**
e) 2,000.00 million loan	**Fixed annual interest rate of 4.88% per annum**	**348,071,742**	**334,140,313**	**320,219,313**	**306,277,456**	**292,346,027**	**1,601,054,851**
f) 3,500.00 million loan	**Fixed annual interest rate of 4.63% per annum**	**328,785,672**	**1,098,897,733**	**1,641,668,550**	**707,939,901**	**–**	**3,777,291,856**
		₱3,278,983,144	**₱3,929,531,128**	**₱4,333,225,482**	**₱1,714,071,516**	**₱792,299,280**	**₱14,048,110,550**

**Includes future interest payables amounting to ₱3,816.95 million*

	Interest	2021 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	Total
Cash in banks and cash equivalents	0.09% to 1.75%	₱8,209,119,513	₱–	₱–	₱–	₱–	₱8,209,119,513
Peso (PHP) long-term debt*							
a) 3,000.00 million loan	Fixed annual interest rate of 4.9% per annum	885,030,729	847,770,313	810,509,896	773,377,083	–	3,316,688,021
b) 4,000.00 million loan	Fixed annual interest rate of 5.00% - 5.13% per annum	989,541,029	947,378,234	914,620,829	862,386,243	–	3,713,926,335
c) 2,750.00 million loan	Fixed annual interest rate of 4.57% per annum to be repriced after 3 years	1,592,867,006	170,758,777	163,504,302	156,118,801	290,277,636	2,373,526,522
d) 1,400.00 million loan	Floating rate to be repriced every 3 months	294,100,240	279,461,205	264,915,019	250,183,136	292,255,936	1,380,915,536
e) 2,700.00 million loan	Fixed annual interest rate of 4.88% per annum	548,584,618	527,515,978	506,447,338	485,391,157	907,551,476	2,975,490,567
f) 2,000.00 million loan	Fixed annual interest rate of 4.88% per annum	362,003,170	348,071,742	334,140,313	320,219,313	598,623,483	1,963,058,021
g) 3,500.00 million loan	Fixed annual interest rate of 4.63% per annum	188,949,972	328,785,672	1,098,897,733	1,641,668,550	707,939,901	3,966,241,828
		₱4,861,076,764	₱3,449,741,921	₱4,093,035,430	₱4,489,344,283	₱2,796,648,432	₱19,689,846,830

**Includes future interest payable amounting to ₱4,556.78 million*

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, 2022 and 2021, with all variables held constant, through the impact on floating rate borrowings (amounts in thousands):

	Effect on income before income tax Increase (decrease)	
Basis points	**2022**	2021
+100	**(₱102,312)**	(₱150,666)
-100	**102,312**	150,666

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, 2022 and 2021 based on contractual payments:

	2022					
	On Demand	Within 1 year	Beyond 1 year to 2 years	Beyond 2 year to 3 years	Beyond 3 years	Total
Financial Assets						
Cash in banks and cash equivalents	₱20,052,471,393	₱–	₱–	₱–	₱–	₱20,052,471,393
Receivables						
Trade:						
Outside parties	10,562,538,314	–	–	–	–	10,562,538,314
Related parties	944,474,856	–	–	–	–	944,474,856
Others[(1)]	196,729,604	–	–	–	–	196,729,604
Environmental guarantee fund	–	–	–	–	15,637,143	15,637,143
	₱31,756,214,167	–	–	–	₱15,637,143	₱31,771,851,310
Financial Liabilities						
Trade and other payables						
Trade:						
Payable to suppliers and contractors	7,100,380,727	–	–	–	–	7,100,380,727
Related parties	217,158,369	–	–	–	–	217,158,369
Accrued expenses and other payables[(2)]	303,111,193	–	–	–	–	303,111,193
Lease liabilities	–	20,827,207	17,153,963	9,639,833	48,469,119	96,090,122
Peso long-term debt with interest payable in arrears[(3)]						
3,000.00 million loan	–	847,770,313	810,509,896	773,377,083	–	2,431,657,292
4,000.00 million loan	–	947,378,234	914,620,829	862,386,243	–	2,724,385,306
1,400.00 million loan	–	279,461,205	264,915,019	250,183,136	292,255,936	1,086,815,296
2,700.00 million loan	–	527,515,978	506,447,338	485,391,157	907,551,476	2,426,905,949
2,000.00 million loan	–	348,071,742	334,140,313	320,219,313	598,623,483	1,601,054,851
3,500.00 million loan	–	328,785,672	1,098,897,733	1,641,668,550	707,939,901	3,777,291,856
	₱7,620,650,289	₱3,299,810,351	₱3,946,685,091	₱4,342,865,315	₱2,554,839,915	₱21,764,850,961

