

COVER SHEET

9 1 4 4 7

SEC Registration Number

SEMI RARA MINING CORPORATION AND S
UBSIDIARIES

(Company's Full Name)

2 2 8 1 Don Chino Roces Avenue, Maka
ti City

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

Ms. Junalina S. Tabor

(Contact Person)

816-7301

(Company Telephone Number)

1 2 3 1

Month Day
(Fiscal Year)

A A F S

(Form Type)

0 5 0 6

Month Day
(Annual Meeting)

(Secondary License Type, If Applicable)

SEC

Dept. Requiring this Doc.

Amended Articles Number/Section

663

Total No. of Stockholders

Total Amount of Borrowings

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

STAMPS

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INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Semirara Mining Corporation
2281 Don Chino Roces Avenue
Makati City

We have audited the accompanying consolidated financial statements of Semirara Mining Corporation and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2012 and 2011, 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, 2012, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

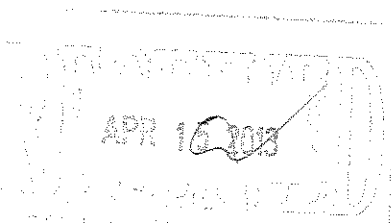
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Philippine Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.


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



Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Semirara Mining Corporation and its subsidiaries as at December 31, 2012 and 2011, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2012 in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.



Davee M. Zuñiga

Partner

CPA Certificate No. 88990

SEC Accreditation No. 0665-AR-1 (Group A),

February 18, 2011, valid until February 17, 2014

Tax Identification No. 160-302-953

BIR Accreditation No. 08-001998-77-2012,

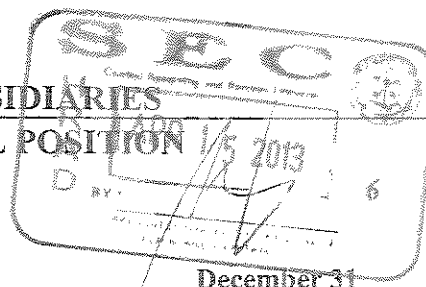
April 11, 2012, valid until April 10, 2015

PTR No. 3670042, January 2, 2013, Makati City

March 12, 2013

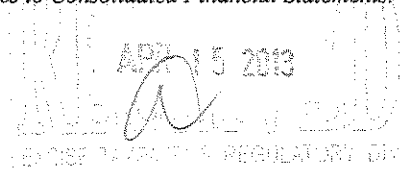


SEMIRARA MINING CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION



	2012	2011
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 4, 28 and 29)	₱534,390,774	₱5,005,240,275
Receivables (Notes 5, 17, 28 and 29)	3,581,843,715	3,215,781,247
Inventories (Notes 6, 8 and 33)	5,659,589,353	4,592,835,539
Other current assets (Notes 7 and 30)	1,935,930,078	1,310,428,666
Total Current Assets	11,711,753,920	14,124,285,727
Noncurrent Assets		
Property, plant and equipment (Notes 8 and 33)	22,724,754,817	20,737,333,275
Investment in sinking fund (Notes 9 and 12)	508,041,189	490,789,157
Pension assets (Note 18)	-	1,021,507
Deferred tax assets (Note 24)	1,538,038	17,409,006
Other noncurrent assets (Notes 10 and 30)	1,240,033,021	257,380,474
Total Noncurrent Assets	24,474,367,065	21,503,933,419
	₱36,186,120,985	₱35,628,219,146
LIABILITIES AND EQUITY		
Current Liabilities		
Trade and other payables (Notes 13, 17, 28 and 29)	₱6,813,145,215	₱7,299,028,784
Short-term loans (Notes 11, 28 and 29)	175,646,271	1,010,692,002
Current portion of long-term debt (Notes 12, 28, 29 and 33)	5,182,961,376	2,992,660,795
Total Current Liabilities	12,171,752,862	11,302,381,581
Noncurrent Liabilities		
Long-term debt - net of current portion (Notes 12, 28, 29 and 33)	6,996,312,300	9,469,150,099
Deferred tax liabilities (Note 24)	-	565,481
Provision for decommissioning and site rehabilitation (Note 14)	62,448,101	47,582,228
Pension liabilities (Note 18)	5,847,126	-
Other noncurrent liabilities (Note 17)	57,938,954	-
Total Noncurrent Liabilities	7,122,546,481	9,517,297,808
Total Liabilities	19,294,299,343	20,819,679,389
Equity		
Capital stock (Note 15)	356,250,000	356,250,000
Additional paid-in capital	6,675,527,411	6,675,527,411
Retained earnings (Note 16)		
Unappropriated	9,160,044,231	7,076,762,346
Appropriated	700,000,000	700,000,000
Total Equity	16,891,821,642	14,808,539,757
	₱36,186,120,985	₱35,628,219,146


See accompanying Notes to Consolidated Financial Statements.



SEMIRARA MINING CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31		
	2012	2011	2010
REVENUE (Note 32)			
Coal	₱14,450,155,334	₱16,201,880,411	₱14,242,224,629
Power	9,700,092,214	9,611,704,378	8,655,623,846
	24,150,247,548	25,813,584,789	22,897,848,475
COST OF SALES (Notes 17, 19 and 32)			
Coal	9,825,154,753	11,101,153,958	11,102,692,811
Power	4,818,786,103	5,559,465,504	4,887,341,402
	14,643,940,856	16,660,619,462	15,990,034,213
GROSS PROFIT	9,506,306,692	9,152,965,327	6,907,814,262
OPERATING EXPENSES (Notes 20 and 32)	(3,398,886,905)	(2,857,174,114)	(2,721,234,918)
INCOME FROM OPERATIONS	6,107,419,787	6,295,791,213	4,186,579,344
OTHER INCOME (CHARGES)			
Foreign exchange gains (losses) - net (Note 32)	391,000,330	(38,318,119)	199,487,633
Finance income (Notes 22 and 32)	82,144,318	134,876,680	57,667,764
Finance costs (Notes 17, 21 and 32)	(501,280,033)	(483,287,781)	(668,440,816)
Equity in net earnings of associates (Note 32)	—	—	76,825,789
Other income (Notes 23 and 32)	318,448,268	99,905,297	65,427,012
	290,312,883	(286,823,923)	(269,032,618)
INCOME BEFORE INCOME TAX	6,397,732,670	6,008,967,290	3,917,546,726
PROVISION FOR (BENEFIT FROM) INCOME TAX (Notes 24 and 32)	39,450,785	(22,169,285)	(35,161,531)
NET INCOME	6,358,281,885	6,031,136,575	3,952,708,257
OTHER COMPREHENSIVE INCOME	—	—	—
TOTAL COMPREHENSIVE INCOME	₱6,358,281,885	₱6,031,136,575	₱3,952,708,257
Basic/Diluted Earnings per Share (Note 25)	₱17.85	₱16.93	₱12.10

See accompanying Notes to Consolidated Financial Statements.





SEMIRARA MINING CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Common Stock (Note 15)	Additional Paid-in Capital (Note 15)	Deposit on Future Stock Subscriptions (Note 15)	Unappropriated Retained Earnings (Note 16)	Appropriated Retained Earnings (Note 16)	Total	Cost of Shares Held in Treasury (Notes 15)	Grand Total
For the Year Ended December 31, 2012								
At beginning of the year	₱356,250,000	₱6,675,527,411	₱-	₱7,076,762,346	₱700,000,000	₱14,808,539,757	₱-	₱14,808,539,757
Total comprehensive income	-	-	-	6,358,281,885	-	6,358,281,885	-	6,358,281,885
Dividends declared	-	-	-	(4,275,000,000)	-	(4,275,000,000)	-	(4,275,000,000)
At end of the year	₱356,250,000	₱6,675,527,411	₱-	₱9,160,044,231	₱700,000,000	₱16,891,821,642	₱-	₱16,891,821,642
For the Year Ended December 31, 2011								
At beginning of the year	₱356,250,000	₱6,675,527,411	₱-	₱4,608,125,771	₱700,000,000	₱12,339,903,182	₱-	₱12,339,903,182
Total comprehensive income	-	-	-	6,031,136,575	-	6,031,136,575	-	6,031,136,575
Dividends declared	-	-	-	(3,562,500,000)	-	(3,562,500,000)	-	(3,562,500,000)
At end of the year	₱356,250,000	₱6,675,527,411	₱-	₱7,076,762,346	₱700,000,000	₱14,808,539,757	₱-	₱14,808,539,757
For the Year Ended December 31, 2010								
At beginning of the year	₱296,875,000	₱1,576,796,271	₱5,402,125,985	₱2,436,667,514	₱700,000,000	₱10,412,464,770	(₱528,891,260)	₱9,883,573,510
Reissuance of treasury shares	-	764,356,140	(1,293,247,400)	-	-	(528,891,260)	528,891,260	-
Additional subscriptions through stock rights offering	59,375,000	4,334,375,000	(4,108,878,585)	-	-	284,871,415	-	284,871,415
Total comprehensive income	-	-	-	3,952,708,257	-	3,952,708,257	-	3,952,708,257
Dividends declared	-	-	-	(1,781,250,000)	-	(1,781,250,000)	-	(1,781,250,000)
At end of the year	₱356,250,000	₱6,675,527,411	₱-	₱4,608,125,771	₱700,000,000	₱12,339,903,182	₱-	₱12,339,903,182

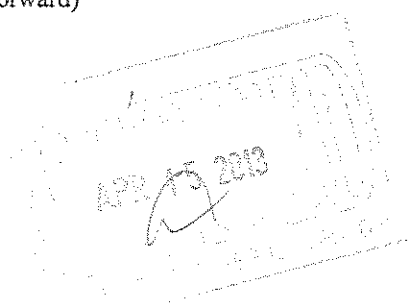
See accompanying Notes to Consolidated Financial Statements.



SEMIRARA MINING CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

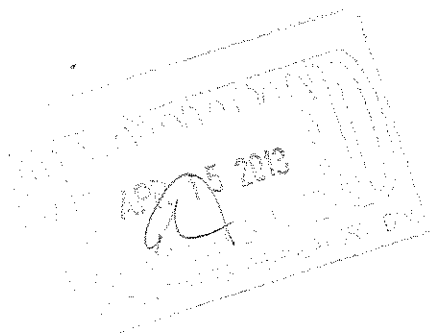
	Years Ended December 31		
	2012	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	₱6,397,732,670	₱6,008,967,290	₱3,917,546,726
Adjustments for:			
Depreciation and amortization (Notes 8, 10, 19 and 20)	3,053,462,879	2,909,610,888	2,566,427,137
Finance costs (Note 21)	501,280,034	483,287,781	668,440,816
Loss on property, plant and equipment writedown	341,146,346	-	-
Provision for impairment losses	47,150,717	-	-
Finance income (Note 22)	(82,144,317)	(134,876,680)	(57,667,764)
Gain on sale of equipment (Notes 8 and 23)	(127,491,090)	(53,547,507)	(6,088,124)
Net unrealized foreign exchange losses (gains)	(222,718,412)	37,939,453	(67,308,294)
Equity in net earnings of associates (Note 23)	-	-	(76,825,789)
Gain on sale of investment (Note 23)	-	-	(41,378,255)
Operating income before changes in operating assets and liabilities	9,908,418,827	9,251,381,225	6,903,146,453
Changes in operating assets and liabilities:			
Decrease (increase) in:			
Receivables	(369,073,316)	(73,153,058)	(1,893,653,901)
Inventories	(1,508,526,638)	(3,704,727,490)	73,701,971
Other current assets	(620,990,523)	(697,662,177)	(337,872,065)
Increase (decrease) in:			
Trade and other payables	(259,944,012)	2,205,941,337	2,740,870,039
Pension liabilities (Note 18)	6,868,633	(21,018,255)	7,532,422
Cash generated from operations	7,156,752,971	6,960,761,582	7,493,724,919
Interest received	84,635,850	134,757,554	91,726,741
Interest paid	(494,071,372)	(457,767,190)	(852,363,965)
Income taxes paid	(24,145,298)	(22,761,547)	(8,071,333)
Net cash provided by operating activities	6,723,172,151	6,614,990,399	6,725,016,362
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to property, plant and equipment (Notes 8 and 31)	(5,154,104,137)	(2,454,376,480)	(3,007,368,967)
Proceeds from sale of investment (Note 9)	-	-	327,086,632
Additions to investments and advances (Note 9)	(17,252,032)	(180,559,599)	(310,229,558)
Decrease (increase) in other noncurrent assets (Note 10)	(1,038,721,412)	49,709,618	13,203,852
Proceeds from sale of equipment	127,491,090	56,175,636	53,000,798
Acquisition of a business (Note 33)	-	-	(10,021,631,926)
Net cash used in investing activities	(6,082,586,491)	(2,529,050,825)	(12,945,939,169)

(Forward)



	Years Ended December 31		
	2012	2011	2010
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from:			
Availments of:			
Long-term debt	₱2,653,486,966	₱2,884,618,498	₱11,554,776,302
Short-term loans	1,813,036,650	2,011,193,260	3,270,643,589
Additional issuance of capital stocks	-	-	4,393,750,000
Sale of shares held in treasury (Note 15)	-	-	1,293,247,400
Payments of:			
Dividends (Note 16)	(4,275,000,000)	(3,562,500,000)	(1,781,250,000)
Long-term debt	(2,704,663,999)	(2,789,633,990)	(113,195,951)
Short-term loans	(2,593,159,379)	(1,445,313,429)	(3,665,439,966)
Increase in other noncurrent liabilities	57,938,954	-	-
Deposit on future stock subscriptions (Note 15)	-	-	(5,402,125,985)
Net cash (used in) provided by financing activities	(5,048,360,808)	(2,901,635,661)	9,550,405,389
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS			
	(63,074,353)	7,652,845	1,880,000
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS			
	(4,470,849,501)	1,191,956,758	3,331,362,582
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR			
	5,005,240,275	3,813,283,517	481,920,935
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)			
	₱534,390,774	₱5,005,240,275	₱3,813,283,517

See accompanying Notes to Consolidated Financial Statements.



SEMIRARA MINING CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

Semirara Mining Corporation (the Parent Company) was incorporated on February 26, 1980. The Parent Company's registered and principal office address is at 2281 Don Chino Roces Avenue, Makati City, Philippines. The Parent Company is a majority-owned (56.32%) subsidiary of DMCI Holdings, Inc. (DMCI-HI), a publicly listed entity in the Philippines and its ultimate parent company.

The Parent Company's primary purpose is to search for, prospect, explore, dig and drill for, 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 (COC) within the purview of Presidential Decree No. 972, "*The Coal Development Act of 1976*", and any amendments thereto.

The Parent Company has four (4) wholly-owned subsidiaries namely Sem-Calaca Power Corporation (SCPC), Southwest Luzon Power Generation Corporation (SLPGC), SEM-Cal Industrial Park Developers, Inc. (SIPDI) and Semirara Claystone, Inc. (SCI).

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

2. Summary of Significant Accounting Policies

Basis of Preparation

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

Statement of Compliance

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

Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Group as at December 31, 2012 and 2011 and for each of the three years in the period ended December 31, 2012. A subsidiary is an entity over which the Parent Company has the power to govern the financial and operating policies of the entity. The subsidiary is fully consolidated from the date of incorporation, being the date on which the Parent Company obtains control, and continues to be consolidated until the date that such control ceases. The results of subsidiaries acquired or disposed of during the year are included in the consolidated statements of comprehensive income from the date of acquisition or up to the date of the disposal, as appropriate.

APR 18 2012
SEMIRARA MINING CORPORATION
MAKATI CITY, PHILIPPINES



Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The financial statements of the subsidiary are prepared for the same reporting period as the Parent Company, using consistent accounting policies.

All significant intercompany balances and transactions, including income, expenses and dividends, are eliminated in full. Profits and losses resulting from intra-company transactions that are recognized in assets are eliminated in full.

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

	Effective Percentages of Ownership	
	2012	2011
Semirara Claystone, Inc. (SCI)*	100.00%	
Southwest Luzon Power Generation Corporation (SLPGC)*	100.00	100.00
SEM-Cal Industrial Park Developers, Inc. (SIPDI)*	100.00	100.00
Sem-Calaca Power Corporation (SCPC)	100.00	100.00

*Has not yet started commercial operations.

SCI

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

SLPGC

On August 31, 2011, SLPGC was incorporated to acquire, design, develop, construct, expand, invest in, and operate electric power plants, and engage in business of a Generation Company in accordance with RA No. 9136, otherwise known as Electric Power Industry Reform Act of 2001 (EPIRA); to invest in, operate and engage in missionary electrification as a Qualified Third Party under EPIRA and its implementing rules and regulations; and to design, develop, assemble and operate other power related facilities, appliances and devices.

SIPDI

On April 24, 2011, SIPDI was incorporated to acquire, develop, construct, invest in, operate and maintain an economic zone capable of providing infrastructures and other support facilities for export manufacturing enterprises, information technology enterprises, tourism economic zone enterprises, medical tourism economic zone enterprises, retirement economic zone enterprises and/or agro-industrial enterprises, inclusive of the required facilities and utilities, such as light and power system, water supply and distribution system, sewerage and drainage system, pollution control devices, communication facilities, paved road network, and administration building as well



as amenities required by professionals and workers involved in such enterprises, in accordance with R.A. No. 7916, as amended by R.A. No. 8748, otherwise known as the Special Economic Zone Act of 1995.

SCPC

On July 8, 2009, Power Plant of Power Sector Assets and Liabilities Management Corporation (PSALM) selected DMCI-HI as the winning bidder for the sale of the 2 x 300 megawatt (MW) Batangas Coal-Fired Power Plant (the Power Plant) located in San Rafael, Calaca, Batangas.

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

Pursuant to the provision of the APA, PSALM, agreed to sell and transfer to DMCI-HI the Power Plant on an "as is where is" basis on December 2, 2009. The agreed Purchase Price amounted to \$368.87 million (see Note 33).

Changes in Accounting Policies

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those of the previous financial year except for the following new and amended Philippine Financial Reporting Standards (PFRS) which were adopted as of January 1, 2012. The following new and amended standards did not have any impact on the accounting policies, financial position and performance of the Group:

New and Amended Standards

- PFRS 7, *Financial Instruments: Disclosures - Transfers of Financial Assets* (Amendments)
The amendments require additional disclosures about financial assets that have been transferred but not derecognized to enhance the understanding of the relationship between those assets that have not been derecognized and their associated liabilities. In addition, the amendments require disclosures about continuing involvement in derecognized assets to enable users of financial statements to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognized assets.
- PAS 12, *Income Taxes - Deferred Tax: Recovery of Underlying Assets* (Amendment)
This amendment to PAS 12 clarifies the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that the carrying amount of investment property measured using the fair value model in PAS 40, *Investment Property*, will be recovered through sale and, accordingly, requires that any related deferred tax should be measured on a 'sale' basis. The presumption is rebutted if the investment property is depreciable and it is held within a business model whose objective is to consume substantially all of the economic benefits in the investment property over time ('use' basis), rather than through sale. Furthermore, the amendment introduces the requirement that deferred tax on non-depreciable assets measured using the revaluation model in PAS 16, *Property, Plant and Equipment*, always be measured on a sale basis of the asset. The amendments are effective for periods beginning on or after January 1, 2012.



New Standards Issued but not yet Effective

The Group will adopt the following new and amended PFRS and Philippine Interpretations of International Financial Reporting Interpretations Committee (IFRIC) enumerated when these become effective. Except as otherwise indicated, the Group does not expect the adoption of these new and amended PFRS and Philippine Interpretations to have significant impact on the financial statements.

- PAS 1, *Presentation of Financial Statements - Presentation of Items of Other Comprehensive Income or OCI* (Amendments)

The amendments to PAS 1 change the grouping of items presented in OCI. Items that can be reclassified (or “recycled”) to profit or loss at a future point in time (for example, upon derecognition or settlement) will be presented separately from items that will never be recycled. The amendments affect presentation only and have no impact on the Group’s financial position or performance. The amendment becomes effective for annual periods beginning on or after July 1, 2012. The amendments will be applied retrospectively and will result to the modification of the presentation of items of OCI.

- PFRS 7, *Financial instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities* (Amendments)

These amendments require an entity to disclose information about rights of set-off and related arrangements (such as collateral agreements). The new disclosures are required for all recognized financial instruments that are set off in accordance with PAS 32. These disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or ‘similar agreement’, irrespective of whether they are set-off in accordance with PAS 32. The amendments require entities to disclose, in a tabular format unless another format is more appropriate, the following minimum quantitative information. This is presented separately for financial assets and financial liabilities recognized at the end of the reporting period:

- a) The gross amounts of those recognized financial assets and recognized financial liabilities;
- b) The amounts that are set off in accordance with the criteria in PAS 32 when determining the net amounts presented in the statement of financial position;
- c) The net amounts presented in the statement of financial position;
- d) The amounts subject to an enforceable master netting arrangement or similar agreement that are not otherwise included in (b) above, including:
 - i. Amounts related to recognized financial instruments that do not meet some or all of the offsetting criteria in PAS 32; and
 - ii. Amounts related to financial collateral (including cash collateral); and
- e) The net amount after deducting the amounts in (d) from the amounts in (c) above.

The amendments to PFRS 7 are to be retrospectively applied and are effective for annual periods beginning on or after January 1, 2013. The amendments affect disclosures have no impact on the Group’s financial position or performance.

- PFRS 10, *Consolidated Financial Statements*

PFRS 10 replaces the portion of PAS 27, *Consolidated and Separate Financial Statements*, that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC 12, *Consolidation - Special Purpose Entities*. PFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by PFRS 10 will require management to exercise significant judgment to determine



which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in PAS 27.

Based on the preliminary analysis performed, PFRS 10 is not expected to have any impact on the investments currently held by the Group. The standard becomes effective for annual periods beginning on or after January 1, 2013.

- **PFRS 11, *Joint Arrangements***
PFRS 11 replaces PAS 31, *Interests in Joint Ventures*, and SIC 13, *Jointly Controlled Entities - Non-Monetary Contributions by Venturers*. PFRS 11 removes the option to account for jointly controlled entities using proportionate consolidation. Instead, jointly controlled entities that meet the definition of a joint venture must be accounted for using the equity method. The standard becomes effective for annual periods beginning on or after January 1, 2013.
- **PFRS 12, *Disclosure of Interests in Other Entities***
PFRS 12 includes all of the disclosures related to consolidated financial statements that were previously in PAS 27, as well as all the disclosures that were previously included in PAS 31 and PAS 28, *Investments in Associates*. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. The standard becomes effective for annual periods beginning on or after January 1, 2013.

The adoption of PFRS 12 will have no impact on the Group's financial position or performance.

- **PFRS 13, *Fair Value Measurement***
PFRS 13 establishes a single source of guidance under PFRSs for all fair value measurements. PFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under PFRS when fair value is required or permitted. This standard should be applied prospectively as of the beginning of the annual period in which it is initially applied. Its disclosure requirements need not be applied in comparative information provided for periods before initial application of PFRS 13. The standard becomes effective for annual periods beginning on or after January 1, 2013. The Group does not anticipate that the adoption of this standard will have a significant impact on its financial position and performance.
- **PAS 19, *Employee Benefits (Revised)***
Amendments to PAS 19 range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and rewording. The revised standard also requires new disclosures such as, among others, a sensitivity analysis for each significant actuarial assumption, information on asset-liability matching strategies, duration of the defined benefit obligation, and disaggregation of plan assets by nature and risk. The amendments become effective for annual periods beginning on or after January 1, 2013. Once effective, the Group has to apply the amendments retroactively to the earliest period presented.



The Group reviewed its existing employee benefits and determined that the amended standard has significant impact on its accounting for retirement benefits. The Group obtained the services of an external actuary to compute the impact to the financial statements upon adoption of the standard. The effects are detailed below:

	As at 31 December 2012	As at 1 January 2012
<u>Increase (decrease) in:</u>		
<u>Statements of Financial Position</u>		
Net defined benefit liability	P30,700,330	P7,793,627
Other comprehensive income	(26,379,563)	(2,961,237)
Retained earnings	(4,320,767)	(4,832,390)
		<u>2012</u>
<u>Profit or Loss</u>		
Net benefit income		P511,623
Profit for the year		511,623
Attributable to the owners of the Group		511,623

- PAS 27, *Separate Financial Statements* (as revised in 2011)
As a consequence of the issuance of the new PFRS 10, *Consolidated Financial Statements*, and PFRS 12, *Disclosure of Interests in Other Entities*, what remains of PAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in the separate financial statements. The adoption of the amended PAS 27 will not have a significant impact on the separate financial statements of the entities in the Group. The amendment becomes effective for annual periods beginning on or after January 1, 2013.
- PAS 28, *Investments in Associates and Joint Ventures* (as revised in 2011)
As a consequence of the issuance of the new PFRS 11, *Joint Arrangements*, and PFRS 12, *Disclosure of Interests in Other Entities*, PAS 28 has been renamed PAS 28, *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment becomes effective for annual periods beginning on or after January 1, 2013. The Group does not anticipate that the adoption of this standard will have a significant impact on its financial position and performance.
- PAS 32, *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities* (Amendments)
The amendments clarify the meaning of “currently has a legally enforceable right to set-off” and also clarify the application of the PAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments affect presentation only and have no impact on the Group’s financial position or performance. The amendments to PAS 32 are to be retrospectively applied for annual periods beginning on or after January 1, 2014.
- PFRS 9, *Financial Instruments*
PFRS 9, as issued, reflects the first phase on the replacement of PAS 39 and applies to the classification and measurement of financial assets and liabilities as defined in PAS 39, *Financial Instruments: Recognition and Measurement*. Work on impairment of financial instruments and hedge accounting is still ongoing, with a view to replacing PAS 39 in its



entirety. PFRS 9 requires all financial assets to be measured at fair value at initial recognition. A debt financial asset may, if the fair value option (FVO) is not invoked, be subsequently measured at amortized cost if it is held within a business model that has the objective to hold the assets to collect the contractual cash flows and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding. All other debt instruments are subsequently measured at fair value through profit or loss. All equity financial assets are measured at fair value either through OCI or profit or loss. Equity financial assets held for trading must be measured at fair value through profit or loss. For FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. All other PAS 39 classification and measurement requirements for financial liabilities have been carried forward into PFRS 9, including the embedded derivative separation rules and the criteria for using the FVO. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will potentially have no impact on the classification and measurement of financial liabilities.

The Company has conducted an initial evaluation and has assessed that the standard does not have significant impact to the Company. No early adoption will be made as of date of this report as there are still major changes that are expected to be made in the existing draft of the standard that could impact the Company's decision to early adopt or not. PFRS 9 is effective for annual periods beginning on or after January 1, 2015.

- *Philippine Interpretation IFRIC 15, Agreements for the Construction of Real Estate*
This interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The Securities and Exchange Commission (SEC) and the Financial Reporting Standards Council have deferred the effectivity of this interpretation until the final Revenue standard is issued by the International Accounting Standards Board and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed. Adoption of the interpretation when it becomes effective will not have any impact on the financial statements of the Group.
- *Philippine Interpretation IFRIC 20, Stripping Costs in the Production Phase of a Surface Mine*
This interpretation applies to waste removal (stripping) costs incurred in surface mining activity, during the production phase of the mine. The interpretation addresses the accounting for the benefit from the stripping activity. The interpretation is effective for annual periods beginning on or after January 1, 2013. The Parent Company will move its activities to the North Panian area in 2013, and assess the impact of this new area in its stripping operations. This may have an impact on the application of this Interpretation.

Annual Improvements to PFRSs (2009-2011 cycle)

The *Annual Improvements to PFRSs (2009-2011 cycle)* contain non-urgent but necessary amendments to PFRSs. The amendments are effective for annual periods beginning on or after January 1, 2013. Except as otherwise indicated, the Group does not expect the adoption of these amended PFRS to have significant impact on the financial statements.

- *PFRS 1, First time Adoption of PFRS - Borrowing Costs*
The amendment clarifies that, upon adoption of PFRS, an entity that capitalized borrowing costs in accordance with its previous generally accepted accounting principles, may carry forward, without any adjustment, the amount previously capitalized in its opening statement of



financial position at the date of transition. Subsequent to the adoption of PFRS, borrowing costs are recognized in accordance with PAS 23, *Borrowing Costs*. The amendment does not apply to the Group as it is not a first-time adopter of PFRS.

- *PAS 1, Presentation of Financial Statements - Clarification of the requirements for comparative information*
The amendments clarify the requirements for comparative information that are disclosed voluntarily and those that are mandatory due to retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The additional comparative period does not need to contain a complete set of financial statements. On the other hand, supporting notes for the third balance sheet (mandatory when there is a retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements) are not required. The amendments affect disclosures only and have no impact on the Group's financial position or performance.
- *PAS 16, Property, Plant and Equipment - Classification of servicing equipment*
The amendment clarifies that spare parts, stand-by equipment and servicing equipment should be recognized as property, plant and equipment when they meet the definition of property, plant and equipment and should be recognized as inventory if otherwise. The amendment will not have any significant impact on the Group's financial position or performance.
- *PAS 32, Financial Instruments: Presentation - Tax effect of distribution to holders of equity instruments*
The amendment clarifies that income taxes relating to distributions to equity holders and to transaction costs of an equity transaction are accounted for in accordance with PAS 12, *Income Taxes*. The Group expects that this amendment will not have any impact on its financial position or performance.
- *PAS 34, Interim Financial Reporting - Interim financial reporting and segment information for total assets and liabilities*
The amendment clarifies that the total assets and liabilities for a particular reportable segment need to be disclosed only when the amounts are regularly provided to the chief operating decision maker and there has been a material change from the amount disclosed in the entity's previous annual financial statements for that reportable segment. The amendment has no impact on the Group's financial position or performance.

Financial Assets and Financial Liabilities

Date of recognition

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

Initial recognition of financial instruments

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



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

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

As of December 31, 2012 and 2011, the Group's financial assets and financial liabilities are of the nature of loans and receivables and other financial liabilities.

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

Determination of fair value

The fair value for financial instruments traded in active markets at the reporting date is based on its quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. When current bid and asking prices are not available, the price of the most recent transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction.

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation methodologies. Valuation methodologies include net present value techniques, comparison to similar instruments for which market observable prices exist, option pricing models and other relevant valuation models.

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 statements 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 statements 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.

Financial assets

Loans and Receivables

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



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

Financial liabilities

Other Financial Liabilities

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

Other financial liabilities include interest bearing loans and borrowings and trade and other payables. All loans and borrowings are initially recognized at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, short-term and long-term debts are subsequently measured at amortized cost using the EIR method.

Deferred Financing Costs

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

Impairment of Financial Assets

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

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

Loans and receivables

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



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

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

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

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

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

Derecognition of Financial Assets and Liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either: (i) has transferred substantially all the risks and rewards of the asset, or (ii) 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 and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial liabilities

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

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

Offsetting of Financial Instruments

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

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 all stripping costs and other mine-related costs incurred during the period and allocated on per metric ton basis by dividing the total production cost with total volume of coal produced. Except for shiploading cost, which is a component of total minesite cost, all other production related costs are charged to production cost.

Spare parts and supplies are usually carried as inventories and are recognized in the consolidated statements of comprehensive income when consumed. Inventories transferred to property, plant and equipment are used as a component of self constructed property, plant and equipment and are recognized as expense during useful life of that asset. Transfers of inventories to property, plant and equipment do not change the carrying amount of the inventories.

Exploration and Evaluation Costs

Once the legal right to explore has been acquired, exploration and evaluation expenditure is charged to the consolidated statements of comprehensive income as incurred. These costs include materials and fuel used, surveying costs, drilling costs and payments made to contractors.

Mining Reserves

Mining reserves are estimates of the amount of coal that can be economically and legally extracted from the Group's mining properties. The Group estimates its mining reserves and mineral resources based on information compiled by appropriately qualified persons relating to the geological data on the size, depth and shape of the coal body, and require complex geological judgments to interpret the data. The estimation of recoverable reserves is based upon factors such



as estimates of foreign exchange rates, commodity prices, future capital requirements, and production costs along with geological assumptions and judgments made in estimating the size and grade of the coal body. Changes in the reserve or resource estimates may impact the carrying value of exploration and evaluation assets, mine properties, property, plant and equipment, provision for decommissioning and site rehabilitation, recognition of deferred tax assets, and depreciation and amortization charges.

Property, Plant and Equipment

Upon completion of mine construction, the assets are transferred into property, plant and equipment. Items of property, plant and equipment are carried at cost less accumulated depreciation and any impairment in value.

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

Property, plant and equipment that were previously stated at fair values are reported at their deemed cost.

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.

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

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

	Years
Mining, tools and other equipment	2 to 13
Power plant and buildings	10 to 25
Roads and bridges	17

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

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.

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



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

Computer Software

Computer software, included under "Other noncurrent assets", is measured on initial recognition at cost, which comprises its purchase price plus any directly attributable costs of preparing the asset for its intended use. Computer software is carried at cost less any accumulated amortization on a straight line basis over their useful lives of three (3) to five (5) years and any impairment in value. Computer software is recognized under the "Cost of sales" in the consolidated statements of comprehensive income.

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

Business Combination and Goodwill

Business combinations on January 1, 2010

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the noncontrolling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses. When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss. Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognized in accordance with PAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in the consolidated statements of comprehensive income.

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

Business combinations prior to January 1, 2010

In comparison to the abovementioned requirements, the following differences applied:

Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest (formerly known as minority interest) was measured at the proportionate share of the acquiree's identifiable net assets. Business combinations achieved in stages were accounted for as separate steps. Any additional acquired share of interest did not affect previously recognized goodwill.

When the Group acquired a business, embedded derivatives separated from the host contract by the acquiree were not reassessed on acquisition unless the business combination resulted in a change in the terms of the contract that significantly modified the cash flows that otherwise would have been required under the contract.

Contingent consideration was recognized if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration were recognized as part of goodwill.

Impairment of Nonfinancial Assets

The Group assesses at each reporting date whether there is an indication that its nonfinancial assets (e.g., inventories, property, plant and equipment and computer software) may be impaired. If any such indication exists, or when an annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount.

Property, plant and equipment and computer software

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

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



For property, plant and equipment, reversal is recognized in the consolidated 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.

Inventories

NRV tests are performed at least annually and represent the estimated sales price based on prevailing price at the reporting date, less estimated cost necessary to make the sale for coal inventory or replacement costs for spare parts and supplies. If there is any objective evidence that the inventories are impaired, impairment losses are recognized in the consolidated statements of comprehensive income, in those expense categories consistent with the function of the assets, as being the difference between the cost and NRV of inventories.

Revenue Recognition

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

Sale of coal

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

Contract energy sales

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

Spot electricity sales

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

Finance income

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

Other income

Other income is recognized when earned.



Cost of Sales

Cost of coal

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

Cost of power

Cost of power includes costs directly related to the production and sale of electricity such as cost of coal, fuel, depreciation and other related costs. Cost of coal and fuel are recognized at the time the related coal and fuel inventories are consumed for the production of electricity.

Cost of power also includes electricity purchased from the spot market and its related market fees. These costs are recognized when the Group receives the electricity and simultaneously sells to its customers.

Operating Expenses

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

Borrowing Costs

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

Even though exploration and evaluation assets can be qualifying assets, they generally do not meet the 'probable economic benefits' test and also are rarely debt funded. Any related borrowing costs are therefore recognized in the consolidated statements of comprehensive income in the period they are incurred.

Borrowing costs relating to the power plants currently under development, which have been capitalized in "Construction in progress" account under the "Property, plant and equipment" in the consolidated statements of financial position during the period amounted to ₱17.53 million with an average capitalization interest rate of 2.5% in 2012. The capitalizable interest in prior years is not material.

Pension Expense

The Group has a noncontributory defined benefit retirement plan.

The retirement cost of the Group is actuarially determined using the projected unit credit method. Under this method, the current service cost is the present value of retirement benefits payable in the future with respect to services rendered in the current period. The liability recognized in the



consolidated statements of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the reporting date less the fair value of plan assets, together with adjustments for unrecognized actuarial gains or losses and past service costs that shall be recognized in later periods. The value of any asset is restricted to the sum of any past service costs not yet recognized, if any, and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

The defined benefit obligation is calculated annually by an independent actuary using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using prevailing interest rate on government bonds that have terms to maturity approximating the terms of the related retirement liability. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are credited to or charged against income when the net cumulative unrecognized actuarial gains and losses at the end of the previous period exceeded 10% of the higher of the present value of the defined benefit obligation and the fair value of plan assets at that date. These gains or losses are recognized over the expected average remaining working lives of the employees participating in the plan.

Past service costs, if any, are recognized immediately in the consolidated statements of comprehensive income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortized on a straight-line basis over the vesting period.

The retirement benefits of officers and employees are determined and provided for by the Group and are charged against current operations.

Income Tax

Current tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date.

Deferred tax

Deferred tax is provided, using the balance sheet liability method, on all temporary differences, with certain exceptions, at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences with certain exception. Deferred tax assets are recognized for all deductible temporary differences, carryforward benefit of unused tax credits from excess minimum corporate income tax (MCIT) over the regular corporate income tax (RCIT) and net operating loss carryover (NOLCO), to the extent that it is probable that taxable income will be available against which the deductible temporary differences and carryforward benefits of unused tax credits from MCIT and NOLCO can be utilized.

Deferred tax assets are not recognized when they arise from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of transaction, affects neither the accounting income nor taxable income or loss. Deferred tax liabilities are not provided on nontaxable temporary differences associated with investments in domestic subsidiaries, associates and interests in joint ventures.



The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred tax assets to be utilized.

Deferred tax assets and liabilities are measured at the tax rate that is expected to apply to the period when the asset is realized or the liability is settled, based on tax rate and tax laws that have been enacted or substantially enacted at the financial reporting date.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets relate to the same taxable entity and the same taxation authority.

Provisions

Provisions are recognized only when the Group has: (a) a present obligation (legal or constructive) as a result of a past event; (b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and (c) a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

Provision for decommissioning and site rehabilitation

The Group records the present value of estimated costs of legal and constructive obligations required to restore operating locations in the period in which the obligation is incurred. The nature of these restoration activities includes dismantling and removing structures, rehabilitating mines and tailings dams, dismantling operating facilities, closure of plant and waste sites, and restoration, reclamation and re-vegetation of affected areas.

The obligation generally arises when the asset is installed or the ground environment is disturbed at the production location. When the liability is initially recognized, the present value of the estimated cost is capitalized by increasing the carrying amount of the related mining assets. Over time, the discounted liability is increased for the change in present value based on the discount rates that reflect current market assessments and the risks specific to the liability. The periodic unwinding of the discount is recognized in the consolidated statements of comprehensive income as a finance cost. Additional disturbances or changes in rehabilitation costs will be recognized as additions or charges to the corresponding assets and rehabilitation liability when they occur. For closed sites, changes to estimated costs are recognized immediately in the consolidated statements of comprehensive income.

Leases

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

- a. There is a change in contractual terms, other than a renewal or extension of the arrangement;
- b. A renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;



- c. There is a change in the determination of whether fulfillment is dependent on a specified asset;
or
- d. There is a substantial change to the asset.

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

Group as a lessee

Finance leases, which transfer to the Group substantially all the risks and rewards incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and the reduction of the lease liability so as to achieve a constant periodic rate of interest on the remaining balance of the liability. Finance charges are recognized in the consolidated statements of comprehensive income.

Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

A lease is classified as an operating lease if it does not transfer substantially all of the risks and rewards incidental to ownership. Operating lease payments are recognized as an expense in the consolidated statements of comprehensive income on a straight line basis over the lease term.

Operating lease payments are recognized in the cost of coal sales under "Outside Services" on a straight line basis over the lease term.

Foreign Currency Transactions and Translation

The Group's financial statements are presented in Philippine peso, which is also the functional currency. Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency closing rate at the reporting date. All differences are taken to the consolidated statements 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 (losses) 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 the reporting date are dealt with as an event after the reporting date. Retained earnings may also include effect of changes in accounting policy as may be required by the standard's transitional provisions.

Treasury Shares

Own equity instruments which are reacquired (treasury shares) are recognized at cost and deducted from equity. No gain or loss is recognized in the consolidated statements of comprehensive income on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration is recognized in additional paid-in capital.



Earnings per Share

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

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

Operating Segment

The Group's operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. The Group generally accounts for intersegment revenues and expenses at agreed transfer prices. Income and expenses from discontinued operations are reported separate from normal income and expenses down to the level of income after taxes. Financial information on operating segments is presented in Note 32 to the consolidated financial statements.

Contingencies

Contingent liabilities are not recognized in the consolidated financial statements. These are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the consolidated financial statements but disclosed when an inflow of economic benefits is probable.

Events after the Reporting Date

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

3. Significant Accounting Judgments, Estimates and Assumptions

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

Judgment

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

a. Determining functional currency

The Group, based on the relevant economic substance of the underlying circumstances, has determined its functional currency to be the Philippine Peso. It is the currency of the



economic environment in which the Group primarily operates.

b. Distinction between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property. In making its judgment, the Group considers whether the property generates cash flows largely independent of the other assets held by an entity. Owner-occupied properties generate cash flows that are attributable not only to property but also to the other assets used in the production or supply process.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions cannot be sold separately, the property is accounted for as an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgment is applied in determining whether ancillary services are so significant that a property does not qualify as investment property. The Group considers each property separately in making its judgment.

c. Operating lease commitments - the Group as lessee

The Group has entered into various contract of lease for space, and mining and transportation equipment. The Group has determined that all significant risks and benefits of ownership on these properties will be retained by the lessor. In determining significant risks and benefits of ownership, the Group considered the substance of the transaction rather than the form of the contract.

d. Contingencies

The Group is currently involved in various legal proceedings. The estimate of the probable costs for the resolution of these claims has been developed in consultation with outside counsel handling the Group's defense in these matters and is based upon an analysis of potential results. The Group currently does not believe that these proceedings will have a material adverse affect on its financial position. It is possible, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the strategies relating to these proceedings (see Note 27).