[(1)]*Excludes advances to officers and employees amounting to ₱95.04 million which are considered as non-financial asset*

[(2)]*Excludes statutory liabilities amounting to ₱368.50 million*

[(3)]*Includes future interest payable amounting to ₱3,816.95 million*

	2021					
	On Demand	Within 1 year	Beyond 1 year to 2 years	Beyond 2 year to 3 years	Beyond 3 years	Total
Financial Assets						
Cash in banks and cash equivalents	₱8,209,119,513	₱–	₱–	₱–	₱–	₱8,209,119,513
Receivables						
Trade:						
Outside parties	8,161,013,954	–	–	–	–	8,161,013,954
Related parties	192,083,313	–	–	–	–	192,083,313
Others[1]	70,804,196	–	–	–	–	70,804,196
Environmental guarantee fund	–	–	–	–	15,637,143	15,637,143
	16,633,020,976	–	–	–	15,637,143	16,648,658,119
Financial Liabilities						
Trade and other payables						
Trade:						
Payable to suppliers and contractors	6,589,509,917	–	–	–	–	6,589,509,917
Related parties	457,833,928	–	–	–	–	457,833,928
Accrued expenses and other payables[2]	286,588,393	–	–	–	–	286,588,393
Lease liabilities	–	12,762,774	8,089,317	20,827,207	73,844,202	115,523,500
Peso long-term debt with interest payable in arrears[3]						
3,000.00 million loan	–	885,030,729	847,770,313	810,509,896	773,377,083	3,316,688,021
4,000.00 million loan	–	989,541,029	947,378,234	914,620,829	862,386,243	3,713,926,335
2,750.00 million loan	–	1,592,867,006	170,758,777	163,504,302	446,396,437	2,373,526,522
1,400.00 million loan	–	294,100,240	279,461,205	264,915,019	542,439,072	1,380,915,536
2,700.00 million loan	–	548,584,618	527,515,978	506,447,338	1,392,942,634	2,975,490,568
2,000.00 million loan	–	362,003,170	348,071,742	334,140,313	918,842,796	1,963,058,021
3,500.00 million loan	–	188,949,972	328,785,672	1,098,897,733	2,349,608,451	3,966,241,828
	₱7,333,932,238	₱4,873,839,538	₱3,457,831,238	₱4,113,862,637	₱7,359,836,918	₱27,139,302,569

[1]Excludes advances to officers and employees amounting to ₱83.54 million which are considered as nonfinancial assets
[2]Excludes statutory liabilities amounting to ₱82.74 million
[3]Includes future interest of ₱4,556.78 million

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, 45.93% and 47.07% of the Group's sales in 2022 and 2021 were denominated in US$ whereas approximately 16.80% and 14.01% of liabilities were denominated in US$ as of December 31, 2022, and 2021, respectively.

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

	December 31, 2022		December 31, 2021	
	US Dollar	**Peso Equivalent**	US Dollar	Peso Equivalent
Assets				
Cash and cash equivalents	**$172,349,869**	**₱9,672,274,648**	$44,488,544	₱2,258,683,379
Trade receivables	**26,361,264**	**1,479,394,136**	51,175,956	2,598,203,286
Liabilities				
Trade payables	**(68,422,914)**	**(3,839,893,934)**	(71,835,650)	(3,647,095,951)
Net exposure	**$130,288,219**	**₱7,311,774,850**	$23,828,850	₱1,209,790,714

The exchange rates used were ₱56.12 to US$1 and ₱50.77 to US$1 in 2022 and 2021, 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, 2022 and 2021.

	Currency	Increase (decrease) in Philippine Peso/ Foreign exchange rate	Effect on profit before tax
2022	**USD**	**7.51%**	**₱549,114,291**
		(7.51%)	**(549,114,291)**
2021	USD	1.76%	21,292,316
		(1.76%)	(21,292,316)

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 (realized and unrealized) amounting to ₱1,003.61 million, ₱339.60 million and ₱154.69 million in 2022, 2021 and 2020, 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 5 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.