Management's Use of Estimates and Assumptions

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

a. Revenue recognition

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

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

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

The amounts of revenue from coal sales are disclosed in Note 32.



b. *Estimating allowance for doubtful accounts on loans and receivables*

The Group maintains an allowance for doubtful accounts at a level considered adequate to provide for potential uncollectible receivables. The level of this allowance is evaluated by management on the basis of factors that affect the collectibility of the accounts. These factors include, but are not limited to debtors' ability to pay all amounts due according to the contractual terms of the receivables being evaluated. The Group regularly performs a review of the age and status of receivables and identifies accounts that are to be provided with allowance.

The amount and timing of recorded impairment loss for any period would differ if the Group made different judgments or utilized different estimates. An increase in the allowance for doubtful accounts would increase the recorded operating expenses and decrease the current assets.

The allowance for doubtful accounts for Receivables is disclosed in Notes 5.

c. *Estimating stock pile inventory quantities*

The Group estimates the stock pile inventory by conducting a topographic survey which is performed by in-house surveyors and third-party surveyors. The survey is conducted on a monthly basis with a reconfirmatory survey at year end. The process of estimation involves a predefined formula which considers an acceptable margin of error of plus or minus 3%. Thus, an increase or decrease in the estimation threshold for any period would differ if the Group utilized different estimates and this would either increase or decrease the profit for the year. The amount of coal pile inventory is disclosed in Note 6.

d. *Estimating allowance for write down in spare parts and supplies*

The Group estimates its allowance for inventory write down in spare parts and supplies based on periodic specific identification. The Group provides 100% allowance for write down on items that are specifically identified as obsolete.

The amount and timing of recorded inventory write down for any period would differ if the Group made different judgments or utilized different estimates. An increase in the allowance for inventory write down would increase the Group's recorded operating expenses and decrease its current assets.

The carrying amount of spare parts and supplies is disclosed in Note 6.

e. *Estimating decommissioning and site rehabilitation costs*

The Group is legally required to fulfill certain obligations under its Department of Environment and Natural Resources (DENR) issued Environmental Compliance Certificate when it abandons depleted mine pits and under Section 8 of the LLA upon its termination or cancellation. Significant estimates and assumptions are made in determining the provision for decommissioning and site rehabilitation as there are numerous factors that will affect the ultimate liability. These factors include estimates of the extent and costs of rehabilitation activities, technological changes, regulatory changes, cost increases, and changes in discount rates. Those uncertainties may result in future actual expenditure differing from the amounts currently provided. An increase in decommissioning and site rehabilitation costs would increase the production cost and increase noncurrent liabilities. The provision at reporting date represents management's best estimate of the present value of the future rehabilitation costs required. Assumptions used to compute the decommissioning and site rehabilitation costs are reviewed and updated annually.



The estimated provision for decommissioning and site rehabilitation is disclosed in Note 14.

- f. *Estimating useful lives of property, plant and equipment and intangible assets (except land)*
The Group estimated the useful lives of its property, plant and equipment and computer software based on the period over which the assets are expected to be available for use. The Group reviews annually the estimated useful lives of property, plant and equipment and computer software based on factors that include asset utilization, internal technical evaluation, and technological changes, environmental and anticipated use of the assets. It is possible that future results of operations could be materially affected by changes in these estimates brought about by changes in the factors mentioned.

The carrying values of the property, plant and equipment and computer software are disclosed in Notes 8 and 10, respectively.

- g. *Estimating impairment for nonfinancial assets*
The Group assesses impairment on property, plant and equipment and computer software whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

The factors that the Group considers important which could trigger an impairment review include the following:

- significant underperformance relative to expected historical or projected future operating results;
- significant changes in the manner of use of the acquired assets or the strategy for overall business; and
- significant negative industry or economic trends.

As described in the accounting policy, the Group estimates the recoverable amount as the higher of the assets fair value and value in use. In determining the present value of estimated future cash flows expected to be generated from the continued use of the assets, the Group is required to make estimates and assumptions that can materially affect the consolidated financial statements.

There has been no existing indicator of impairment as of December 31, 2012 and 2011.

The carrying values of the property, plant and equipment and computer software are disclosed in Notes 8 and 10, respectively.

- h. *Deferred tax assets*
The Group reviews the carrying amounts of deferred tax assets at each reporting date. Deferred tax assets, including those arising from unutilized tax losses require management to assess the likelihood that the Group will generate taxable earnings in future periods, in order to utilize recognized deferred tax assets. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Group to realize the net deferred tax assets recorded at the reporting date could be impacted.

In 2012 and 2011, the Group has various deductible temporary differences from which no deferred tax assets have been recognized as the Group does not foresee taxable earnings due to the its Income Tax Holiday (ITH) (see Note 24).



i. *Estimating pension and other employee benefits*

The determination of the obligation and cost of retirement and other employee benefits is dependent on the selection of certain assumptions used in calculating such amounts. Those assumptions include, among others, discount rates, expected returns on plan assets and salary increase rates and price for the retirement of pension. Actual results that differ from the Group's assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods. While the Group believes that the assumptions are reasonable and appropriate, significant differences between actual experiences and assumptions may materially affect the cost of employee benefits and related obligations.

The balances of the Group's defined benefit obligation and unrecognized actuarial losses are disclosed in Note 18.

4. **Cash and Cash Equivalents**

This account consists of:

	2012	2011
Cash on hand and in banks	P520,098,757	P1,108,525,449
Cash equivalents	14,292,017	3,896,714,826
	P534,390,774	P5,005,240,275

Cash in banks earns interest at the respective bank deposit rates. Cash equivalents include short-term placements made for varying periods of up to three months depending on the immediate cash requirements of the Group and earn interest at the respective prevailing short-term placement rates ranging from 1.25% to 4.62% and 1.80% to 4.62% in 2012 and 2011, respectively.

In 2012, 2011 and 2010, total interest income earned from cash and cash equivalents amounted to P63.71 million, P114.82 million and P35.78 million, respectively (see Note 22).

5. **Receivables**

This account consists of:

	2012	2011
Trade receivables:		
Electricity sales	P2,257,847,485	P1,993,374,929
Local coal sales	628,204,117	950,455,290
Export coal sales	620,710,340	108,413,708
Related parties (Note 17)	90,003,952	199,110,601
Others	103,777,943	33,318,009
	3,700,543,837	3,284,672,537
Less allowance for doubtful accounts	118,700,122	68,891,290
	P3,581,843,715	P3,215,781,247

Electricity sales

Receivables from electricity sales are claims from power distribution utilities, spot market and other customers for the sale of contracted energy and spot sales transactions. These are generally on a 30 day credit term and are carried at original invoice amounts less discounts and rebates.



Coal sales

Receivables from coal sales are noninterest-bearing and generally have 30 - 45 days' credit terms.

- Export sales - coal sold to international market which is priced in US Dollar.
- Local sales - coal sold to domestic market which is priced in Philippine Peso.

Related parties

Receivables from related parties are noninterest-bearing and collectible over a period of one year.

Others include advances to officers, employees and receivable from sale of fly ashes. These are generally noninterest-bearing and are collectible over a period of one year.

Movements in the allowance for doubtful accounts are as follows:

	2012			
	Local Coal Sales	Electricity Sales	Other Receivables	Total
At January 1	P-	₱53,523,802	₱15,367,488	₱68,891,290
Provision (Note 20)	-	59,360,961		59,360,961
Reversals (Note 23)	-	-	(9,552,129)	(9,552,129)
At December 31	P-	₱112,884,763	₱5,815,359	₱118,700,122
Individual impairment	P-	₱112,884,763	₱5,815,359	₱118,700,122
Gross amounts of individually impaired receivables	P-	₱112,884,763	₱5,815,359	₱118,700,122

	2011			
	Local Coal Sales	Electricity Sales	Other Receivables	Total
At January 1	₱7,892,343	₱53,523,802	₱10,362,976	₱71,779,121
Provision (Note 20)	-	-	5,004,512	5,004,512
Reversals (Note 23)	(7,892,343)	-	-	(7,892,343)
At December 31	P-	₱53,523,802	₱15,367,488	₱68,891,290
Individual impairment	P-	₱53,523,802	₱15,367,488	₱68,891,290
Gross amounts of individually impaired receivables	P-	₱53,523,802	₱15,367,488	₱68,891,290

In 2012, the Group recorded a provision for doubtful accounts amounting to ₱59.36 million for receivables from electricity sales which may no longer be recovered. Reversals of allowance for doubtful accounts amounting ₱9.55 million pertains to other receivables collected in 2012.

In 2011, the Group recorded a provision for doubtful accounts amounting to ₱5.00 million for other receivables which may no longer be recovered. Reversals of allowance for doubtful accounts amounting ₱7.89 million pertains to receivables from local coal sales collected in 2011.



6. Inventories

This account consists of:

	2012	2011
Coal pile inventory at cost	P2,404,009,092	P2,470,381,662
Spare parts and supplies at NRV	3,255,580,261	2,122,453,877
	P5,659,589,353	P4,592,835,539

Spare parts and supplies with original cost of P580.93 million as of December 31, 2012 and 2011, were provided with allowance for inventory obsolescence amounting to P53.29 million.

Coal pile inventory are stated at cost, which is lower than NRV. The cost of coal inventories recognized as expense in the consolidated statements of comprehensive income amounted to P9.83 billion, P11.10 billion and P11.10 billion for each of the three years for the period ended December 31, 2012, 2011 and 2010, respectively (see Note 19).

Spare parts and supplies transferred to Construction in progress under "Property, plant and equipment" in the consolidated statements of financial position amounted to P0.22 billion and P1.61 billion in 2012 and 2011, respectively (see Note 8).

Coal pile inventory at cost includes depreciation expense amounting to P0.40 billion in 2012 and 2011, and P0.16 billion in 2010, respectively.

7. Other Current Assets

This account consists of:

	2012	2011
Prepaid rent (Notes 7 and 30)	P4,510,890	P5,172,401
Advances to suppliers	1,378,306,258	797,353,268
Creditable withholding tax	495,459,369	418,916,623
Others	57,653,561	88,986,374
	P1,935,930,078	P1,310,428,666

Advances to suppliers

Advances to suppliers account represent payments made in advance for the acquisition of materials and supplies. These advances are applied against supplier billing which normally occurs within one year from the date the advances have been made.

Creditable withholding tax

Creditable withholding tax is applied against income tax payable.

Others

Others include prepayments on insurance and taxes.



8. Property, Plant and Equipment

The rollforward of this account follow:

	2012					Total
	Land	Mining, Tools and Other Equipment	Power Plant and Buildings	Roads and Bridges	Equipment in Transit and Construction in Progress	
At Cost						
At January 1	₱376,605,100	₱14,741,953,648	₱18,454,308,321	₱365,683,504	₱2,140,165,382	₱36,078,715,955
Additions	-	1,153,680,202	14,217,004	-	3,986,206,931	5,154,104,137
Transfers	-	353,719,808	237,538,046	-	(591,257,854)	-
Transfers from inventory (Note 31)	-	-	-	-	223,519,372	223,519,372
Writedown	-	-	(420,699,160)	-	-	(420,699,160)
Disposals (Note 23)	-	(1,219,504,375)	-	-	-	(1,219,504,375)
At December 31	376,605,100	15,029,849,283	18,285,364,211	365,683,504	5,758,633,831	39,816,135,929
Accumulated Depreciation						
At January 1	-	11,907,508,407	3,151,492,494	282,381,779	-	15,341,382,680
Depreciation (Notes 19 and 20)	-	2,092,772,215	947,621,314	8,662,092	-	3,049,055,621
Writedown	-	-	(79,552,814)	-	-	(79,552,814)
Disposals (Note 23)	-	(1,219,504,375)	-	-	-	(1,219,504,375)
At December 31	-	12,780,776,247	4,019,560,994	291,043,871	-	17,091,381,112
Net Book Value	₱376,605,100	₱2,249,073,036	₱14,265,803,217	₱74,639,633	₱5,758,633,831	₱22,724,754,817

	2011					Total
	Land	Mining, Tools and Other Equipment	Power Plant and Buildings	Roads and Bridges	Equipment in Transit and Construction in Progress	
At Cost						
At January 1	₱-	₱13,415,442,946	₱17,757,127,361	₱279,062,950	₱1,268,995,671	₱32,720,628,928
Additions	376,605,100	1,213,026,466	36,840,878	636,237	827,267,799	2,454,376,480
Transfers	-	814,585,385	662,984,106	85,984,317	(1,563,553,808)	-
Transfers from inventory (Note 31)	-	-	-	-	1,607,455,720	1,607,455,720
Disposals (Note 23)	-	(701,101,149)	(2,644,024)	-	-	(703,745,173)
At December 31	376,605,100	14,741,953,648	18,454,308,321	365,683,504	2,140,165,382	36,078,715,955
Accumulated Depreciation						
At January 1	-	10,608,294,606	2,250,856,636	279,062,950	-	13,138,214,192
Depreciation (Notes 19 and 20)	-	1,999,349,053	901,617,650	3,318,829	-	2,904,285,532
Disposals (Note 23)	-	(700,135,252)	(981,792)	-	-	(701,117,044)
At December 31	-	11,907,508,407	3,151,492,494	282,381,779	-	15,341,382,680
Net Book Value	₱376,605,100	₱2,834,445,241	₱15,302,815,827	₱83,301,725	₱2,140,165,382	₱20,737,333,275

Equipment in transit and construction in progress accounts mostly contains purchased mining equipments that are in transit and various buildings and structures that are under construction as of December 31, 2012 and 2011. In 2012 and 2011, construction in progress includes costs incurred for the rehabilitation of SCPC's coal-fired power plant and construction of SLPGC's 2x150 megawatt (MW) coal-fired thermal power plant.

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

On May 5, 2011, PSALM granted SCPC's request to assign portion of its Option to the Parent Company, for the latter to purchase the 82,740 square meters lot covered by TCT No. 115804.

On July 12, 2010, PSALM issued an Option Existence Notice and granted SCPC the "Option" to purchase parcels of land (Optioned Assets) that form part of the leased premises. SCPC availed the "Option" and paid the Option Price amounting to US\$0.32 million or a peso equivalent of ₱14.72 million exercisable within one year from the issuance of the Option Existence Notice (see Note 27).



In 2012, 2011 and 2010, the Group sold various equipments at a gain amounting to ₱127.49 million, ₱53.55 million and ₱6.09 million, respectively (see Note 23).

The cost of fully depreciated assets that are still in use amounted to ₱5.84 billion and ₱5.02 billion as of December 31, 2012 and 2011, respectively.

Depreciation and amortization follow:

	2012	2011	2010
Included under:			
Inventories	₱403,816,392	₱398,219,957	₱161,874,259
Cost of coal sales (Note 19):			
Depreciation and amortization	1,322,458,941	1,299,404,980	1,383,429,661
Hauling and shiploading costs	260,056,522	208,060,216	63,464,744
Cost of power sales (Note 19):			
Cost of coal			
Depreciation and amortization	413,387,676	300,677,228	282,887,502
Hauling and shiploading costs	78,071,286	50,302,452	15,815,225
Depreciation and amortization	928,981,130	776,589,421	794,013,317
Operating expenses (Note 20)	44,910,889	38,230,893	28,629,004
	₱3,451,682,836	₱3,071,485,147	₱2,730,113,712
	2012	2011	2010
Depreciation and amortization of:			
Property, plant and equipment	₱3,447,275,578	₱3,066,159,791	₱2,725,952,902
Software costs (Note 10)	4,407,258	5,325,356	4,160,810
	₱3,451,682,836	₱3,071,485,147	₱2,730,113,712

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

9. Investment in Sinking Fund

In a special meeting of the BOD of SCPC held on March 9, 2010, the BOD authorized SCPC to establish, maintain, and operate trust and investment management accounts with Banco de Oro Unibank, Inc. (BDO), - Trust and Investment Group. The Omnibus Agreement provided that the Security Trustee shall invest and reinvest the monies on deposit in Collateral Accounts (see Note 12). All investments made shall be in the name of the Security Trustee and for the benefit of the Collateral Accounts. BDO Unibank, Inc., - Trust and Investment Group made an investment in Sinking Fund amounting ₱508.04 million and ₱490.79 million as of December 31, 2012 and 2011, respectively.

Interest from sinking fund amounted to ₱17.21 million, ₱14.06 million and ₱5.52 million in 2012, 2011 and 2010, respectively (see Note 22).



10. Other Noncurrent Assets

	2012	2011
Prepaid rent (Note 30)	₱98,930,629	₱104,103,570
Advances to contractors (Note 17)	826,341,454	-
5% input value-added tax (VAT) withheld - net of allowance for impairment losses of ₱87.52 million in 2012 and ₱40.37 million in 2011	102,976,730	150,127,447
Input VAT	180,511,524	-
Software cost - net	2,377,767	5,732,959
Environmental guarantee fund	1,500,000	1,500,000
Others	31,905,807	1,088,899
	1,244,543,911	262,552,875
Less current portion of prepaid rent	4,510,890	5,172,401
	₱1,240,033,021	₱257,380,474

Advances to contractors

Advances to contractors account represent payments made in advance for construction. The advances shall be settled through recoupment against the contractors' billings.

5% input VAT withheld

As a result of the enactment of RA No. 9337 effective November 1, 2005, National Power Corporation (NPC) started withholding the required 5% input VAT on the VAT exempt coal sales. On March 7, 2007, the Parent Company obtained a ruling from the Bureau of Internal Revenue (BIR) which stated that the sale of coal remains exempt from VAT. In 2007, the Parent Company filed a total claim for refund of ₱190.50 million from the BIR representing VAT erroneously withheld by NPC from December 2005 to March 2007, which eventually was elevated to the Court of Tax Appeals (CTA). On October 13, 2009, CTA granted the Parent Company's petition for a refund on erroneously withheld VAT initially on December 2005 sales amounting to ₱11.85 million. The Commissioner of BIR moved for reconsideration of the CTA's Decision. On November 21, 2009, the Parent Company filed its comment thereon. On August 10, 2010, the CTA issued a Writ of Execution on its decision date October 13, 2009 and was served to BIR on August 13, 2010.

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

In 2012, CTA En Banc rendered a decision dismissing the petition for review for the lack of merit on ₱163.36 million refund. Decision on petition for review filed by Commissioner of BIR on ₱15.29 million refund TCC remains pending to date.

Management has estimated that the refund will be recovered after ten (10) to fifteen (15) years. Consequently, the claim for tax refund was provided with provision for impairment losses amounting to ₱47.15 million in 2012 and ₱40.37 million in 2009.



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

	2012	2011
At January 1	₱40,374,335	₱40,374,335
Provision (Note 20)	47,150,717	—
At December 31	₱87,525,052	₱40,374,335

Input VAT

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

Software Cost

Movements in software cost account follow:

	2012	2011
At Cost		
At January 1	₱23,795,671	₱19,083,211
Additions	1,052,066	4,712,460
At December 31	24,847,737	23,795,671
Accumulated Amortization		
At January 1	18,062,712	12,737,356
Amortization (Note 19)	4,407,258	5,325,356
At December 31	22,469,970	18,062,712
Net Book Value	₱2,377,767	₱5,732,959

Environmental Guarantee Fund

Environmental guarantee fund represents the funds designated to cover all costs attendant to the operation of the Multi-partite Monitoring Team of the Group's environmental unit.

Others

Others include various types of deposits and prepaid taxes which are recoverable over more than one year.

11. Short-term Loans

Short-term loans represent various acceptances and trust receipts which are used to facilitate payment for importations of materials, fixed and other assets. The Group is accountable for these trusted assets or the assets sales proceeds. The carrying amount of these assets as of December 31, 2012 and 2011 amounted to ₱0.18 billion and ₱1.01 billion, respectively.

These are payable within one year.

The interest expense recognized under "Finance Cost" amounted to ₱30.14 million, ₱30.48 million and ₱10.31 million in 2012, 2011 and 2010, respectively (see Note 21).



12. Long-term Debt

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

	2012	2011
Mortgage payable	P7,404,190,124	P8,365,572,777
Bank loans	4,775,083,552	4,096,238,117
	12,179,273,676	12,461,810,894
Less current portion of:		
Mortgage payable	1,514,248,417	1,530,694,871
Bank loans	3,668,712,959	1,461,965,924
	5,182,961,376	2,992,660,795
	P6,996,312,300	P9,469,150,099

Mortgage Payable SLPGC

On February 4, 2012, SLPGC entered into an P11.50 billion Omnibus Agreement with Banco de Oro, Unibank (BDO), Bank of the Philippine Island (BPI) and China Banking Corporation (CBC) as Lenders. As security for the timely payment of the loan and prompt observance of all the provision of the Omnibus Agreement, the 67% of issued and outstanding shares of SLPGC owned by the Parent Company were pledged on this loan. The proceeds of the loan will be used for the engineering, procurement and construction of 2x150 MW coal-fired thermal power plant.

Breakdown of the syndicated loan is as follows:

BDO	P6,000,000,000
BPI	3,000,000,000
CBC	2,500,000,000
	P11,500,000,000

Details of the loan follow:

- a. Interest: At applicable interest rate (PDST-F + Spread or BSP Overnight Rate, whichever is higher). Such interest shall accrue from and including the first day of each Interest Period up to the last day of such Interest Period. The Facility Agent shall notify all the Lenders of any adjustment in an Interest Payment Date at least three Banking Days prior to the adjusted Interest Payment Date.
- b. Repayment: The principal amount shall be paid in twenty-seven equal consecutive quarterly installments commencing on the fourteenth quarter from the initial borrowing date. Final repayment date is ten (10) years after initial borrowing.

The first drawdown was made on May 24, 2012 amounting to P550.00 million. Capitalized debt issuance cost related on the first drawdown amounted to P2.75 million and is amortized using the EIR method over the loan's term. As of December 31, 2012, amortization of debt issuance cost recognized as part of "Property, plant and equipment" account in the consolidated statements of financial position amounted to P0.24 million.



SCPC

On May 20, 2010, SCPC entered into a ₱9.60 billion Omnibus Loan Security Agreement (“Agreement”) with BDO, BPI and Philippine National Bank (PNB) as Lenders, the Parent Company as Guarantor, BDO Capital and Investment Corporation as Lead Arranger and Sole Bookrunner, BPI Capital Corporation and PNB Capital and Investment Corp. as Arrangers, and BDO Unibank, Inc., Trust and Investments Group as Security Trustee, Facility Agent and Paying Agent.

Breakdown of the syndicated loan is as follows:

BDO Unibank	₱6,000,000,000
BPI	2,000,000,000
PNB	1,600,000,000
	<u>₱9,600,000,000</u>

The Agreement was entered into to finance the payments made to PSALM pursuant to the APA and LLA, and ongoing plant rehabilitation and capital expenditures.

Details of the loan follow:

- a. Interest: At a floating rate per annum equivalent to the three (3) months Philippine Dealing System Treasury-Fixing (PDST-F) benchmark yield for treasury securities as published on the PDEX page of Bloomberg (or such successor electronic service provider at approximately 11:30 a.m. (Manila Time) on the banking day immediately preceding the date of initial borrowing or start of each interest period, as applicable, plus a spread of 175 basis points.
- b. Repayment: The principal amount shall be payable in twenty-five equal consecutive quarterly installments commencing on the twelfth month from the initial borrowing date. Final repayment date is seven (7) years after initial borrowing.

The loan was drawn in full on May 20, 2010. Capitalized debt issuance cost amounted to ₱110.04 million and is amortized using the EIR method over the loan’s term.

Amortization of debt issuance cost recognized under “Finance cost” account in the consolidated statements of comprehensive income amounted to ₱27.12 million, ₱22.42 million and ₱5.20 million for the years 2012, 2011 and 2010, respectively (see Note 21).

The Omnibus Agreement provided that the Security Trustee shall invest and reinvest the monies on deposit in Collateral accounts. All investments made shall be in the name of the Security Trustee and for the benefit of the Collateral accounts. BDO Unibank, Inc., - Trust and Investment Group made an investment in Sinking Fund amounting ₱508.04 million and ₱490.79 million as of December 31, 2012 and 2011, respectively.

Rollforward of the capitalized debt issuance cost follows:

	2012	2011
Beginning at January 1	₱82,427,224	₱104,842,714
Additions	2,750,000	-
Amortization (Note 21)	(27,367,348)	(22,415,490)
Ending at December 31	<u>₱57,809,876</u>	<u>₱82,427,224</u>



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

	2012	2011
	(In Thousands)	
Due in:		
2012	P-	P2,970,843
2013	5,182,555	3,986,224
2014	2,625,603	1,519,639
2015	1,545,013	1,525,050
2016	1,611,596	1,611,596
2017	848,459	848,459
2018	81,238	-
2019	81,299	-
2020	81,359	-
2021	81,420	-
2022	40,732	-
	P12,179,274	P12,461,811

Mortgage payable by SCPC and SLPGC were collateralized by all monies in the Collateral accounts, supply receivables, proceeds of any asset and business continuity insurance, project agreements and first-ranking mortgage on present (with a carrying value of P2.20 billion) and future real assets. Further, 67% of issued and outstanding shares in SCPC and SLPGC (with a carrying value of P14.54 billion) owned by the Parent Company were also pledged on this loan.

Mortgage payable by SLPGC provide certain restrictions and requirements with respect to, among others, maintain and preserve its corporate existence, comply with all of its material obligations under the project agreements, maintain at each testing date a Debt-to-Equity ratio not exceeding two times, grant loans or make advances and disposal of major property. These restrictions and requirements were complied with by SLPGC as of December 31, 2012.

Bank loans

Loan Type	Date of Availment	Outstanding Balance		Maturity	Interest Rate	Payment Terms	Covenants/Collaterals
		2012	2011				
(In Millions)							
Local bank loans							
Loan 1	October 2010	P-	P140.29	Various maturities in 2012	Floating rate, to be repriced every 90 days	Interest payable in 90 days; not deducted from proceeds of loans and principal repayable in maturity.	Any monies standing to the credit of the borrower's other account with the bank and any securities, deeds, boxes and parcels and their contents and property of any description held in borrower's name
Loan 2	Various availments in 2010 & 2011	947.54	1,313.59	Various maturities in 2012 & 2013	Floating rate payable semi-annually in arrears, to be repriced every 6 months	Interest payable semi-annually in arrears, with interest rates inclusive of 10% withholding tax. Payment of interest shall commence on the 6th month and every six months thereafter until fully paid at the prevailing rate.	Unsecured loans

(Forward)



Loan Type	Date of Availment	Outstanding Balance		Maturity	Interest Rate	Payment Terms	Covenants/Collaterals
		2012	2011				
(In Millions)							
Local bank loans							
Loan 3	Various availments in 2010 & 2011	₱230.40	₱688.45	October 2012	Floating rate, to be repriced every 30 to 180 days	Interest shall be payable on the last day of the current interest period or the 90th day of said period whichever occurs earlier and full payment of principal at maturity.	Unsecured loans
Loan 4	Various availments in 2010 & 2011	2,556.86	1,028.25	October 26, 2012 & various maturities in 2013	Floating rate to be repriced over the 90 to 180 days	Interest payable in 90 days; not deducted from proceeds of loans and principal repayable in maturity.	Unsecured loans
Loan 5	August 2011	1,040.28	925.66	August 2013	Floating rate, to be re-priced on a monthly, quarterly, semi-annual or annual basis.	Interest payable in 90 - 180 days and principal repayable in maturity. Proceeds of the loan were restricted for equipment fund and working capital; Financial Covenants: Current Ratio not less than 1:1, Debt-Equity Ratio not exceeding 2:1, Debt-EBITDA Ratio not exceeding 3:1, compliant.	
		₱4,775.08	₱4,096.24				

13. Trade and Other Payables

This account consists of:

	2012	2011
Trade:		
Payable to suppliers and contractors	₱4,417,579,065	₱5,011,159,358
Related parties (Note 17)	709,496,525	237,892,719
Payable to DOE and local government units (LGU) (Note 26)	1,007,849,324	905,008,728
Output VAT Payable	489,766,685	965,446,171
Accrued expenses and other payables	188,453,616	179,521,808
	₱6,813,145,215	₱7,299,028,784

Trade payable to contractors arises from progress billings of completed work. Trade payables to suppliers and contractors include liabilities amounting to ₱317.93 million (US\$7.75million) and ₱468.08 million (US\$10.68 million) as of December 31, 2012 and 2011, respectively, to various foreign suppliers for open account purchases of equipment and equipment parts and supplies. Trade payables are noninterest-bearing and are normally settled on 30-day to 60-day credit terms.

Payable to DOE and LGU represent the share of DOE and LGU in the gross revenue of the Parent Company's coal production (including accrued interest on the outstanding balance) computed in accordance with the Coal Operating Contract (COC) between the Parent Company, DOE and LGU dated July 11, 1977 and as amended on January 16, 1981 (see Note 26).

Output VAT pertains to the VAT due on the sale of electricity.



Details of the accrued expenses and other payables account follow:

	2012	2011
Withholding and other taxes	₱57,750,472	₱37,024,671
Salaries and wages	11,641,106	12,476,527
Real property tax	12,745,030	18,828,610
Professional fees	8,538,640	6,050,000
Rental (Note 17)	15,259,799	15,264,799
Financial benefit payable	13,590,642	8,265,879
Interest	47,372,794	76,887,268
Others	21,555,133	4,724,054
	₱188,453,616	₱179,521,808

Accrued expenses and other payables are noninterest-bearing and are normally settled on a 30 to 60-day terms.

Financial benefit payable

As mandated by the R.A. 9136 or the Electric Power Industry Reform Act (EPIRA) of 2001 and the Energy Regulations No. 1-94, issued by Department of Energy (DOE), the BOD authorized the Group on June 10, 2010 to enter and execute a Memorandum of Agreement with the DOE relative to or in connection with the establishment of Trust Accounts for the financial benefits to the host communities equal to ₱0.01 per kilowatt hour generated.

Others

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

14. Provision for Decommissioning and Site Rehabilitation

	2012	2011
At January 1	₱47,582,228	₱14,732,350
Additions (Note 8)	5,265,925	31,091,791
Accretion of interest (Note 21)	9,599,948	1,758,087
At December 31	₱62,448,101	₱47,582,228

Discount rates used by the Group to compute for the present value of liability for decommissioning and site rehabilitation cost are from 2.50% to 7.49% in 2011 to 5.79% to 8.77% in 2012.

On November 12, 2009, the COC was amended further, expanding its contract area to include portions of Caluya and Sibay islands, covering an additional area of 5,500 hectares and 300 hectares, respectively. Due to these changes, the Parent Company has provided additional provision for decommissioning and site rehabilitation in the amount of ₱80.00 million, with a carrying value of ₱31.09 million in 2011. Additions in 2012 pertain to the effect of changes in discount rate based on relative prevailing market rates.

In accordance with the provisions of IFRIC 1, the additions and adjustments were included in the consolidated statements of financial position for the years 2012 and 2011.



15. Capital Stock

The details of the Parent Company's capital stock as of December 31, 2012 and 2011 are as follows:

	Shares	Amount
Common stock - ₱1 par value		
Authorized	1,000,000,000	₱1,000,000,000
Issued and outstanding		
Balance at beginning and end of year	356,250,000	356,250,000

On November 28, 1983, the SEC approved the issuance and public offering of 55.00 billion common shares of the Parent Company at an offer price of ₱0.01 per share. Additional public offering was also approved by SEC on February 4, 2005 for 46.87 million common shares at an offer price of ₱36.00 per share.

As of December 31, 2012, the Parent Company has 356.25 million common shares issued and outstanding which were owned by 663 shareholders.

Capital Stock

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

	Number of shares registered	Issue/offer price	Date of approval	Number of holders as of year - end
At January 1, 2001	1,630,970,000	₱1/share		
Add (deduct):				
Additional issuance	19,657,388	₱1/share	July 2, 2004	
Conversion of preferred shares to common shares	225,532	₱1/share	July 2, 2004	
Decrease in issued and outstanding common stock from capital restructuring	(1,625,852,920)			
Stock dividends	225,000,000	₱1/share	July 2, 2004	
Public offering additional issuance	46,875,000	₱36/share	February 4, 2005	
December 31, 2010	296,875,000			632
Add: Stock rights offering	59,375,000	₱74/share	June 10, 2010	7
December 31, 2011	356,250,000			639
Deduct: Movement	-			24
December 31, 2012	356,250,000			663

Stock Rights Offering

On June 10, 2010, the Parent Company offered for subscription 59,375,000 Rights Shares to eligible existing common shareholders at the Offer Price of ₱74 per share. The Rights Shares were issued from the Parent Company's authorized but unissued shares of stock. Each eligible stockholder was entitled to subscribe to one Rights Share for every five Common Shares held as of the Record Date at an Offer Price of ₱74 per Rights Share. Net proceeds from the stock rights offering amounted to about ₱4.39 billion. The amount representing excess of offer price over the par value of the share offering amounting to about ₱4.33 billion was credited to additional paid-in capital for the year ended December 31, 2010.



Deposit on Future Stock Subscriptions

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

Shares Held in Treasury

The number of shares held in treasury is 19,302,200 amounting to ₱528.89 million as of December 31, 2009. On April 8, 2010, the Parent Company reissued all of its treasury shares to Dacon at ₱67 per share or a total of ₱1.29 billion. The excess of the proceeds over the total cost of the treasury is included under additional paid-in capital in the amount of ₱764.36 million.

On July 7, 2005, the BOD approved the buyback of the Parent Company's shares aggregating 40 million shares which began on August 15, 2005 until December 31, 2005. On January 11, 2006, the BOD approved to extend its buyback program for a period of 60 days starting January 12, 2006 under the same terms and conditions as resolved by the BOD last July 7, 2005, provided that the total number of shares to be reacquired shall in no case exceed 15 million shares.

16. Retained Earnings

Retained earnings amounting to ₱2.54 billion and ₱2.07 billion as of December 31, 2012 and 2011, respectively, include the accumulated equity in undistributed net earnings of subsidiaries accounted for under cost method. The amounts are not available for dividends until declared by the subsidiaries.

In accordance with SEC Memorandum Circular No. 11 issued in December 2008, the Parent Company's retained earnings available for dividend declaration as of December 31, 2012 amounted to ₱6.16 billion.

Cash Dividends

On April 30, 2012, the BOD authorized the Parent Company to declare and distribute cash dividends of ₱12.00 per share or ₱4.28 billion to stockholders of record as of May 29, 2012. The said cash dividends were paid on June 25, 2012.

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

On April 27, 2010, the BOD authorized the Parent Company to declare and distribute cash dividends of ₱6.00 per share or ₱1.78 billion to stockholders of record as of May 27, 2010. The said cash dividends were paid on June 23, 2010.

Restrictions

On March 12, 2013, the Board ratified the remaining ₱700.00 million appropriation to partially cover new capital expenditures for the Group's mine operation for the years 2013 to 2015.



17. Related Party Transactions

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

Except as indicated otherwise, the outstanding accounts with related parties shall be settled in cash. The transactions are made at terms and prices agreed upon by the parties.

The significant transactions with related parties follow:

Parent Company

Company	Category	Amount			Outstanding Balance		Terms	Conditions	
		Income (expense)			Asset (liability)				
		2012	2011	2010	2012	2011			
		(In Millions)							
DMCI-HI	Guarantee fees	₱-	₱-	(₱0.30)	₱-	₱-	Noninterest-bearing	Unsecured	

Continuing Indemnity Agreement dated September 3, 1998 with DMCI-HI and certain related parties whereby the Parent Company, in consideration for guarantees extended by DMCI-HI and related parties in the form of Real Estate Mortgage (REM), standby letters of credit and other credit lines or facilities to secure the Group's indebtedness to various banks and creditors, agreed to indemnify and hold DMCI-HI and related parties free from and against any and all claims, liabilities, demands, actions, costs, expenses and consequences of whatever nature which may arise or result from said corporate guarantees. The Parent Company further agreed to pay a fixed interest rate per annum on all sums or monies paid by DMCI-HI and related parties by reason of or in connection with the said corporate guarantees, letters of credit, credit facilities or REM; real properties of this affiliate were already freed from lien effective at the time when these old equipment loans were fully paid. The loans contracted in 2004 and 2005 were still guaranteed by DMCI-HI. Guarantee fees incurred amounted to nil in 2012 and 2011, and ₱0.30 million in 2010. These are included under "Finance costs" in the statements of comprehensive income (see Note 21).

Co-subsidiaries

Company	Category	Amount			Outstanding Balance		Terms	Conditions	
		Income (expense)			Asset (liability)				
		2012	2011	2010	2012	2011			
		(In Millions)							
Wire Rope Corporation	Materials and supplies	(₱17.54)	₱-	(₱10.40)	(₱0.44)	₱-	30 days; non-interest bearing	Unsecured	
DMCI-PC	Due from related parties	-	129.08	121.29	57.30	57.30	1 yr.; non-interest bearing	Unsecured	
DMCI-MC	Operation and maintenance	(432.98)	(497.40)	(216.46)	(80.53)	128.27	30-day; non-interest bearing	Unsecured	
DMCI	Due from related parties	-	-	-	8.74	8.74	1 yr.; non-interest bearing	Unsecured	
	Advances to contractor	826.34	-	-	826.34	-	Recoupment	Unsecured	
	Construction in Progress	2,724.91	172.34	-	(494.88)	(166.94)	Non-interest bearing	Unsecured	
	Outside services / rental	(214.44)	(220.49)	(67.38)	(81.23)	(52.16)	30 days; non-interest bearing	Unsecured	



- a. Wire Rope Corporation of the Philippines had transactions with the Parent Company representing supply of cable wires. The related expenses are included in cost of sales under "Materials and supplies" in the statements of comprehensive income (see Note 19). Outstanding balances of Wire Rope Corporation are fully paid as of December 31 2012 and 2011.
- b. Parent Company assigned some of its employees to DMCI Power Corporation (DMCI-PC) and DMCI Mining Corporation (DMCI-MC) through an agreement to render services on the specific projects of the said affiliates. The related expenses are billed by Parent Company to DMCI-PC and DMCI-MC which are noninterest-bearing and are to be settled within one year.

DMCI-PC was engaged by SCPC for operation and maintenance services. DMCI-PC charges SCPC operation and maintenance fees for the services rendered. The said Operations and maintenance fees is accounted under "Operating expenses". The turnover and effective date of the agreement commenced on January 2011 up to ten years thereafter and maybe renewed for another ten years.

Outstanding balances are included in "Trade payable to related parties" under trade and other payables in the statements of financial position.

- c. D.M. Consunji, Inc. (DMCI) had transactions with the Group representing rentals of office, building and equipments and other transactions such as transfer of equipment, hauling and retrofitting services. The related expenses are included in the "Outside services" under cost of sales and in the "Other expenses" under the operating expenses in the statements of comprehensive income.

The Parent Company also engaged the service of DMCI for the construction of various projects in compliance with its Corporate Social Responsibility (CSR) such as the mine rehabilitation, construction of covered tennis courts, track and field, perimeter fence and others to which related expenses are included in cost of sales "Outside services" in the statements of comprehensive income.

DMCI was engaged by Parent Company and SLPGC in the construction of respective power plants. DMCI was also engaged by SCPC in the ongoing rehabilitation of its power plant. Billings of DMCI was charged to "Construction in progress" account. The "Construction in progress" account includes a down payment made to China National Electric Engineering Co., Ltd., a subcontractor engaged by DMCI and SLPGC. In 2012, advances to contractors amounting ₱826.34 million is classified under "Other noncurrent assets" and retention payable amounting to ₱57.94 million is classified under "Other noncurrent liabilities" in the statements for financial position.

Advances to contractors account represent payments made in advance for construction. These advances shall be settled through recoupment against the contractor's billings.

Retention payable represents amounts withheld from payments to contractors as guaranty for any claims against them. These are noninterest-bearing and will be remitted to contractors at the end of the contracted work.

Except, otherwise indicated, all outstanding balances to DMCI are included in trade and other payables under "Trade payable to related parties" in the statements of financial position.