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due of the customer with loss pattern. The calculation reflects the probability-weighted outcome and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

The tables below present the summary of the Group's exposure to credit risk as of December 31 and show the credit quality of the assets by indicating whether the assets are subjected to the 12-month ECL or lifetime ECL.

	2022			
	12-month ECL	**Lifetime ECL Not Credit Impaired**	**Lifetime ECL Credit Impaired**	**Total**
Cash in banks and cash equivalents	**₱20,052,471,393**	**₱–**	**₱–**	**₱20,052,471,393**
Receivables:				
Trade receivables – related parties	**–**	**944,474,856**	**–**	**944,474,856**
Trade receivables – outside parties	**–**	**8,968,380,620**	**1,594,157,694**	**10,562,538,314**
Others*	**–**	**190,914,245**	**5,815,359**	**196,729,604**
Environmental guarantee fund	**–**	**13,607,307**	**–**	**13,607,307**
	₱20,052,471,393	**₱10,117,377,028**	**₱1,599,973,053**	**₱31,769,821,474**

**Excludes advances to officers and employees amounting to ₱95.04 million which are considered as non-financial asset*

	2021			
	12-month ECL	Lifetime ECL Not Credit Impaired	Lifetime ECL Credit Impaired	Total
Cash in banks and cash equivalents	₱8,209,119,513	₱–	₱–	₱8,209,119,513
Receivables:				
Trade receivables - related parties	–	192,083,313	–	192,083,313
Trade receivables - outside parties	–	6,596,574,872	1,564,439,082	8,161,013,954
Others*	–	64,988,837	5,815,359	70,804,196
Environmental guarantee fund	–	13,607,307	–	13,607,307
	₱8,209,119,513	₱6,867,254,329	₱1,570,254,441	₱16,646,628,283

**Excludes advances to officers and employees amounting to ₱83.54 million which are considered as non-financial asset*

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, 2022 and 2021.

	2022	2021
Interest-bearing loans	**₱10,196,187,514**	₱15,066,635,161
Total equity	**64,252,397,908**	45,609,896,807
Debt-equity ratio	**0.16:1**	0.33:1
EPS (Note 25)	**₱9.38**	₱3.81

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, 2022 and 2021:

	2022	2021
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	**(120,416,244)**	(144,503,733)
Retained earnings – unappropriated	**47,372,204,129**	28,753,790,517
Retained earnings – appropriated	**6,800,000,000**	6,800,000,000
	₱64,252,397,908	₱45,609,896,807

Some loan agreements have covenants that require the Group to maintain debt-to-equity (DE) ratios, among others (see Note 13).

29. 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.

Long-term debt and lease liabilities
Estimated fair values are based on the discounted value of future cash flows using the applicable rates for similar types of debt. Interest rates used in discounting cash flows ranges from 4.84% to 5.48%, while interest rate for lease liabilities is 3.20% to 7.64% in 2022 and 2021, respectively.

Asset held-for-sale
The fair value less costs to sell is the estimated price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. This was based from offers received from buyers in the advanced stage of negotiations, conducted at arm's length, for similar assets or observable market prices less incremental costs of disposing the asset (e.g. dismantling and handling costs).

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 2022 and 2021.

30. **Notes to Consolidated Statements of Cash Flows**

Supplemental disclosure of noncash investing activities follows:

	2022	2021	2020
Transfers from inventories to property, plant and equipment (Notes 6 and 9)	**₱695,205,692**	₱531,586,938	₱–
Write-down of property, plant and equipment (Notes 3, 8 and 9)	**171,771,434**	–	157,196,754

Changes in liabilities arising from financing activities in 2022, 2021 and 2020 follows:

	For the Year Ended December 31, 2022			
	January 1, 2022	**Net cash flows**	**Noncash**	**December 31, 2022**
Long-term debt (Note 13)	**₱15,066,635,161**	**(₱4,901,914,286)**	**₱31,466,639**	**₱10,196,187,514**
Dividend payable (Note 12)	**3,100,694**	**(21,252,510,224)**	**21,252,744,212**	**3,334,682**
Lease liabilities (Note 10)	**88,376,182**	**(23,690,307)**	**6,014,971**	**70,700,846**
	₱15,158,112,037	**(₱26,178,114,817)**	**₱21,290,225,822**	**₱10,270,223,042**