Entities under common control

Company	Category	Amount			Outstanding Balance		Terms	Conditions
		Income (expense)			Asset (liability)			
		2012	2011	2010	2012	2011		
(In Millions)								
DMC - CERI	Outside services, direct labor, and other expenses	(P55.63)	(P52.90)	(P59.17)	(P1.30)	(P0.96)	30 days; non-interest bearing	Unsecured
	Hauling and shiploading costs	(383.10)	(498.42)	(507.86)	(51.61)	(52.61)	30 days; non-interest bearing	Unsecured
M&S Company, Inc.	Supply of materials	(30.34)	(52.83)	(48.07)	(2.39)	3.82	30 days; non-interest bearing	Unsecured
Dacon Corporation	Office and other expenses	(0.17)	(0.32)	-	(0.49)	(0.32)	30 days; non-interest bearing	Unsecured
DMC-UPDI	Office rentals	(7.51)	(6.49)	(6.97)	(1.78)	(5.07)	30 days; non-interest bearing	Unsecured
Royal Star Aviation, Inc.	Aircraft utilization cost	(2.63)	(2.75)	(0.73)	(0.45)	(0.47)	30 days; non-interest bearing	Unsecured
Asia Industries, Inc.	Rentals	(0.38)	(0.29)	(0.32)	(0.30)	-	30 days; non-interest bearing	Unsecured

- a. DMC-Construction Equipment Resources, Inc. (DMC-CERI) had transactions with the Parent Company for services rendered relating to the Parent Company's coal operations. These include services for the confirmatory drilling for coal reserve and evaluation of identified potential areas, exploratory drilling of other minerals within Semirara Island, dewatering well drilling along cut-off wall of Panian mine and fresh water well drilling for industrial and domestic supply under an agreement. Expenses incurred for said services are included in cost of sales under "Outside services" in the statements of comprehensive income DMC-CERI also provides to the Parent Company marine vessels for use in the delivery of coal to its various customers. The coal freight billing is on a per metric ton basis plus demurrage charges for delays in loading and unloading of coal cargoes. Expenses incurred for these services are included in "Hauling and shiploading costs" under cost of sales in the statements of comprehensive income.

Furthermore, DMC-CERI provides to the Parent Company 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 statements of comprehensive income.

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

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

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



- c. Dacon, upgraded during the year the Parent Company's information technology environment, including the maintenance of its accounting system, Navision, to which related expenses are included in the "Office and other expenses" under operating expenses in the statements of comprehensive income (see Note 20).
- d. DMC Urban Property Developers, Inc. (DMC-UPDI) had transactions with the Parent Company representing lease on office space and other transactions rendered to the Parent Company necessary for the coal operations. Office rental expenses are included in the "Outside services" under cost of sales in the statements of comprehensive income (see Note 19). Outstanding balance of DMC-UPDI is included in trade and other payables under "Trade payable to related parties" in the statements of financial position.
- e. Royal Star Aviation Inc. transports the Parent Company's guests and employees from Manila to Semirara Island and vice versa and bills them for the utilization costs of the aircrafts. The related expenses are included in the "Production overhead" under cost of sales in the statements of comprehensive income (see Note 19). Outstanding balance of Royal Star Aviation, Inc. is included in trade and other payables under "Trade payable to related parties" in the statements of financial position.
- f. Asia Industries Inc. had transactions with the Parent Company for the rental of parking space to which related expenses are included in the "Office and other expenses" under operating expenses in the statements of comprehensive income (see Note 20). Outstanding balance of Asia Industries, Inc. is included in "Trade payable to related parties" under trade and other payables in the statements of financial position.

Terms and conditions of transactions with related parties

There have been no guarantees and collaterals provided or received for any related party receivables or payables. These accounts are noninterest-bearing and are generally unsecured. Impairment assessment is undertaken each financial year through a review of the financial position of the related party and the market in which the related party operates.

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

	2012	2011	2010
Short-term employee benefits	₱97,820,396	₱93,866,643	₱101,960,815
Post employment benefits	3,434,897	2,346,104	2,738,299
	₱101,255,293	₱96,212,747	₱104,699,114

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 date of the latest actuarial valuation is December 31, 2012.

As of December 31, 2012, 2011 and 2010, the assumptions used to determine pension benefits follow:

	2012	2011	2010
Discount rate	4.69%	6.75%	8.10%
Salary increase rate	3.00%	3.00%	3.00%
Expected rate of return on plan assets	6.00%	6.00%	6.00%

The components of pension expense in the consolidated statements of comprehensive income are as follows:

	2012	2011	2010
Current service cost	₱7,778,179	₱5,597,830	₱4,762,273
Interest cost on benefit obligation	4,371,758	4,405,686	4,405,532
Expected return on plan asset	(3,434,506)	(2,572,704)	(1,635,383)
Actuarial loss recognized	82,309	15,459	-
	₱8,797,740	₱7,446,271	₱7,532,422

The above pension expense is included under in operating expenses under "Personnel costs" in the consolidated statements of comprehensive income (see Note 20).

The pension (assets) liabilities recognized in the consolidated statements of financial position follow:

	2012	2011
Present value of defined benefit obligation	₱100,699,245	₱64,766,789
Fair value of plan assets	64,151,789	57,994,669
Excess of present value of defined benefit obligation over fair value of plan assets	36,547,456	6,772,120
Unrecognized actuarial loss	(30,700,330)	(7,793,627)
	₱5,847,126	(₱1,021,507)

Movements in the present value of defined benefit obligation follow:

	2012	2011
Balance at the beginning of year	₱64,766,789	₱54,391,181
Current service cost	7,778,179	5,597,830
Interest cost on benefit obligation	4,371,758	4,405,686
Actuarial loss	27,217,416	372,092
Benefits paid - from plan assets	(1,505,790)	-
Benefits paid - direct payments	(1,929,107)	-
Balance at end of year	₱100,699,245	₱64,766,789



Movements in the fair value of plan assets follow:

	2012	2011
Balance at beginning of the year	P57,994,669	P28,646,138
Contributions	-	28,464,526
Expected return on plan assets	3,434,506	2,572,704
Actuarial gain (loss) from plan assets	4,228,404	(1,688,699)
Benefits paid	(1,505,790)	-
Balance at end of year	P64,151,789	P57,994,669
Actual return	P7,662,910	P884,005

The overall expected rate of return on plan assets is determined based on the market expectations prevailing on that date, applicable to the period over which the obligation is to be settled.

The Group does not expect any contribution to the pension fund in 2012.

The amounts for the current and previous four periods follow:

	2012	2011	2010	2009	2008
Present value of defined benefit obligation	P100,699,245	P64,766,789	P54,391,181	P40,981,694	P39,107,208
Fair value of plan assets	64,151,789	57,994,669	28,646,138	28,423,387	25,008,190
Deficit	36,547,456	6,772,120	25,745,043	12,558,307	14,099,018
Experience adjustments on plan liabilities	(23,625,363)	(2,339,743)	4,250,163	(5,651,794)	(12,320,619)
Experience adjustments on plan assets	4,228,404	(1,688,699)	921,368	(31,911,761)	1,545,486

Movements in the unrecognized actuarial loss follow:

	2012	2011
Balance at the beginning of year	(P7,793,627)	(P5,748,295)
Actuarial loss on defined benefit obligation	(27,217,416)	(372,092)
Actuarial gain (loss) on the fair value of plan assets	4,228,404	(1,688,699)
Actuarial loss recognized	82,309	15,459
	(P30,700,330)	(P7,793,627)

The Group's fund is in the form of a trust being maintained by the trustee bank.

As of December 31, 2012 and 2011, the major categories of plan assets as a percentage of the fair value of the total plan assets are as follows:

	2012	2011
Investment in debt/equity securities	98.52%	97.84%
Deposits in banks	0.45	1.05
Miscellaneous receivables	1.03	1.11
	100.00%	100.00%



Details of the investment per type of security are as follows:

	2012		
	Carrying Value	Fair Value	Unrealized Gains
Investments in debt securities	₱57,333,617	₱61,664,364	₱4,330,747
Investments in equity securities	1,500,000	1,537,500	37,500
	₱58,833,617	₱63,201,864	₱4,368,247

	2011		
	Carrying Value	Fair Value	Unrealized Gains
Investments in debt securities	₱54,819,562	₱55,173,510	₱353,948
Investments in equity securities	1,500,000	1,567,500	67,500
	₱56,319,562	₱56,741,010	₱421,448

Investment in debt securities represents investments in treasury bonds and fixed rate treasury notes.

The Group has no other transactions with the fund.

19. Cost of Sales

Cost of coal sales consists of:

	2012	2011	2010
Materials and supplies (Note 17)	₱3,120,735,226	₱4,121,638,177	₱3,220,011,010
Fuel and lubricants	3,043,331,610	3,257,328,929	2,317,116,401
Depreciation and amortization	1,322,458,941	1,299,404,980	1,383,429,661
Outside services (Note 17)	966,478,901	842,386,090	2,799,272,979
Hauling and shiploading costs (Note 17)	547,620,380	802,772,100	523,057,535
Direct labor	450,134,214	419,722,649	411,568,623
Production overhead (Note 17)	374,395,481	357,901,033	448,236,602
	₱9,825,154,753	₱11,101,153,958	₱11,102,692,811

Cost of power sales consists of:

	2012	2011	2010
Coal	₱3,304,807,016	₱2,883,154,698	₱2,037,799,940
Depreciation and amortization	928,981,130	776,589,421	794,013,317
Bunker	238,254,696	234,071,851	67,731,908
Spot purchases	130,367,456	1,500,978,204	1,773,351,388
Diesel	115,632,253	113,440,407	99,855,348
Imported coal	44,523,109	-	39,031,706
Lube	25,721,138	22,661,500	37,938,217
Market fees	24,796,252	22,015,982	24,022,888
Coal handling expense	864,921	2,107,676	13,596,690
Others	4,838,132	4,445,765	-
	₱4,818,786,103	₱5,559,465,504	₱4,887,341,402



In 2012, 2011 and 2010, SCPC purchased power from the spot market in the amount of ₱0.13 billion, ₱1.50 billion and ₱1.77 billion, respectively.

The cost of depreciation in 2012 that was charged to cost of coal and cost of power amounted to ₱1.32 billion and ₱0.93 billion, respectively; in 2011 which amounted to ₱1.30 billion and ₱0.78 billion, respectively; and in 2010 which amounted to ₱1.38 billion and ₱0.79 billion, respectively.

The cost of coal on power sales consists of:

	2012	2011	2010
Materials and supplies	₱1,089,654,743	₱1,081,921,445	₱566,124,680
Fuel and lubricants	1,011,501,357	857,934,671	407,382,701
Depreciation and amortization	413,387,676	300,677,228	282,887,502
Outside services	308,340,694	193,919,023	492,152,827
Hauling and shiploading costs	214,913,039	247,783,329	52,381,142
Direct labor	145,445,777	109,113,311	158,064,586
Production overhead	121,563,730	91,805,691	78,806,502
	₱3,304,807,016	₱2,883,154,698	₱2,037,799,940

20. Operating Expenses

	2012	2011	2010
Government share (Note 26)	₱1,557,950,322	₱1,479,972,809	₱1,310,029,153
Operation and maintenance (Note 17)	437,180,259	500,743,201	216,458,717
Loss on property, plant and equipment writedown	341,161,830	-	-
Taxes and licenses	237,515,006	334,393,508	31,705,447
Repairs and maintenance	148,671,287	52,485,703	49,501,640
Personnel costs (Notes 17 and 18)	133,733,998	194,509,438	335,103,976
Marketing	81,102,894	36,359,343	20,911,217
Office expenses	75,703,636	62,589,739	69,146,688
Provision for doubtful accounts	59,360,961	5,004,512	53,744,668
Insurance and bonds	56,282,680	61,394,404	57,083,139
Provision for impairment losses	47,150,717	-	-
Professional fees	46,893,228	29,987,831	65,796,354
Depreciation	44,910,889	38,230,893	28,629,004
Entertainment, amusement and recreation	35,484,183	16,542,752	18,855,526
Transportation and travel	15,885,235	34,221,417	33,561,854
Provision for billing disputes	-	-	383,293,921
Others	79,899,780	10,738,564	47,413,614
	₱3,398,886,905	₱2,857,174,114	₱2,721,234,918

Others pertain to various expenses such as advertising and utilities.

21. Finance Costs

	2012	2011	2010
Interest on:			
Long-term debt	₱434,421,267	₱428,635,398	₱652,152,869
Amortization of debt issuance cost	27,123,187	22,415,490	5,199,543
Short-term loans	30,135,631	30,478,806	10,314,050
Accretion of cost of decommissioning and site rehabilitation	9,599,948	1,758,087	774,354
	₱501,280,033	₱483,287,781	₱668,440,816



22. Finance Income

	2012	2011	2010
Interest on:			
Cash in banks	₱31,826,130	₱20,485,464	₱25,628,932
Cash equivalents and temporary investments	49,090,080	108,389,881	15,668,969
Accretion on security deposits (Note 30)	–	168,856	12,787,515
Others	1,228,108	5,832,479	3,582,348
	₱82,144,318	₱134,876,680	₱57,667,764

23. Other Income

	2012	2011	2010
Gain on sale of equipment	₱127,491,090	₱53,547,507	₱6,088,124
Recoveries from insurance claims	41,545,855	35,179,622	5,069,284
Reversal of allowance for doubtful accounts	9,552,129	7,892,343	5,677,104
Gain on sale of investments	–	–	41,378,255
Miscellaneous	139,859,194	3,285,825	7,214,245
	₱318,448,268	₱99,905,297	₱65,427,012

Recoveries from insurance claims

Recoveries from insurance claims pertain to the amount reimbursable from insurer on insured equipments.

Gain on sale of investments

On December 8, 2010, a Deed of Assignment was made and executed between the Parent Company and DMCI-HI, the former being the “Assignor” and the latter being the “Assignee”. The Parent Company offered to assign, transfer and convey all of its rights, ownership and interest over its shares in DMCI-PC and DMCI-MC. The said transaction resulted in a gain on sale of investment in the amount of ₱41.38 million. Gain on sale of investments is a result of a related party transaction.

Miscellaneous

Miscellaneous income includes revenue derived from sale of fly ashes, by-product of coal combustion, and from selling excess electricity produced by the parent company to the neighboring communities.

Except as indicated otherwise, all other income are not results of related party transactions.

24. Income Tax

The provision for income tax consists of:

	2012	2011	2010
Current	₱8,733,128	₱1,749,743	₱736,760
Final	15,412,170	21,011,803	8,071,332
Deferred	15,305,487	(44,930,831)	(43,969,623)
	₱39,450,785	(₱22,169,285)	(₱35,161,531)



The reconciliation of the provision for income tax computed at the statutory income tax rate to the provision for income tax shown in the consolidated statements of comprehensive income follows:

	2012	2011	2010
Statutory income tax rate	30.00%	30.00%	30.00%
Adjustments for:			
Nondeductible expense	0.03	0.16	0.25
Nondeductible interest expense	0.08	0.19	0.11
Unrecognized deferred tax assets	0.52	0.26	0.30
Interest income already subjected to final tax at a lower rate - net of nondeductible interest expense	(0.14)	(0.29)	(0.11)
Tax-exempt income	(29.97)	(30.68)	(31.14)
Equity in net earnings	-	-	(0.59)
Gain on divestment	-	-	(0.32)
Derecognized deferred tax assets	0.10	-	0.60
Effective income tax rate	0.62%	(0.36%)	(0.90%)

The components of deferred tax assets and liabilities as of December 31, 2012 and 2011 are as follows:

	2012	2011
Deferred tax assets on:		
<i>SCPC</i>		
Amortization of loan discount	P-	₱6,724,647
Unrealized foreign exchange loss	-	3,439,317
Provision for decommissioning and site rehabilitation	1,518,675	1,177,374
	1,518,675	11,341,338
<i>SLPGC</i>		
Organizational costs	-	6,060,168
NOLCO	-	7,500
	-	6,067,668
<i>SCI</i>		
NOLCO	19,363	-
	₱1,538,038	₱17,409,006
Deferred tax liabilities on:		
<i>Parent Company</i>		
Incremental cost of property, plant and equipment	P-	₱565,481
	P-	₱565,481

In 2012 and 2011, the Group has the following deductible temporary differences that are available for offset against future taxable income or tax payable for which deferred tax assets has not been recognized:

	2012	2011
Allowance for doubtful accounts	₱118,700,123	₱68,891,290
Allowance for impairment loss	87,525,052	40,374,335
Allowance for inventory write down	53,286,925	53,286,925
(Forward)		



	2012	2011
Provision for decommissioning and site rehabilitation	₱51,738,030	₱39,788,796
Unrealized foreign exchange loss	-	26,475,064
NOLCO	23,920,970	30,000
Pension costs	29,738,312	25,156,349
Organizational costs	20,170	20,170
	₱364,929,582	₱254,022,929

The breakdown of the Group's NOLCO as of December 31, 2012 follows:

Year incurred	Amount	Utilized	Balance	Year of Expiration
2012	₱23,890,970	₱-	₱23,890,970	2015
2011	30,000	-	30,000	2014
	₱23,920,970	₱-	₱23,920,970	

Board of Investments (BOI) Incentives

The Parent Company

On September 26, 2008, BOI issued in favor of the Parent Company a Certificate of Registration as an Expanding Producer of Coal in accordance with the provisions of the Omnibus Investments Code of 1987. Pursuant thereto, the Parent Company shall be entitled to the following incentives, among others:

- a. ITH for six (6) years from September 2008 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration. For purposes of availment of ITH, a base figure of 2,710,091 metric tons (MT) representing the Parent Company's average sales volume for the past three (3) years prior to the expansion shall be used.

The Parent Company shall initially be granted a four (4) year - ITH. The additional two (2) year ITH shall be granted upon submission of completed or on-going projects in compliance with its Corporate Social Responsibility (CSR), which shall be submitted before the lapse of its initial four (4) year - ITH.

- b. Employment of foreign nationals. This may be allowed in supervisory, technical or advisory positions for five (5) years from the date of registration. The president, general manager and treasurer of foreign-owned registered companies or their equivalent shall not be subject to the foregoing limitations.

Date of filing: Application shall be filed with the BOI Incentives Department before assumption to duty of newly hired foreign nationals and at least one (1) month before expiration of existing employment for renewal of visa.

- c. Simplification of Customs procedures for the importation of equipment, spare parts, raw materials and supplies.

On August 19, 2009, BOI granted the Parent Company's request for a reduced base figure from 2,710,091 MT to 1,900,000 MT representing the average sales volume for the past eight (8) years (2000 to 2007) prior to registration with BOI.



The Parent Company availed of tax incentive in the form of ITH on its income under registered activities amounting to ₱1.47 billion, ₱1.35 billion and ₱1.37 billion in 2012, 2011 and 2010, respectively.

SCPC

On April 19, 2010, SCPC was registered with the BOI as New Operator of the 600-MW Calaca Coal-Fired Power Plant on a Non-Pioneer Status in accordance with the provisions of the Omnibus Investments Code of 1987. Pursuant thereto, SCPC shall be entitled to the following incentives, among others:

- a. SCPC shall enjoy income tax holiday for four (4) years from April 2011 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration. Other incentives with no specific number of years of entitlement maybe enjoyed for a maximum period of ten (10) years from the start of commercial operation and/or date of registration. The ITH incentives shall be limited to the revenue generated from the sales of electricity of the 600 MW Batangas Coal-Fired Power Plant.
- b. For the first five (5) years from the date of registration, SCPC shall be allowed an additional deduction from taxable income of 50% of the wages corresponding to the increment in the number of direct labor for skilled and unskilled workers in the year of availment as against the previous year if the project meets the prescribed ratio of capital equipment to the number of workers set by the BOI of \$10,000 to one worker and provided that this incentive shall not be availed of simultaneously with the ITH.
- c. Employment of foreign nationals. This may be allowed in supervisory, technical or advisory positions for five (5) years from the date of registration. The president, general manager and treasurer of foreign-owned registered companies or their equivalent shall not be subject to the foregoing limitations.
- d. Importation of consigned equipment for a period of ten (10) years from the date of registration, subject to the posting of re-export bond.

On January 7, 2011, BOI approved SCPC's request for an earlier application of the ITH to be effective January 1, 2010.

SCPC availed of tax incentive in the form of ITH on its income under registered activities amounting to ₱2.56 billion and ₱1.87 billion in 2012 and 2011, respectively.

SLPGC

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

- a. ITH for four (4) years from January 2015 or actual start of commercial operations, whichever is earlier but in no case earlier than the date of registration;
- b. For the first five (5) years from date of registration, the enterprise shall be allowed an additional deduction from taxable income of fifty percent (50%) of the wages corresponding to the increment in number of direct labor for skilled and unskilled workers in the year of



availments as against the previous year if the project meets the prescribed ratio of capital equipment to the number of workers set by the Board and provided that this incentive shall not be availed of simultaneously with the ITH;

- c. Importation of consigned equipment for a period of ten (10) years from date of registration, subject to posting of re-export bond.
- d. Employment of foreign nationals. This may be allowed in supervisory, technical or advisory positions for five (5) years from date of registration;
- e. Simplification of customs procedures for the importation of equipment, spare parts, raw materials and supplies.

25. Basic/Diluted Earnings Per Share

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

	2012	2011	2010
Net income	₱6,358,281,885	₱6,031,136,575	₱3,952,708,257
Divided by the weighted average number of common shares outstanding	356,250,000	356,250,000	326,684,867
Basic/diluted earnings per share	₱17.85	₱16.93	₱12.10

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

26. Coal Operating Contract with DOE

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

On June 8, 1983, the Ministry of Energy (now DOE), issued a new COC to the Parent Company, incorporating the foregoing assignment and amendments. The COC gives the Parent Company the exclusive right to conduct exploration, development and coal mining operations on Semirara Island until July 13, 2012. On May 13, 2008, the DOE granted the Parent Company's request for an extension of its COC for another 15-year or until July 14, 2027.