	For the Year Ended December 31, 2021			
	January 1, 2021	Net cash flows	Noncash	December 31, 2021
Short-term loans (Note 13)	₱5,425,000,000	(₱5,425,000,000)	₱–	₱–
Long-term debt (Note 13)	14,449,071,814	610,585,714	6,977,633	15,066,635,161
Dividend payable (Note 12)	1,193,054	(12,751,642,860)	12,753,550,500	3,100,694
Lease liabilities (Note 10)	103,018,715	(21,747,446)	7,104,913	88,376,182
	₱19,978,283,583	(₱17,587,804,592)	₱12,767,633,046	₱15,158,112,037

	For the Year Ended December 31, 2020			
	January 1, 2020	Net cash flows	Noncash	December 31, 2020
Short-term loans (Note 13)	₱2,070,000,000	₱3,355,000,000	₱–	₱5,425,000,000
Long-term debt (Note 13)	16,527,035,004	(2,077,514,285)	(448,905)	14,449,071,814
Dividend payable (Note 12)	1,220,121	(5,313,211,592)	5,313,184,525	1,193,054
Lease liabilities (Note 10)	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

Noncash changes pertain to amortization of deferred financing costs and cash dividend declaration by the Parent Company, recognition of lease liabilities as a result of adoption of PFRS 16 and subsequent additions thereto, and accretion of interest (see Notes 2 and 10).

31. 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 power 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 Officer (COO) 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.

	2022 (In thousands)				
	Mining	Power	Others	Adjustments and Eliminations	Consolidated
Revenue					
Sales to external customers	**₱70,506,121**	**₱20,622,572**	**₱–**	**₱–**	**₱91,128,693**
Inter-segment sales	**5,674,498**	–	–	**(5,674,498)**	–
	76,180,619	**20,622,572**	–	**(5,674,498)**	**91,128,693**
Cost of sales*	**(19,963,309)**	**(9,494,034)**	–	**5,369,675**	**(24,087,668)**
Depreciation and amortization	**(3,259,968)**	**(2,713,660)**	–	**306,144**	**(5,667,484)**
Gross profit	**52,957,342**	**8,414,878**	–	**1,321**	**61,373,541**
Operating expenses*	**(16,783,021)**	**(3,097,697)**	**(1,947)**	–	**(19,882,665)**
Depreciation	**(25,794)**	**(43,770)**	–	–	**(69,564)**
Operating profit (loss)	**36,148,527**	**5,273,411**	**(1,947)**	**1,321**	**41,421,312**
Others - net	**1,007,498**	**243,063**	–	**(1,008,000)**	**242,561**
Finance income	**342,863**	**69,782**	**735**	–	**413,380**
Foreign exchange gain (loss) - net	**1,015,444**	**(11,838)**	–	–	**1,003,606**
Finance costs	**(312,046)**	**(545,877)**	–	–	**(857,923)**
Pretax income (loss)	**38,202,286**	**5,028,541**	**(1,212)**	**(1,006,679)**	**42,222,936**
Provision for income tax	**(1,211,729)**	**(1,139,902)**	**(147)**	–	**(2,351,778)**
Net income	**₱36,990,557**	**₱3,888,639**	**(₱1,359)**	**(₱1,006,679)**	**₱39,871,158**
Segment assets	**₱60,166,663**	**44,933,470**	**₱46,700**	**(₱18,530,801)**	**₱86,616,032**
Deferred tax assets	–	**486,751**	–	–	**486,751**
	₱60,166,663	**₱45,420,221**	**₱46,700**	**(₱18,530,801)**	**₱87,102,783**
Segment liabilities	**₱10,362,492**	**₱3,687,359**	**₱230,851**	**(₱1,626,504)**	**₱12,654,198**
Long-term debt	**948,056**	**9,248,131**	–	–	**10,196,187**
	₱11,310,548	**₱12,935,490**	**₱230,851**	**(₱1,626,504)**	**₱22,850,385**
Cash flows arising from:					
Operating activities	**₱34,857,900**	**₱6,451,187**	**₱–**	**(534,199)**	**₱40,774,888**
Investing activities	**(1,521,801)**	**(1,521,441)**	–	**(993,439)**	**(4,036,681)**
Financing activities	**(23,695,431)**	**(4,009,237)**	–	**1,526,553**	**(26,178,115)**
Other disclosures					
Capital expenditures	**₱2,518,089**	**₱1,785,592**	**₱–**	**₱–**	**₱4,303,681**