On November 12, 2009, the COC was amended further, expanding its contract area to include portions of Caluya and Sibay islands, Antique, covering an additional area of 5,500 hectares and 300 hectares, respectively.



In return for the mining rights granted to the Parent Company, the Government is entitled to receive annual royalty payments consisting of the balance of the gross income after deducting operating expenses, operator's fee and special allowance. The Parent Company's provision for DOE's share (including accrued interest computed at 14% per annum on outstanding balance) under this contract and to the different LGU in the province of Antique, under the provisions of the Local Government Code of 1991, amounted to ₱1.56 billion, ₱1.48 billion and ₱1.31 billion in 2012, 2011 and 2010, respectively, included under "Operating expenses" in the consolidated statements of comprehensive income (see Note 20). The liabilities, amounting to ₱1.01 billion and ₱0.91 billion as of December 31, 2012 and 2011 are included under the "Trade and other payables" account in the consolidated statements of financial position (see Note 13).

The DOE, through the Energy Resources Development Bureau, approved the exclusion of coal produced and used solely by the Parent Company to feed its power plant in determining the amount due to DOE.

27. Contingencies and Commitments

Operating lease commitment - as a lessee

As discussed in Note 33, SCPC entered into a LLA with PSALM for the lease of land with which the plant is situated, for the period of 25 years, renewable for another 25 years with the mutual agreement of both parties. SCPC paid US\$3.19 million or its peso equivalent ₱150.57 million as advance rental for the 25 year land lease.

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

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

In the event that the lessor issues an OEN and SCPC buy the option assets in consideration for the grant of the option, the land purchase price should be equivalent to the highest of the following and or amounts: (i) assessment of the Provincial Assessors of Batangas Province; (ii) the assessment of the Municipal or City Assessor having jurisdiction over the particular portion of the leased premises; (iii) the zonal valuation of Bureau of Internal Revenue or, (iv) \$21.00 per square meter. Valuation basis for 1 to 3 shall be based on the receipt of PSALM of the option to exercise notice. The exchange rate to be used should be the Philippine Dealing Exchange rate at the date of receipt of PSALM of the option to exercise notice.

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



On April 28, 2011, SCPC sent a letter to PSALM requesting for the assignment of the option to purchase a lot with an area of 82,740 sqm in favor of the Parent Company. On May 5, 2011, PSALM approved the assignment. On June 1, 2011, the Parent Company and SCPC exercised the land lease option at a purchase price of ₱376.61 million and is included as part of "Property, plant and equipment" (see Note 8).

Transition supply contracts

The APA included a number of Transition Supply Contracts (TSC) to distribution utilities and large load customers located in close proximity to the Purchased Assets. The volume of energy demand for each of the customers is reflected in their respective TSC. The electricity pricing in the said TSC is tied to the NPC's Luzon Time of Use (TOU) rate approved by the Energy Regulatory Commission (ERC) which is adjustable by changes in foreign exchange and fuel cost. The said tariff, even if adjustable, is subject to ERC's approval before the same could be implemented. Assignment of Sun Power Corporation's TSC was not accepted by the Group at the closing date due to anticipated loss once accepted. Assigned TSC were renewed on various dates in 2010, except for High Street Corporation.

Provision for probable legal claims

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

The information usually required by PAS 37, *Provision, Contingent Liabilities and Contingent Assets* is not disclosed as it will prejudice the outcome of the lawsuits and claims.

28. Financial Risk Management Objectives and Policies

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

The Group's financial liabilities comprise trade and other payables, short-term loans and long-term debt. The main purpose of these financial liabilities is to raise finance for the Group's operations.

The main risks arising from the Group's financial instruments are price risk, interest rate risk, liquidity risk, foreign currency risk and credit risk. The BOD reviews and approves policies for managing each of these risks which are summarized below.

The sensitivity analyses have been prepared on the following basis:

- Price risk - movement in one-year historical coal prices
- Interest rate risk - market interest rate on unsecured bank 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, 2012 and 2011.



Price risk

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

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

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

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

The excess volumes are allocated to spot sales which may command different price than those contracted already since the latter shall follow pricing formula per contract. Nevertheless, on certain cases temporary adjustments on coal prices with reference to customers following a certain pricing formula are requested in order to recover at least the cost of coal if the resulting price is abnormally low vis-à-vis cost of production (i.e. abnormal rise in cost of fuel, foreign exchange).

Below are the details of the Group's coal sales to the domestic market (excluding those to the power-generating companies) and to the export market:

	2012	2011
Domestic market	35.07%	41.14%
Export market	44.17	37.27

as a percentage of total coal sales volume



The following table shows the effect on income before income tax should the change in the prices of coal occur based on the inventory of the Group as of December 31, 2012 and 2011 with all other variables held constant. The change in coal prices is based on 1-year historical price movements.

<i>Based on ending coal inventory</i>	Effect on income before income tax	
	2012	2011
<u>Change in coal price</u>		
Increase by 30%	₱1,053,008,837	₱915,762,074
Decrease by 30%	(1,053,008,837)	(915,762,074)

<i>Based on coal sales volume</i>	Effect on income before income tax	
	2012	2011
<u>Change in coal price</u>		
Increase by 30%	₱4,335,046,600	₱6,019,117,161
Decrease by 30%	(4,335,046,600)	(6,019,117,161)

Interest rate risk

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



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

	Interest	2012					Carrying Value
		Within 1 year	1-2 years	2-3 years (in Thousands)	3-4 years	More than 4 years	
Cash in banks and cash equivalents	1.25% to 4.62%	₱520,353,153	₱	₱	₱	₱	₱520,353,153
Foreign long-term debt at floating rate							
\$23.08 million loan (USD)	1.32-1.95% p.a. payable semi-annually, to be repriced every 3 months	631,604	315,938	-	-	-	947,542
\$5.62 million loan (USD)	1.80% p.a. for 92 days, to be repriced every 30 to 180 days	-	230,404	-	-	-	230,404
\$62.29 million loan (USD)	1.16-1.61% p.a., to be repriced every 3 months	1,996,833	560,028	-	-	-	2,556,861
\$25.34 million loan (USD)	1.03%-1.10% payable in 3-4 months, principal to be paid at maturity	1,040,276	-	-	-	-	1,040,276
Mortgage payable at floating rate	PDST-F benchmark yield for three-month treasury securities + 1.00%	-	-	20,229	81,118	446,147	547,494
	PDST-F benchmark yield for 3-month treasury securities +1.75%	1,514,248	1,519,639	1,525,049	1,530,478	767,281	6,856,695
		₱5,182,961	₱2,626,009	₱1,545,278	₱1,611,596	₱1,213,428	₱12,179,272



2011

	Interest	Within 1 year	1-2 years	(In Thousands)			More than 4 years	Carrying Value
				2-3 years	3-4 years	4 years		
Cash in banks and cash equivalents	1.80% to 4.62%	₱4,989,794,059	₱-	₱-	₱-	₱-	₱4,989,794,059	
Foreign long-term debt at floating rate								
\$3.20 million loan (USD)	1.59%-2.88% payable in arrears, to be repriced every 90 days	140,288	-	-	-	-	140,288	
\$29.96 million loan (USD)	1.94% p.a. payable semi-annually in arrears, to be repriced every 6 months	639,057	674,531	-	-	-	1,313,588	
\$15.70 million loan (USD)	1.80% p.a. for 92 days, to be repriced every 30 to 180 days	442,382	246,064	-	-	-	688,446	
\$23.45 million loan (USD)	1.82% p.a., to be repriced every 3 months	240,239	788,014	-	-	-	1,028,253	
\$21.11 million loan (USD)	1.03%-1.10% payable in 3-4 months, principal to be paid at maturity	-	925,663	-	-	-	925,663	
Mortgage payable at floating rate	PDST-F benchmark yield for 3-month treasury securities +1.75%	1,508,877	1,351,952	1,519,639	1,525,050	2,460,055	8,365,573	
		₱2,970,843	₱3,986,224	₱1,519,639	₱1,525,050	₱2,460,055	₱12,461,811	



The following table demonstrates the sensitivity of the Group's profit before tax to a reasonably possible change in interest rates on December 31, 2012 and 2011, with all variables held constant, through the impact on floating rate borrowings.

Basis points (in thousands)	Effect on Profit Before Tax	
	2012	2011
+100	(¥121,793)	(¥124,681)
-100	121,793	124,681

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

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

Liquidity risk

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

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

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

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



The tables below summarize the maturity profile of the Group's financial assets and liabilities as of December 31, 2012 and 2011 based on undiscounted contractual payments.

	2012					Total
	Less than 6 months	6-12 months	1-2 years	2-3 years	More than 3 years	
Assets						
Cash in banks and cash equivalents	₱520,353,153					₱520,353,153
Receivables:						
Trade:						
Electricity sales	1,958,879,846	186,082,876	-	-	-	2,144,962,722
Local coal sales	628,204,117	-	-	-	-	628,204,117
Export coal sales	620,710,340	-	-	-	-	620,710,340
Related parties	90,003,952	-	-	-	-	90,003,952
Others*	88,601,063	-	-	-	-	88,601,063
Environmental guarantee fund	-	-	-	-	1,500,000	1,500,000
Investment in sinking fund	-	-	-	-	508,041,189	508,041,189
	3,906,752,471	186,082,876	-	-	509,541,189	4,602,376,536
Liabilities						
Trade and other payables:						
Trade:						
Payable to suppliers and contractors	4,417,579,065	-	-	-	-	4,417,579,065
Related parties	709,496,525	-	-	-	-	709,496,525
Accrued expenses and other payables**	117,958,114	-	-	-	-	117,958,114
Short-term loans	175,646,271	-	-	-	-	175,646,271
Long-term debt at floating rate						
\$23.08 million loan (USD) with interest payable in arrears	636,767,242	2,625,023	321,103,675	-	-	960,495,940
\$5.62 million loan (USD) with interest payable in arrears	2,073,640	2,073,640	234,551,693	-	-	238,698,973
\$62.29 million loan (USD) with interest payable in arrears	2,010,660,683	3,878,195	567,784,482	-	-	2,582,323,360
\$25.34 million loan (USD) with interest payable in arrears	628,401,855	419,625,036	-	-	-	1,048,026,891
PDST-F benchmark yield for 3-month treasury securities + 1.00%	10,312,500	10,312,500	20,625,000	40,095,451	547,037,563	628,383,014
PDST-F benchmark yield for 3-month treasury securities + 1.75%	798,914,863	781,961,760	1,572,611,105	1,551,380,339	2,324,212,112	7,029,080,179
	9,507,810,758	1,220,476,154	2,716,675,955	1,591,475,790	2,871,249,675	17,907,688,332
	(₱5,601,058,287)	(₱1,034,393,278)	(₱2,716,675,955)	(₱1,591,475,790)	(₱2,361,708,486)	(₱13,305,311,796)

*excludes advances for liquidation

**excludes statutory liabilities



2011

	Less than 6 months	6-12months	1-2 years	2-3 years	More than 3 years	Total
	P-	P-	P-	P-	P-	P-
Assets						
Cash in banks and cash equivalents	₱4,989,794,059					₱4,989,794,059
Receivables:						
Trade:						
Electricity sales	834,041,959	1,105,809,168	-	-	-	1,939,851,127
Local coal sales	942,197,245	8,258,045	-	-	-	950,455,290
Export coal sales	108,413,708	-	-	-	-	108,413,708
Related parties	199,110,601	-	-	-	-	199,110,601
Others*	6,492,192	8,705,081	-	-	-	15,197,273
Environmental guarantee fund	-	-	-	-	1,500,000	1,500,000
Investment in sinking fund	-	-	-	-	490,789,157	490,789,157
	7,080,049,764	1,122,772,294	-	-	492,289,157	8,695,111,215
Liabilities						
Trade and other payables:						
Trade:						
Payable to suppliers and contractors	5,000,363,136	10,796,222	-	-	-	5,011,159,358
Related parties	237,892,719	-	-	-	-	237,892,719
Accrued expenses and other payables**	123,345,743	322,784	-	-	-	123,668,527
Short-term loans	1,010,692,002	-	-	-	-	1,010,692,002
Long-term debt at floating rate						
\$3.20 million loan (USD) with interest payable in arrears	810,163	140,778,239	-	-	-	141,588,402
\$29.96 million loan (USD) with interest payable semi-annually in arrears	7,627,682	649,523,897	675,015,756	-	-	1,332,167,335
\$15.70 million loan (USD) with interest payable in arrears	3,461,409	447,368,880	246,064,056	-	-	696,894,345
\$23.45 million loan (USD) with interest payable in arrears	5,533,275	246,646,131	791,122,589	-	-	1,043,301,995
\$21.11 million loan (USD) with interest payable in arrears, to be repriced every 90 to 180 days	4,985,227	4,985,227	932,309,744	-	-	942,280,198
₱9.60 billion mortgage payable at PDST-F benchmark yield for 3-month treasury securities +1.75%	25,446,333	1,477,732,575	1,568,360,565	1,573,171,948	3,957,134,668	8,601,846,089
	6,420,157,689	2,978,153,955	4,212,872,710	1,573,171,948	3,957,134,668	19,141,490,970
	₱659,892,075	(₱1,855,381,661)	(₱4,212,872,710)	(₱1,573,171,948)	(₱3,464,845,511)	(₱10,446,379,755)

*excludes advances for liquidation

**excludes statutory liabilities



Foreign currency risk

Majority of the Group's revenue are generated in Philippine peso, however, substantially all of capital expenditures are in US\$.

The Group manages this risk by matching receipts and payments in the same currency and monitoring. Approximately, 39.77% and 38.98% of the Group's sales in 2012 and 2011, respectively, were denominated in US\$ whereas approximately 38.65% and 20.38% of debts as of December 31, 2012 and 2011, respectively, were denominated in US\$.

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

	December 31, 2012			December 31, 2011	
	Yen	U.S. Dollar	Peso Equivalent	U.S. Dollar	Peso Equivalent
Assets					
Cash and cash equivalents	¥-	\$129,885	₱5,331,779	\$27,878,828	₱1,222,207,820
Trade receivables	-	23,010,025	944,561,526	2,472,940	108,413,689
Liabilities					
Trade payables	(44,264,786)	(7,745,053)	(339,123,523)	(1,023,013)	(44,848,890)
Short-term loans	-	(4,278,837)	(175,646,271)	(23,054,106)	(1,010,692,007)
Long-term debt (including current portion)	-	(116,323,594)	(4,775,083,533)	(93,436,089)	(4,096,238,142)
Net exposure	(¥44,264,786)	(\$105,207,574)	(₱4,339,960,022)	(\$87,161,440)	(₱3,821,157,530)

The exchange rates used were ₱41.05 to \$1 and ₱0.48 to ¥1 in 2012 and ₱43.84 to \$1 in 2011, respectively.

The following table demonstrates the sensitivity to a reasonably possible change in foreign exchange rates, with all variables held constant, of the Group's income before tax (due to changes in the fair value of monetary assets and liabilities) on December 31, 2012 and 2011.

Reasonably possible change in the Philippine peso-US dollar exchange rate	Increase (decrease) in profit before tax	
	2012	2011
₱2	(₱210,415,148)	(₱174,322,880)
(₱2)	210,415,148	174,322,880

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 ₱391.00 million net foreign exchange gain, ₱38.32 million net foreign exchange loss and ₱199.49 million net foreign exchange gain for the years ended December 31, 2012, 2011 and 2010, 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 bad debts is not significant. The Group generally bills 80% of coal delivered payable within 30 days upon receipt of billing and the remaining 20% payable within 15 days after receipt of final billing based on final analysis of coal delivered. The Group's exposure to credit risk from trade receivables arise from the default of the counterparty with a maximum exposure equal to their carrying amounts.

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

The credit risk is concentrated to the following markets:

	2012	2011
Trade receivables:		
Electricity sales	61.37%	62.48%
Local sales	8.50	30.61
Related parties	2.03	6.41
Others	28.10	0.50
	100.00%	100.00%

As of December 31, 2012 and 2011, the credit quality per class of financial assets is as follows:

	2012					Total
	Neither Past Due nor Impaired		Substandard Grade	Past due and/or Individually Impaired		
	Grade A	Grade B				
Cash in banks and cash equivalents	₱520,353,153	₱-	₱-	₱-	₱520,353,153	
Receivables:						
Trade:						
Electricity sales	1,156,945,465	988,017,257	-	112,884,763	2,257,847,485	
Local coal sales	132,618,106	229,925,118	-	265,660,893	628,204,117	
Export coal sales	620,710,340	-	-	-	620,710,340	
Related parties	-	90,003,952	-	-	90,003,952	
Others	88,601,063	-	-	5,815,359	94,416,422	
Environmental guarantee fund	1,500,000	-	-	-	1,500,000	
Investment in sinking fund	508,041,189	-	-	-	508,041,189	
Total	₱3,028,769,316	₱1,307,946,327	₱-	₱384,361,015	₱4,721,076,658	
	2011					
	Neither Past Due nor Impaired		Substandard Grade	Past due and/or Individually Impaired		Total
	Grade A	Grade B				
Cash in banks and cash equivalents	₱4,989,794,059	₱-	₱-	₱-	₱4,989,794,059	
Receivables:						
Trade:						
Electricity sales	1,560,491,505	379,359,622	-	53,523,802	1,993,374,929	
Local coal sales	839,947,873	91,602,242	-	18,905,175	950,455,290	
Export coal sales	108,413,708	-	-	-	108,413,708	
Related parties	199,110,601	-	-	-	199,110,601	
Others	9,317,074	1,186,119	-	15,944,364	26,447,557	
Environmental guarantee fund	1,500,000	-	-	-	1,500,000	
Investment in sinking fund	490,789,157	-	-	-	490,789,157	
Total	₱8,199,363,977	₱472,147,983	₱-	₱88,373,341	₱8,759,885,301	



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

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

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

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

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

- Electricity and local coal sales - transactions are entered into with reputable and creditworthy companies.
- Export coal sales - covered by irrevocable letter of credit at sight from a reputable bank acceptable to the Group.

As of December 31, 2012 and 2011, the aging analyses of the Group's past due and/or impaired receivables presented per class are as follows:

	2012			
	Past Due but not Impaired		Impaired Financial Assets	Total
	<45 days	45-135 days		
<i>Receivables</i>				
Trade:				
Electricity sales	P-	P-	₱112,884,763	₱112,884,763
Local coal sales	229,925,118	35,735,775	-	265,660,893
Others	-	-	5,815,359	5,815,359
Total	₱229,925,118	₱35,735,775	₱118,700,122	₱384,361,015

	2011			
	Past Due but not Impaired		Impaired Financial Assets	Total
	<45 days	45-135 days		
<i>Receivables</i>				
Trade:				
Electricity sales	P-	P-	₱53,523,802	₱53,523,802
Local coal sales	10,647,130	8,258,045	-	18,905,175
Others	-	576,876	15,367,488	15,944,364
Total	₱10,647,129	₱8,834,921	₱68,891,290	₱88,373,341



Capital management

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

The Group is not subject to externally imposed capital requirements. No changes were made in the objectives, policies and processes from the previous years.

The Group manages its capital using Debt-to-Equity ratio, which is interest-bearing loans divided by equity, and EPS. The following table shows the Group's capital ratios as of December 31, 2012 and 2011.

	2012	2011
Interest-bearing loans	₱12,179,273,676	₱12,461,810,894
Total equity	16,891,821,642	14,808,539,757
Debt-to-Equity ratio	72.10%	84.15%
EPS	₱17.85	₱16.93

The aggressive expansion and investment strategies of the Group resulted to higher Debt-to-Equity ratios in 2012 and 2011. The Debt-to-Equity ratio is carefully matched with the strength of the Group's financial position, such that when a good opportunity presents itself, the Group can afford further leverage.

The following table shows the component of the Group's capital as of December 31, 2012 and 2011:

	2012	2011
Total paid-up capital	₱7,031,777,411	₱7,031,777,411
Retained earnings - unappropriated	9,160,044,231	7,076,762,346
Retained earnings - appropriated	700,000,000	700,000,000
	₱16,891,821,642	₱14,808,539,757

29. Fair Values

Fair Value Information

Cash and cash equivalents, receivables, environmental guarantee fund, investment in sinking fund, trade payables, accrued expenses and other payables, and short term loans carrying amounts approximate fair value due to the relatively short-term nature of the transactions.

Long-term debt

The carrying values approximated the fair value because of recent and regular repricing of interest rates (e.g. monthly, quarterly, semi-annual or annual basis) based on current market conditions. As of December 31, 2012 and 2011, interest rate ranges from 1.03% to 4.00% and 1.01% to 4.00%, respectively.