**Excluding depreciation and/or amortization*

	2021 (In thousands)				
	Mining	Power	Others	Adjustments and Eliminations	Consolidated
Revenue					
Sales to external customers	₱35,592,979	₱16,831,448	₱–	₱–	₱52,424,427
Inter-segment sales	5,262,513	–	–	(5,262,513)	–
	40,855,492	16,831,448	–	(5,262,513)	52,424,427
Cost of sales*	(15,667,358)	(9,196,871)	–	4,779,840	(20,084,389)
Depreciation and amortization	(3,900,193)	(2,712,156)	–	457,169	(6,155,180)
Gross profit	21,287,941	4,922,421	–	(25,504)	26,184,858
Operating expenses*	(6,842,853)	(2,334,645)	(4,371)	–	(9,181,869)
Depreciation	(32,969)	(50,323)	–	–	(83,292)
Operating profit (loss)	14,412,119	2,537,453	(4,371)	(25,504)	16,919,697
Others- net	1,264,315	175,425	–	(1,200,002)	239,738
Finance income	13,615	8,703	224	–	22,542
Foreign exchange gain (loss) - net	340,934	(1,332)	–	–	339,602
Finance costs	(303,528)	(672,830)	–	–	(976,358)
Pretax income (loss)	15,727,455	2,047,419	(4,147)	(1,225,506)	16,545,221
Provision for income tax	(89,753)	(255,323)	(48)	–	(345,124)
Net income	₱15,637,702	₱1,792,096	(₱4,195)	(₱1,225,506)	₱16,200,097
Segment assets	₱45,432,360	46,312,161	₱56,092	(₱20,715,979)	₱71,084,634
Deferred tax assets	129,672	430,084	–	–	559,756
	₱45,562,032	₱46,742,245	₱56,092	(₱20,715,979)	₱71,644,390
Segment liabilities	₱9,080,193	₱5,458,955	₱238,876	(₱3,810,166)	₱10,967,858
Long-term debt	3,363,603	11,703,032	–	–	15,066,635
	₱12,443,796	₱17,161,987	₱238,876	(₱3,810,166)	₱26,034,493
Cash flows arising from:					
Operating activities	₱15,324,763	₱6,588,541	₱–	(₱633,528)	₱21,279,776
Investing activities	(1,289,535)	(1,152,362)	–	(1,296,079)	(3,737,976)
Financing activities	(15,262,676)	(4,171,746)	–	1,846,617	(17,587,805)
Other disclosures					
Capital expenditures	₱2,480,325	₱1,384,140	₱–	₱–	₱3,864,465

**Excluding depreciation and/or amortization*

	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
Others - 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)	5,299,352	(101,541)	1,049	(1,779,513)	3,419,347
Provision for income tax	(60,008)	(74,664)	2,074	–	(132,598)
Net income	₱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

(Forward)

	2020 (In thousands)				
	Mining	Power	Others	Adjustments and Eliminations	Consolidated
Cash flows arising from:					
Operating activities	₱6,853,207	₱4,507,770	₱52,247	(₱1,588,659)	₱9,824,565
Investing activities	29,159	(2,441,833)	2,784	(1,770,000)	(4,179,890)
Financing activities	(4,356,865)	308,043	–	–	(4,048,822)
Other disclosures					
Capital expenditures	₱2,863,750	₱2,468,800	₱368,006	₱–	₱5,700,556

**Excluding depreciation and/or amortization*

Inter-segment revenues, other income and cost of sales are eliminated in the consolidation under adjustments and eliminations.

Segment assets exclude deferred tax assets amounting to ₱486.75 million, ₱559.76 million and ₱855.00 million as of December 31, 2022, 2021 and 2020, 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

	2022	2021	2020
Domestic market	**₱28,652,104,719**	₱10,915,873,609	₱4,939,825,531
Export market	**41,854,016,190**	24,677,105,058	11,548,721,631
	₱70,506,120,909	₱35,592,978,667	₱16,488,547,162

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.