Fair Value Hierarchy

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

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

As of December 31, 2012 and 2011, the Group does not have financial instruments measured at fair value.

30. Lease Commitments

Equipment Rental Agreement

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

As of December 31, 2011, the Agreement with the Lessor is terminated and security deposits amounting to ₱304.40 million was refunded to the Group.

LLA

As discussed in Notes 8, 27 and 33, SCPC entered into a LLA with PSALM for the lease of land in which the plant is situated, for a period of 25 years, renewable for another 25 years with the mutual agreement of both parties. The Group paid US\$3.19 million or its peso equivalent of ₱150.57 million as payment for the 25 years of rental.

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

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

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



31. Notes to Consolidated Statements of Cash Flow

Supplemental disclosure of noncash investing and financing activities follows:

	2012	2011	2010
Transfers from inventory to property, plant and equipment	₱223,519,372	₱1,607,455,720	₱529,047,775
Adjustments to provision for decommissioning and site rehabilitation	5,265,923	-	-
Increase in property, plant and equipment and liabilities arising from adjustments relating to decommissioning	275,903,977	226,731,248	-
Conversion of deposit on future stock subscriptions to common shares	-	-	5,402,125,985
Acquisition of conventional and other mining equipment on account (Notes 12 and 13)	-	-	759,899,010

As of December 31, 2012 and 2011, total cost incurred in the rehabilitation of the power plant and other facilities under construction amounted to ₱0.22 billion and ₱1.61 billion, respectively. These were initially recognized as part of the inventories and were capitalized in the "Construction in progress" account upon issuance (see Note 8).

32. Operating Segments

Segment Information

For management purposes, the Group is organized into business units based on their products and activities. Reportable operating segments are as follows:

- Mining - engaged in surface open cut mining of thermal coal;
- Power - involved in generation of energy available for sale thru electricity markets and trading; and
- Others - other investing activities.

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

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

	2012 (In thousands)				Consolidated
	Mining	Power	Others	Adjustments and Eliminations	
Revenue					
Sales to external customers	₱14,450,155	₱9,700,092	₱-	₱-	₱24,150,247
Inter-segment sales	3,176,475	-	-	(3,176,475)	-
	17,626,630	9,700,092	-	(3,176,475)	24,150,247
Cost of sales	(10,333,544)	(4,133,245)	-	2,825,804	(11,640,985)
Depreciation and amortization	(1,995,919)	(1,420,440)	-	413,403	(3,002,956)

(Forward)



2012 (In thousands)					
	Mining	Power	Others	Adjustments and Eliminations	Consolidated
Gross profit	₱5,297,167	₱4,146,407	₱-	₱62,732	₱9,506,306
Operating expenses	(1,977,819)	(1,036,854)	(102)	1,961	(3,012,814)
Loss on property, plant and equipment writedown	-	(341,162)	-	-	(341,162)
Depreciation	(23,097)	(21,814)	-	-	(44,911)
Operating profit	3,296,251	2,746,577	(102)	64,693	6,107,419
Other income	1,687,185	131,264	-	(1,500,000)	318,449
Finance income	13,115	68,948	82	-	82,145
Foreign exchange gain	387,832	3,168	-	-	391,000
Finance costs	(122,607)	(378,673)	-	-	(501,280)
Provision for income tax	(11,451)	(28,003)	3	-	(39,451)
Net income	₱5,250,325	₱2,543,281	(₱17)	(₱1,435,307)	₱6,358,282
Segment assets	₱12,196,117	₱24,856,536	₱5,065	(₱873,134)	₱36,184,584
Deferred tax assets	-	1,519	19	-	1,538
	₱12,196,117	₱24,858,055	₱5,084	(₱873,134)	₱36,186,122
Segment liabilities	₱5,012,467	₱2,909,635	₱152	(₱807,230)	₱7,115,024
Long-term debt	4,775,084	7,404,190	-	-	12,179,274
Deferred tax liability	-	-	-	-	-
	₱9,787,551	₱10,313,825	₱152	(₱807,230)	₱19,294,298
Cash flows arising from:					
Operating activities	₱3,211,298	₱3,731,637	₱65	(₱219,828)	₱6,723,172
Investing activities	(2,683,238)	(4,567,013)	-	(1,167,665)	(6,082,586)
Financing activities	(₱3,798,041)	(₱296,185)	₱2,500	(₱956,635)	(₱5,048,361)
Other disclosures					
Capital expenditures	₱1,844,524	₱517,892	₱2,791,688	₱-	₱5,154,104

2011 (In thousands)					
	Mining	Power	Others	Adjustments and Eliminations	Consolidated
Revenue					
Sales to external customers	₱16,201,880	₱9,611,704	₱-	₱-	₱25,813,584
Inter-segment sales	3,861,843	-	-	(3,861,843)	-
	20,063,723	9,611,704	-	(3,861,843)	25,813,584
Cost of sales	(12,083,577)	(5,269,515)	-	3,327,506	(14,025,586)
Depreciation and amortization	(1,923,329)	(1,127,569)	-	415,866	(2,635,032)
Gross profit	6,056,817	3,214,620	-	(118,471)	9,152,966
Operating expenses	(1,817,235)	(1,001,658)	(50)	-	(2,818,943)
Depreciation	(20,667)	(17,564)	-	-	(38,231)
Operating profit	4,218,915	2,195,398	(50)	(118,471)	6,295,792
Other income	1,299,905	-	-	(1,200,000)	99,905
Finance income	79,448	55,429	-	-	134,877
Foreign exchange gain	(26,011)	(12,307)	-	-	(38,318)
Finance costs	(104,932)	(378,356)	-	-	(483,288)
Provision for income tax	16,428	5,741	-	-	22,169
Net income	₱5,483,753	₱1,865,905	(₱50)	(₱1,318,471)	₱6,031,137
Segment assets	₱22,193,762	₱23,151,248	₱2,500	(₱9,736,701)	₱35,610,809
Deferred tax assets	-	17,409	-	-	17,409
	₱22,193,762	₱23,171,157	₱2,500	(₱9,736,701)	₱35,628,219
Segment liabilities	₱5,316,671	₱3,826,400	₱50	(₱833,401)	₱8,309,720
Long-term debt	4,140,133	8,369,261	-	-	12,509,394
Deferred tax liability	565	-	-	-	565
	₱9,457,369	₱12,195,661	₱50	(₱833,401)	₱20,819,679

(Forward)



2011 (In thousands)					
	Mining	Power	Others	Adjustments and Eliminations	Consolidated
Cash flow arising from:					
Operating activities	₱ 4,734,221	₱1,918,600	₱-	(₱37,831)	₱6,614,990
Investing activities	(1,673,786)	(465,796)	-	(389,469)	(2,529,051)
Financing activities	(₱2,125,406)	(₱1,206,029)	₱2,500	₱427,299	(₱2,901,636)
Other disclosures					
Capital expenditures	₱2,130,050	₱324,326	₱-	₱-	₱2,454,376

2010 (In thousands)					
	Mining	Power	Other	Adjustments and Eliminations	Consolidated
Revenue					
Sales to external customers	₱14,242,225	₱8,655,623	₱-	₱-	₱22,897,848
Inter-segment sales	2,511,722	2,330	-	(2,514,052)	-
Equity in net earnings (loss) of an associate	89,175	(12,349)	-	-	76,826
	16,843,122	8,645,604	-	(2,514,052)	22,974,674
Cost of sales	(10,949,477)	(4,677,021)	-	2,176,075	(13,450,423)
Depreciation and amortization	(1,782,978)	(1,092,716)	-	336,083	(2,539,611)
Gross profit	4,110,667	2,875,867	-	(1,894)	6,984,640
Operating expenses	(1,725,331)	(967,275)	-	-	(2,692,606)
Depreciation	(13,813)	(14,816)	-	-	(28,629)
Operating profit	2,371,523	1,893,776	-	(1,894)	4,263,405
Other income	65,427	-	-	-	65,427
Finance income	30,021	27,647	-	-	57,668
Foreign exchange gain	235,801	(36,313)	-	-	199,488
Finance costs	(177,807)	(490,634)	-	-	(668,441)
Provision for income tax	4,691	30,471	-	-	35,162
Net income	₱2,529,656	₱1,424,947	₱-	(₱1,894)	₱3,952,709
Segment assets	₱18,779,152	₱20,419,509	₱-	(₱8,703,952)	₱30,494,709
Segment liabilities	₱4,688,519	₱1,423,863	₱-	(₱728,226)	₱5,384,156
Long-term debt	3,247,406	9,495,157	-	-	12,742,563
Deferred tax liability	28,087	-	-	-	28,087
	₱7,964,012	₱10,919,020	₱-	(₱728,226)	₱18,154,806
Cash flows arising from:					
Operating activities	₱5,684,235	₱995,583	₱-	₱45,199	₱6,725,016
Investing activities	(3,405,529)	(10,338,626)	-	798,215	(12,945,939)
Financing activities	₱67,573	₱10,330,006	₱-	(₱847,174)	₱9,550,405
Other disclosures					
Capital expenditures	₱3,291,597	₱16,152	₱-	₱-	₱3,307,749

1. Inter-segment revenues, other income, cost and expenses are eliminated in the consolidation.
2. Segment assets exclude deferred tax assets amounting to ₱1.54 million, ₱17.41 million and nil in 2012, 2011 and 2010, respectively.
3. Segment liabilities exclude deferred tax liabilities amounting to nil, ₱0.57 million and ₱28.09 million in 2012, 2011 and 2010, respectively. Long term bank loans are no longer included as these are managed on a group basis.
4. Significant non-cash items charged to profit or loss include loss on property, plant and equipment writedown and depreciation and amortization.
5. Capital expenditures consist of additions of property, plant and equipment including assets from the acquisition of business.
6. All non-current assets other than financial instruments are located in the Philippines.

Total coal sold to Toledo Power Company, Cebu Energy Development Corporation and Panay Energy Development Corporation (entities under common control of Global Business Power Corporation) amounted to ₱2.87 billion, ₱4.68 billion and ₱1.80 billion in 2012, 2011 and 2010, respectively.



Total power energy sold to MERALCO amounted to ₱6.14 billion, ₱5.18 billion, and ₱4.57 billion in 2012, 2011 and 2010, respectively.

Geographic Information

Revenues from external customers

The financial information about the operation of the Group as of December 31, 2012, 2011 and 2010 reviewed by the management follows:

	2012	2011	2010
Revenue:			
Local coal sales	₱7,440,134,295	₱9,041,167,716	₱5,315,636,853
Export coal sales	7,010,021,039	7,160,712,695	8,926,587,776
	₱14,450,155,334	₱16,201,880,411	₱14,242,224,629

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

Customers on the export sales are significantly from China.

Coal sales to SCPC amounted to ₱3.18 billion, ₱3.86 billion and ₱2.51 billion for the years ended December 31, 2012, 2011 and 2010, respectively.

33. Business Combination

On July 8, 2009, PSALM selected DMCI-HI as the winning bidder for the sale of the 600-MW Batangas Coal-Fired Power Plant (the Power Plant) located in San Rafael Calaca, Batangas.

Pursuant to the provision of the Asset Purchase Agreement (APA), PSALM, agreed to sell and transfer to DMCI-HI the Power Plant on an "as is where is" basis. The agreed Purchase Price amounting to \$368.87 million was for the acquisition of 2 x 300-MW Batangas Coal-Fired Power Plant from PSALM as of December 2, 2009.

In an Amendment, Accession and Assumption Agreement dated December 2, 2009, DMCI-HI assigned all of its rights and obligations under the APA and the LLA to SCPC. PSALM consented to the said assignment. Closing under the APA was achieved on December 2, 2009, upon which control, possession, risk of loss or damage of and the obligation to operate the Purchased Assets, and the rights to its revenues were turned over to SCPC. However, legal title to the Purchased Assets will transfer to SCPC only upon full payment of the purchase price. As the assignee in the APA and LLA, the SCPC acquired the rights and obligations enumerated in the APA and LLA for a consideration amounting to ₱54.34 million.

On December 2, 2009, the total cash payments made to PSALM are broken down as follow:

- a. ₱6.62 billion in peso equivalent using the exchange rate of ₱47.12 representing 40% down payment for US\$351.0 million purchase price of the Power Plant; and
- b. ₱0.49 billion in peso equivalent using the exchange rate of ₱47.20 representing payment for US\$10.39 million advance rental payment for the 25-year lease of the premises underlying the Power Plant and for purchase orders for parts and services for the Power Plant.



Below are the significant provisions of the APA:

- a. All liabilities, obligations, taxes, fees, fines or penalties pertaining to the Power Plant and operating contracts accruing or incurred prior to closing date, regardless of the date when the demand for payment or assessment is made, shall be for the account of PSALM.
- b. SCPC must hire as contractual employees all of the separated NPC employees for a period of five (5) months.
- c. During the deferred payment period, SCPC shall at the end of each fiscal year, maintain a debt service ratio of at least 1.1:1.0 and debt-equity ratio not exceeding 2.5:1.0.
- d. Should there be (i) Semirara coal; (ii) diesel fuel and (iii) bunker fuel on site on closing date, SCPC shall pay PSALM the value of those based on the price paid by NPC for the same.

As embedded in the APA, DMCI-HI will also enter into a LLA with PSALM for the lease of land in which the Power Plant is situated, for the period of 25 years, renewable for another period of 25 years, upon mutual agreement of both Parties (see Note 30).

Other provision of the Agreement includes:

- a. DMCI-HI undertakes that it shall own at least 57% of the voting capital of the Parent Company; and
- b. SCPC shall be a wholly owned subsidiary of the Parent Company.

A breach of any of the above shall constitute a breach by DMCI-HI of the APA.

Relative to the assignment of the APA and LLA by DMCI-HI to SCPC, total consideration recognized by SCPC as due to DMCI-HI amounted to ₱54.34 million.

In a letter dated December 18, 2009, PSALM claims an additional amount of ₱9.55 million representing the difference between the US\$ to Peso exchange rate used for the 40% down-payment of the purchase price, ₱47.13, versus the ₱47.20 US\$ to Peso exchange rate PSALM alleges to be in accordance with the APA. The assessed amount was accrued in 2009 as additional acquisition cost allocated to Property, plant and equipment. Subsequently, the amount was paid by the Group in February 8, 2010.

The principal amount of the Deferred Payment is equivalent to 60% of the purchase price for the Power Plant. The Deferred Payment will be paid to PSALM via 14 equal semi-annual payments beginning June 2, 2010 with an interest rate of 11% per annum, compounded semi-annually. Under the APA, upon prior written notice to PSALM, and on the condition that SCPC is not in breach of any of its substantial obligations to PSALM under the APA and LLA, SCPC may prepay any portion of the Deferred Balance in Philippine Pesos (see Note 12).

Under a Memorandum of Agreement dated December 2, 2009 between PSALM and SCPC, the amounts of ₱288.39 million representing parts identified as required to achieve 350-MW capability of the Power Plant and ₱247.55 million as unawarded purchase orders will be deducted from the principal amount of the Deferred Balance.



The fair value of the identifiable assets and liabilities as at the date of acquisition were (amounts in thousands):

	Fair value recognized on acquisition (Restated)
Property, plant and equipment	₱16,211,370
Materials and supplies	618,340
Coal	273,936
Prepaid rent	150,568
Fuel and diesel	86,705
Net assets acquired	17,340,919
Negative goodwill arising on acquisition	(15,667)
Total cost	₱17,325,252

Total consideration transferred relating to the acquisition follows (amounts in thousands):

Cash consideration	₱7,104,375
Payable to PSALM	9,770,448
Transaction cost	450,429
Total cost	₱17,325,252

The net assets recognized in the consolidated financial statements as of December 31, 2009 were based on a provisional assessment of fair value as the Group had sought an independent valuation for the property, plant and equipment. The results of this valuation had not been received at the date the 2009 consolidated financial statements were approved for issue by management.

The valuation of the property, plant and equipment and materials and supplies was completed in April 2010 and showed that the fair value at the date of acquisition was ₱16.21 billion, an increase of ₱514.34 million compared with the provisional value.

The 2009 comparative information has been restated to reflect this adjustment. There was recognition of negative goodwill arising on the acquisition of ₱15.67 million. The decreased depreciation charge on the buildings from the acquisition date to December 31, 2009 was ₱20.76 million.

34. Other Matters

a. Electric Power Industry Reform Act (EPIRA)

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



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

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

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

WESM

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

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

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

b. Power Supply Agreement with MERALCO

On December 20, 2011, SCPC entered into a new power supply agreement with MERALCO, a distributor of electric power, which took effect in December 26, 2011 and shall have a term of seven (7) years, which may be extended by the parties for another three (3) years.

SCPC will be providing MERALCO with an initial contracted capacity of 210 MW and will be increased to 420 MW upon the commercial operation of the plant's Unit 1.



c. Clean Air Act

On November 25, 2000, the Implementing Rules and Regulations (IRR) of the Philippine Clean Air Act (PCAA) took effect. The IRR contains provisions that have an impact on the industry as a whole and on SCPC in particular, that need to be complied with within 44 months (or until July 2004) from the effectivity date, subject to the approval by DENR. The power plant of SCPC uses thermal coal and uses a facility to test and monitor gas emissions to conform with Ambient and Source Emissions Standards and other provisions of the Clean Air Act and its IRR. Based on SCPC's initial assessment of its power plant's existing facilities, SCPC believes that it is in full compliance with the applicable provisions of the IRR of the PCAA as of December 31, 2012.

d. Contract for the Fly Ash of the Power Plant

On October 20, 1987, NPC and Pozzolanic Australia Pty, Ltd. ("Pozzolanic") executed the Contract for the Purchase of Fly Ash of the Power Plant (the "Pozzolanic Contract"). Under the Pozzolanic Contract, Pozzolanic was given the right to sell, store, process, remove or otherwise dispose of all fly ash produced at the first unit of the Power Plant. It was also granted the first option to purchase fly ash, under similar terms and conditions, from the second unit of the Power Plant that NPC may construct. It may also exercise the exclusive right of first refusal to purchase fly ash from any new coal-fired power plants which will be put up by NPC.

The Pozzolanic Contract is effective for a period of five consecutive five-year terms from its signing, or a period of 25 years from October 20, 1987 or until 2012, subject to cancellation by NPC upon default or any breach of contract by Pozzolanic. At the end of each five-year term, the parties will agree to assess and evaluate the Pozzolanic Contract, and if necessary, revise, alter, modify the same upon their mutual consent.

The Government has determined the provision of the Pozzolanic Contract which grants Pozzolanic the exclusive right of first refusal to purchase fly ash from the second unit of the Power Plant and from any coal-fired power plant put up by NPC after the execution of the Pozzolanic Contract as invalid. This is the subject of a case filed by Pozzolanic and pending before the regional trial court of Quezon City as of December 31, 2012.

e. Provision for billing disputes

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

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



SCPC has likewise sought to recover interest on the withheld MERALCO payments collected by PSALM that is unpaid to SCPC as of due date, to be charged at the rate of 11% computed from the date of the SCPC's extrajudicial demand until full payment by PSALM.

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

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

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

As of December 31, 2012, decision of ERC regarding the case is still pending resolution.

f. MERALCO Power Supply Agreement with Modification

On March 12, 2012, MERALCO filed an application for the Approval of the Power Supply Agreement (PSA) between MERALCO and SCPC, with a Prayer for Provisional Authority, docketed as ERC Case No. 201-037 RC.

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

On December 17, 2012, the Commission (ERC) issued a Decision approving with modification of the ERC Case No. 201-037 RC.

Subsequently, on February 13, 2013, ERC amends the previously approved resolution, due to the approved rates included two (2) Variable O&M Fee components and was changed accordingly into one Variable O&M fee.

On February 25, 2013, SCPC filed its Formal Offer for Exhibits- Motion for Partial Reconsideration which is still pending with ERC as of the opinion date.



35. Events after Reporting Date

Panian Mine Pit Rockslide Incident

On February 13, 2013, a section of Panian pit west wall, where the Parent Company's coal production is presently concentrated, gave way. The Parent Company has temporarily stopped its mining activities in said area immediately after the incident. Despite the temporary halt in its mining operations at the Panian site, the Parent Company continues to service its supply contracts to its customers using its coal stockpile. Review of the Parent Company's mine safety plan is ongoing, with the assistance of a third party consultant to avoid similar case in the future.

On March 4, 2013, after review of the mine work program for the North Panian area and the additional safety and operational measures incorporated in the preparatory activities by the Parent Company, the Department of Energy (DOE) granted the Parent Company's request to proceed with the preparatory activities for the North area, the next coal mine area after the Western side of the Panian mine, consistent with the original mine plan. Preparatory activities in this area actually started on February 1, 2013 but were suspended after the incident. The DOE will review the safety and operational measures being implemented by the Parent Company before actual coal mining activities commence.

The permit to start preparatory activities granted by DOE for the North Panian area is without prejudice to possible sanctions that may be imposed depending on the results of the ongoing investigation on the west wall rockslide incident.

Approval of Semirara Energy Utilities Inc. Articles of Incorporation and By-Laws

On February 18, 2013, the Securities and Exchange Commission (SEC) has approved the incorporation of Semirara Energy Utilities Inc., a wholly-owned subsidiary of Semirara Mining Corporation.

The new company was incorporated to perform Qualified Third Party (QTP) functions pursuant to Section 59 of Republic Act 9136, otherwise known as the EPIRA and its Implementing Rules & Regulations". DOE-Circular No. 2004-06-006 defines QTP as an alternative electric service provider authorized to serve remote and unviable areas pursuant to Section 59 of the EPIRA law.

Department of Energy (DOE) awards coal exploration contract

DOE awards eight coal companies with service contracts and develops 11 prospective coal blocks, which were auctioned off in 2011 under the Philippine Energy Contracting Round 4.

For the coal service contracts, DOE awards to the Group Areas 9 (Oriental Mindoro) and 25B (Saranggani).

36. Approval of Financial Statements

The consolidated financial statements of Semirara Mining Corporation and its subsidiaries as at December 31, 2012 and 2011 and for each of the three years in the period ended December 31, 2012 were endorsed for approval by the Audit Committee on March 5, 2013 and were authorized for issue by the Executive Committee of the BOD on March 12, 2013.



SEMIRARA MINING CORPORATION AND SUBSIDIARIES

SCHEDULE A: FINANCIAL ASSETS

DECEMBER 31, 2012

Name of issuing entity and association of each issue	Number of shares or principal amount of bonds and notes	Amount shown in the balance sheet	Income received and accrued
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NOT APPLICABLE



SEMIRARA MINING CORPORATION AND SUBSIDIARIES

SCHEDULE B: AMOUNTS RECEIVABLE FROM DIRECTORS, OFFICERS, EMPLOYEES, RELATED PARTIES AND PRINCIPAL STOCKHOLDER (OTHER THAN RELATED PARTIES)

DECEMBER 31, 2012

Name and Designation of debtor	Balance at beginning of period	Additions	Amounts collected	Amounts written off	Current	Not current	Balance at end of period
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NOT APPLICABLE



SEMIRARA MINING CORPORATION AND SUBSIDIARIES

**SCHEDULE C: AMOUNTS RECEIVABLES/PAYABLES FROM/TO RELATED PARTIES WHICH ARE ELIMINATED
DURING THE CONSOLIDATION OF FINANCIAL STATEMENTS
DECEMBER 31, 2012**

Name of Subsidiaries	Balance at beginning of period	Additions	Amounts collected	Amounts written off	Current	Not current	Balance at end of period
Sem-Calaca Power Corporation	₱979,564,956	₱3,183,696,561	₱3,183,696,561	₱-	₱7,346,958,078	₱-	₱754,490,862
SEM - Cal Industrial Park Developers, Inc.	20,220	-	-	-	20,220	-	20,220
Southwest Luzon Power Generation Corp.	-	4,858,655	(4,770,071)	-	88,584	-	88,584
Semirara Claystone, Inc.	-	20,710	-	-	20,710	-	20,710
	₱979,585,176	₱3,188,575,926	₱3,178,926,490	₱-	₱7,347,087,592	₱-	₱754,620,376



SEMIARARA MINING CORPORATION AND SUBSIDIARIES

SCHEDULE D: INTANGIBLE ASSETS

DECEMBER 31, 2012

Description	Beginning balance	Additions at cost	Charged to costs and expenses	Charged to other accounts	Other changes	Ending balance
Software cost	₱5,732,959	₱1,052,066	(₱4,407,258)	₱-	₱-	₱2,377,767

See Note 10 of the Consolidated Financial Statements.



SEMIRARA MINING CORPORATION AND SUBSIDIARIES

SCHEDULE E: LONG TERM DEBT

DECEMBER 31, 2012

title of issue and type of obligation	Amount authorized by indenture	Interest rates	Maturity date	Number of periodic installments	Amount shown under caption "Current portion of long-term debt" in related balance sheet	Amount shown under caption "Long-term debt" in related balance sheet
Mortgage payable	₱9,600,000,000	PDST-F benchmark yield for 3-month treasury securities + 1.75%	May 2017	Payable in twenty-five (25) equal consecutive quarterly installments commencing on May 20, 2011	₱1,514,248,417	₱5,342,447,546
Mortgage payable	550,000,000	PDST-F benchmark yield for three-month treasury securities + 1.00%	May 2022	Payable in twenty-seven (27) equal consecutive quarterly installments commencing on November 24, 2015	—	547,494,161
Bank loans	631,603,879	1.32%, to be repriced every three months	January 2013	Principal to be paid at maturity date	631,603,879	—
Bank loans	19,704,000	1.32%, to be repriced every three months	January 2015	Principal to be paid at maturity date	—	19,704,000
Bank loans	296,234,087	1.32%, to be repriced every three months	January 2015	Principal to be paid at maturity date	—	296,234,087
Bank loans	230,404,414	1.80%, to be repriced every 90 days	July 2014	Principal to be paid at maturity date	—	230,404,413
Bank loans	4,105,000	1.03%, to be repriced every 90 days	August 2013	Principal to be paid at maturity date	4,105,000	—
Bank loans	13,874,900	1.03%, to be repriced every 90 days	August 2013	Principal to be paid at maturity date	13,874,900	—
Bank loans	331,337,972	1.03%, to be repriced every 90 days	August 2013	Principal to be paid at maturity date	331,337,972	—

(Forward)



Title of issue and type of obligation	Amount authorized by indenture	Interest rates	Maturity date	Number of periodic installments	Amount shown under caption "Current portion of long-term debt" in related balance sheet	Amount shown under caption "Long-term debt" in related balance sheet
Bank loans	₱65,885,250	1.03%, to be repriced every 90 days	August 2013	Principal to be paid at maturity date	₱65,885,250	₱—
Bank loans	451,550,000	1.03%, to be repriced every 90 days	August 2013	Principal to be paid at maturity date	451,550,000	—
Bank loans	55,850,131	1.03%, to be repriced every 90 days	August 2013	Principal to be paid at maturity date	55,850,131	—
Bank loans	10,262,500	1.03%, to be repriced every 90 days	June 2013	Principal to be paid at maturity date	10,262,500	—
Bank loans	107,410,708	1.03%, to be repriced every 90 days	June 2013	Principal to be paid at maturity date	107,410,709	—
Bank loans	117,895,600	1.16%, to be repriced quarterly	August 2014	Principal to be paid at maturity date	—	117,895,600
Bank loans	108,027,528	1.16%, to be repriced quarterly	August 2014	Principal to be paid at maturity date	—	108,027,528
Bank loans	133,658,800	1.16%, to be repriced quarterly	July 2014	Principal to be paid at maturity date	—	133,658,800
Bank loans	48,192,700	1.16%, to be repriced quarterly	April 2014	Principal to be paid at maturity date	—	48,192,700
Bank loans	90,351,050	1.16%, to be repriced quarterly	March 2014	Principal to be paid at maturity date	—	90,351,050
Bank loans	16,603,740	1.16%, to be repriced quarterly	March 2014	Principal to be paid at maturity date	—	16,603,740
Bank loans	45,298,675	1.16%, to be repriced quarterly	November 2014	Principal to be paid at maturity date	—	45,298,675
Bank loans	224,950,223	1.16%, to be repriced quarterly	June 2013	Principal to be paid at maturity date	224,950,223	—
Bank loans	21,961,750	1.16%, to be repriced quarterly	January 2013	Principal to be paid at maturity date	21,961,750	—

(Forward)



Title of issue and type of obligation	Amount authorized by indenture	Interest rates	Maturity date	Number of periodic installments	Amount shown under caption "Current portion of long-term debt" in related balance sheet	Amount shown under caption "Long-term debt" in related balance sheet
Bank loans	₱21,961,750	1.16%, to be reprised quarterly	January 2013	Principal to be paid at maturity date	₱21,961,750	₱--
Bank loans	74,623,605	1.16%, to be reprised quarterly	February 2013	Principal to be paid at maturity date	74,623,605	--
Bank loans	176,515,000	1.16%, to be reprised quarterly	March 2013	Principal to be paid at maturity date	176,515,000	--
Bank loans	300,189,414	1.16%, to be repriced quarterly	March 2013	Principal to be paid at maturity date	300,189,414	--
Bank loans	164,574,581	1.16%, to be repriced quarterly	December 2013	Principal to be paid at maturity date	164,574,581	--
Bank loans	489,742,334	1.16%, to be repriced quarterly	June 2013	Principal to be paid at maturity date	489,742,334	--
Bank loans	177,084,035	1.16%, to be repriced quarterly	January 2013	Principal to be paid at maturity date	177,084,035	--
Bank loans	278,536,852	1.16%, to be repriced quarterly	March 2013	Principal to be paid at maturity date	278,536,853	--
Bank loans	88,654,822	1.16%, to be repriced quarterly	June 2013	Principal to be paid at maturity date	88,654,823	--
	₱14,925,083,551				₱5,182,961,376	₱6,996,312,300

See Note 12 of the Consolidated Financial Statements



SEMIRARA MINING CORPORATION AND SUBSIDIARIES

SCHEDULE F: INDEBTEDNESS TO RELATED PARTIES

DECEMBER 31, 2012

Name of related party	Balance at beginning of period	Balance at end of period
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NOT APPLICABLE



SEMIRARA MINING CORPORATION AND SUBSIDIARIES
SCHEDULE G: GUARANTEES OF SECURITIES OF OTHER ISSUERS
DECEMBER 31, 2012

Name of issuing entity of securities guaranteed by the company for which this statements is filed	Title of issue of each class of securities guaranteed	Total amount guaranteed and outstanding	Amount of owned by person for which statement is filed	Nature of guarantee
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NOT APPLICABLE



SEMIRARA MINING CORPORATION AND SUBSIDIARIES

SCHEDULE H: CAPITAL STOCK

DECEMBER 31, 2012

Title of issue	Number of shares authorized	Number of shares issued and outstanding at shown under related balance sheet caption	Number of shares reserved for options, warrants, conversion and other rights	Number of shares held by		
				Related parties	Directors, officers and employees	Others
Common stock - ₱1 par value	1,000,000,000	356,250,000	–	244,254,976	1,745,118	110,249,906

See Note 15 of the Consolidated Financial Statements



SEMIRARA MINING CORPORATION

**SCHEDULE OF ALL EFFECTIVE STANDARDS AND INTERPRETATION
UNDER PHILIPPINE FINANCIAL REPORTING STANDARDS (PFRS) AS OF
DECEMBER 31, 2012:**

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2012		Adopted	Not Adopted	Not Applicable
Framework for the Preparation and Presentation of Financial Statements Conceptual Framework Phase A: Objectives and qualitative characteristics		✓		
PFRSs Practice Statement Management Commentary		✓		
Philippine Financial Reporting Standards				
PFRS 1 (Revised)	First-time Adoption of Philippine Financial Reporting Standards	✓		
	Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate	✓		
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters			✓
	Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters			✓
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters			✓
	Amendments to PFRS 1: Government Loans			✓
PFRS 2	Share-based Payment	✓		
	Amendments to PFRS 2: Vesting Conditions and Cancellations	✓		
	Amendments to PFRS 2: Group Cash- settled Share-based Payment Transactions			✓
PFRS 3 (Revised)	Business Combinations	✓		
PFRS 4	Insurance Contracts	✓		
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts	✓		
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations	✓		
PFRS 6	Exploration for and Evaluation of Mineral Resources	✓		
PFRS 7	Financial Instruments: Disclosures	✓		



PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2012		Adopted	Not Adopted	Not Applicable
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓		
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	✓		
	Amendments to PFRS 7: Disclosures - Transfers of Financial Assets	✓		
	Amendments to PFRS 7: Disclosures – Offsetting Financial Assets and Financial Liabilities		Not early adopted	
	Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures		Not early adopted	
PFRS 8	Operating Segments	✓		
PFRS 9*	Financial Instruments		Not early adopted	
	Amendments to PFRS 9: Mandatory Effective Date of PFRS 9 and Transition Disclosures		Not early adopted	
PFRS 10*	Consolidated Financial Statements		Not early adopted	
PFRS 11*	Joint Arrangements		Not early adopted	
PFRS 12*	Disclosure of Interests in Other Entities		Not early adopted	
PFRS 13*	Fair Value Measurement		Not early adopted	
Philippine Accounting Standards				
PAS 1 (Revised)	Presentation of Financial Statements	✓		
	Amendment to PAS 1: Capital Disclosures	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation	✓		
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income	✓		
PAS 2	Inventories	✓		
PAS 7	Statement of Cash Flows	✓		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
PAS 10	Events after the Reporting Period	✓		
PAS 11	Construction Contracts			✓



PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2012		Adopted	Not Adopted	Not Applicable
PAS 12	Income Taxes	✓		
	Amendment to PAS 12 - Deferred Tax: Recovery of Underlying Assets	✓		
PAS 16	Property, Plant and Equipment	✓		
PAS 17	Leases	✓		
PAS 18	Revenue	✓		
PAS 19	Employee Benefits	✓		
	Amendments to PAS 19: Actuarial Gains and Losses, Group Plans and Disclosures		Not early adopted	
PAS 19 (Amended)*	Employee Benefits	✓		
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance	✓		
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓		
	Amendment: Net Investment in a Foreign Operation	✓		
PAS 23 (Revised)	Borrowing Costs	✓		
PAS 24 (Revised)	Related Party Disclosures	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans			✓
PAS 27	Consolidated and Separate Financial Statements	✓		
PAS 27 (Amended)*	Separate Financial Statements	✓		
PAS 28	Investments in Associates	✓		
PAS 28 (Amended)*	Investments in Associates and Joint Ventures		Not early adopted	
PAS 29	Financial Reporting in Hyperinflationary Economies			✓
PAS 31	Interests in Joint Ventures	✓		
PAS 32	Financial Instruments: Disclosure and Presentation	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation	✓		
	Amendment to PAS 32: Classification of	✓		



PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2012		Adopted	Not Adopted	Not Applicable
	Rights Issues			
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities	Not early adopted		
PAS 33	Earnings per Share	✓		
PAS 34	Interim Financial Reporting	✓		
PAS 36	Impairment of Assets	✓		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		
PAS 38	Intangible Assets	✓		
PAS 39	Financial Instruments: Recognition and Measurement	✓		
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities	✓		
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions	✓		
	Amendments to PAS 39: The Fair Value Option	✓		
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets – Effective Date and Transition	✓		
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives	✓		
	Amendment to PAS 39: Eligible Hedged Items	✓		
PAS 40	Investment Property	✓		
PAS 41	Agriculture			✓
Philippine Interpretations				
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities	✓		
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments			✓
IFRIC 4	<i>Determining Whether an Arrangement Contains a Lease</i>	✓		



PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2012		Adopted	Not Adopted	Not Applicable
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds	✓		
IFRIC 6	<i>Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment</i>	✓		
IFRIC 7	<i>Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies</i>			✓
IFRIC 8	<i>Scope of PFRS 2</i>	✓		
IFRIC 9	Reassessment of Embedded Derivatives	✓		
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives	✓		
IFRIC 10	<i>Interim Financial Reporting and Impairment</i>	✓		
IFRIC 11	PFRS 2- Group and Treasury Share Transactions	✓		
IFRIC 12	Service Concession Arrangements			✓
IFRIC 13	Customer Loyalty Programmes	✓		
IFRIC 14	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	✓		
	Amendments to Philippine Interpretations IFRIC- 14, Prepayments of a Minimum Funding Requirement	✓		
IFRIC 16	Hedges of a Net Investment in a Foreign Operation	✓		
IFRIC 17	Distributions of Non-cash Assets to Owners	✓		
IFRIC 18	Transfers of Assets from Customers	✓		
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	✓		
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine	✓		
SIC-7	Introduction of the Euro			✓
SIC-10	Government Assistance - No Specific Relation to Operating Activities	✓		
SIC-12	Consolidation - Special Purpose Entities	✓		



PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2012		Adopted	Not Adopted	Not Applicable
	Amendment to SIC - 12: Scope of SIC 12	✓		
SIC-13	Jointly Controlled Entities - Non-Monetary Contributions by Venturers	✓		
SIC-15	Operating Leases - Incentives	✓		
SIC-25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders	✓		
SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	✓		
SIC-29	Service Concession Arrangements: Disclosures.			✓
SIC-31	Revenue - Barter Transactions Involving Advertising Services	✓		
SIC-32	Intangible Assets - Web Site Costs	✓		



SEMIRARA MINING CORPORATION
SCHEDULE OF RETAINED EARNINGS AVAILABLE FOR
DIVIDEND DECLARATION
FOR THE YEAR ENDED DECEMBER 31, 2012

Unappropriated Retained Earnings, beginning		₱5,004,615,633
Adjustments		352,703,641
Unappropriated retained earnings, as adjusted to available for dividend distribution, beginning as at December 31, 2011		₱5,357,319,274
Net income actually earned/realized during the period:		
Net income during the period closed to retained earnings	₱5,260,487,082	
Less: Non actual/unrealized income net of tax		
Equity in net income of associate/joint venture		—
Unrealized foreign exchange gain-net (except those attributable to Cash and Cash equivalents)	197,824,336	
Unrealized actuarial gain		—
Fair value adjustment (M2M gains)		—
Fair value adjustment of Investment Property resulting to gain		—
Adjustment due to deviation from PFRS/GAAP-gain		—
Other unrealized gains or adjustments to the retained earnings as a result of certain transactions accounted for under the PFRS	6,686,490	
Add: Non-actual losses		
Depreciation on revaluation increment (after tax)		—
Adjustment due to deviation from PFRS/GAAP-loss		—
Amortization of prepaid insurance	7,668,728	
Accretion of provision for decommissioning and site rehabilitation	8,364,464	
Net taxable pension cost	4,557,749	
Net income actually earned during the period	5,076,567,197	
Add (Less):		
Dividend declarations during the period	(4,275,000,000)	
Appropriations of retained earnings during the period		—
Reversals of appropriations		—
Effects of prior period adjustments		—
Treasury shares		801,567,197
TOTAL RETAINED EARNINGS, END		
AVAILABLE FOR DIVIDEND DECLARATION		₱6,158,886,471

SPAC 4003



SEMIRARA MINING CORPORATION
SCHEDULE OF FINANCIAL SOUNDNESS INDICATORS
FOR THE YEAR ENDED DECEMBER 31, 2012 AND 2011

Financial Soundness Indicators

Below are the financial ratios that are relevant to the Company for the year ended December 31, 2012 and 2011:

<u>Financial ratios</u>		<u>2012</u>	<u>2011</u>
Current ratio	$\frac{\text{Current assets}}{\text{Current liabilities}}$	<u>0.96:1</u>	<u>1.25:1</u>
Quick ratio	$\frac{\text{Current assets less inventories}}{\text{Current liabilities}}$	<u>0.50:1</u>	<u>0.84:1</u>
Solvency ratio	$\frac{\text{Net income plus depreciation}}{\text{Total liabilities}}$	<u>0.49:1</u>	<u>0.43:1</u>
Debt to equity ratio	$\frac{\text{Interest-bearing loans}}{\text{Total equity}}$	<u>0.73:1</u>	<u>0.91:1</u>
Asset-to-equity ratio	$\frac{\text{Total assets}}{\text{Total equity}}$	<u>2.14:1</u>	<u>2.41:1</u>
Inventory turnover	$\frac{\text{Cost of sales}}{\text{Average inventory}}$	<u>2.86:1</u>	<u>4.79:1</u>
Accounts receivable turnover ratio	$\frac{\text{Net credit sales}}{\text{Average accounts receivable}}$	<u>7.11:1</u>	<u>8.54:1</u>
Interest rate coverage	$\frac{\text{EBIT*}}{\text{Interest expense}}$	<u>15.73:1</u>	<u>15.02:1</u>
Return on assets	$\frac{\text{Net income}}{\text{Average total assets}}$	<u>0.18:1</u>	<u>0.18:1</u>
Return on equity	$\frac{\text{Net income}}{\text{Average total equity}}$	<u>0.40:1</u>	<u>0.44:1</u>
Gross Margin ratio	$\frac{\text{Gross profit}}{\text{Sales}}$	<u>0.39:1</u>	<u>0.35:1</u>



Net profit margin ratio

$$\frac{\text{Net income}}{\text{Sales}}$$

0.26:1

0.23:1

**Earnings before interest and taxes (EBIT)*



SEMIRARA MINING CORPORATION AND SUBSIDIARIES

MAP OF THE RELATIONSHIPS OF THE COMPANIES WITHIN THE GROUP

DECEMBER 31, 2012