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

Revenues from power sales

	2022	2021	2020
Bilateral contracts			
Distribution utility	**₱1,935,669,732**	₱531,792,960	₱1,233,792,000
RES	**4,335,089,131**	10,015,107,072	4,879,102,971
Others	**312,721,867**	617,653,813	17,802,399
	6,583,480,730	11,164,553,845	6,130,697,370
Spot sales			
WESM	**14,039,091,068**	5,666,894,422	5,631,123,974
	₱20,622,571,798	₱16,831,448,267	₱11,761,821,344

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, 2022				
	Domestic coal sales	**Export coal sales**	**Bilateral Contracts**	**Spot sales**	**Total**
Revenue					
External customers	**₱28,652,104,719**	**₱41,854,016,190**	**₱6,583,480,730**	**₱14,039,091,068**	**₱91,128,692,707**
Inter-segment	**5,674,498,212**	**–**	**–**	**–**	**5,674,498,212**
	34,326,602,931	**41,854,016,190**	**6,583,480,730**	**14,039,091,068**	**96,803,190,919**
Inter-segment adjustments and eliminations	**(5,674,498,212)**	**–**	**–**	**–**	**(5,674,498,212)**
	₱28,652,104,719	**₱41,854,016,190**	**₱6,583,480,730**	**₱14,039,091,068**	**₱91,128,692,707**

	For the Year Ended December 31, 2021				
	Domestic coal sales	Export coal sales	Bilateral Contracts	Spot sales	Total
Revenue					
External customers	₱10,915,873,609	₱24,677,105,058	₱11,164,553,845	₱5,666,894,422	₱52,424,426,934
Inter-segment	5,262,513,290	–	–	–	5,262,513,290
	16,178,386,899	24,677,105,058	11,164,553,845	5,666,894,422	57,686,940,224
Inter-segment adjustments and eliminations	(5,262,513,290)	–	–	–	(5,262,513,290)
	₱10,915,873,609	₱24,677,105,058	₱11,164,553,845	₱5,666,894,422	₱52,424,426,934

	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

32. **Other Matters**

a. Electric Power Industry Reform Act (EPIRA)

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 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 (2) 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 the Group in particular, that need to be complied with within 44 months (or until July 2004) from the effectivity date, subject to the approval by Department of Environment and Natural Resources. The power plant of the Group uses thermal coal and uses a facility to test and monitor gas emissions to conform to Ambient and Source Emissions Standards and other provisions of the Clean Air Act and its IRR. Based on the Group’s initial assessment of its power plant’s existing facilities, it believes that it is in full compliance with the applicable provisions of the IRR of the PCAA as of December 31, 2022 and 2021.

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 Distribution Utilities (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 (2) 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 (1) automatic renewal or extension for a period not exceeding one (1) year from the end of their respective terms. There will be no automatic renewal or extension of PSAs upon effectivity of Resolution No. 1.

On February 9, 2018, the DOE published Department Circular No. DC2018-02-0003, "Adopting and Prescribing the Policy for the Competitive Selection Process in the Procurement by the Distribution Utilities of Power Supply Agreement for the Captive Market". This Circular shall take effect immediately after its publication in two (2) Newspapers of general circulation and shall remain in effect until otherwise revoked. There are five (5) governing principles in the Policy (1) Transparency in the conduct of CSP through wide dissemination of bid opportunities and participation of all generation companies (GenCos); (2) Competitiveness by extending equal opportunity to eligible and qualified GenCos to participate in the CSP; (3) Least cost manner in ensuring that each distribution utility (DU) is able to meet the demand for its captive market at any given time; (4) Simple, streamlined and efficient procurement process applicable to the specific requirements of each Distribution Development Plan; and (5) Accountability involved in the procurement process and implementation of the Power Supply Agreement awarded under CSP.

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 26 December 2012 as the Open Access Date where end-users who have an average monthly peak demand for the preceding twelve (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 26 June 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 (2) 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 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. This 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 kilowatts (750 kW) for the preceding twelve (12) months, is set to 26 June 2016. Thus, on such date, all End-users with an average monthly peak demand of at least 1 MW (1MW Customers) and 750 kW (750kW 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 26 December 2016 (This was moved by the ERC to 26 February 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, 2016. 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 26 June 2017. The lowering of the threshold to cover an end-user with an average monthly peak demand of at least 500kW is set on 26 June 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 26 June 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, 2017, 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 2019 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 ten (10) years, and used to determine the current year's requirement for RE Certificates (RECs) of the Mandated Participant.