



**SEMIRARA
MINING
CORPORATION**

May 23, 2013

THE PHILIPPINE STOCK EXCHANGE, INC.
3rd Floor, Philippine Stock Exchange Plaza
Ayala Triangle, Ayala Avenue, Makati City

Attn.: **Ms. Janet A. Encarnacion**
Head, Disclosure Department

Re: Amended Annual Report (SEC Form 17-A) for the year 2012

Gentlemen:

We are furnishing you copy of Semirara Mining Corporation's (the "Company") Amended Annual Report (SEC Form 17-A) for the year 2012. The amendment refers to additional discussion on business and general information, operational and financial information, and control and compensation information of the Company, among others. All amendments thereto are underlined and italicized for convenience.

Thank you.

Very truly yours,

SEMIRARA MINING CORPORATION

By:

JOHN R. SADULLO
Corporate Secretary

COVER SHEET

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SEC Registration Number

S E M I R A R A M I N I N G C O R P O R A T I O N

(Company's Full Name)

2 N D F L O O R D M C I P L A Z A B U I L D I N G
 2 2 8 1 P A S O N G T A M O E X T E N S I O N
 M A K A T I C I T Y

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

Atty. John R. Sadullo
(Contact Person)

888-3000
(Company Telephone Number)

1 2 3 1
(Fiscal Year)

1 7 - A - A
(Form Type)

Month Day
(Annual Meeting¹)

(Secondary License Type, If Applicable)

CRMD
Dept. Requiring this Doc.

Amended Articles Number/Section

Total No. of Stockholders

Total Amount of Borrowings
 _____ Domestic _____ Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

S T A M P S

Remarks: Please use BLACK ink for scanning purposes.

¹ First Monday of May of each year.

SEMIRARA MINING CORPORATION

SEC FORM 17-A-A

**ANNUAL REPORT PURSUANT TO SECTION 17
OF THE SECURITIES REGULATION CODE AND SECTION 141
OF THE CORPORATION CODE OF THE PHILIPPINES**

1. For the fiscal year ended: **December 31, 2012**
2. SEC Identification No.: **91447** 3. BIR Tax ID No.: **000-190-324-000**
4. Exact Name of issuer as specified in its charter: **Semirara Mining Corporation**
5. **Philippines** 6. _____ (SEC Use Only)
Province, Country or other jurisdiction of Industry Classification Code:
Incorporation or organization
7. **2nd Floor, DMCI Plaza Bldg., 2281 Don Chino Roces Avenue, Makati City 1200**
Address of principal office Postal Code
8. **(02) 888-3555 / (02) 888-3955 (Fax)**
Issuer's telephone number, including area code
9.
Former name, Address and fiscal year, if changed since last report
10. Securities registered pursuant to Secs. 8 & 12 of SRC, or Secs. 4 & 8 of RSA

Title of Each Class	Number of Shares Stock Outstanding and Amount of (Long-term) Debt Outstanding
Common	356,250,000 / ₱12,179,273,676

11. Are any or all of these securities listed on a Stock Exchange
Yes (✓) No ()
If yes, state the name of such stock exchange and the classes of securities listed therein:

Philippine Stock Exchange - Common Shares

12. Check whether the issuer:
 - (a) Has filed all reports required to be filed by Sec. 17 of the SRC and SRC Rule 17 thereunder or Sec. 11 of the RSA and RSA Rule 11 (a)-1 thereunder and Sections 26 and 141 of the Corporation Code of the Philippines during the preceding twelve (12) months (or for such shorter period that the registrant was required to file such reports);
Yes (✓) No ()

(b) Has been subject to such filing requirements for the past ninety (90) days.

Yes () No (✓)

(c) State the aggregate market value of the voting stock held by non-affiliates of the Registrant.

Name	No. Of Shares Held	% of Total	Aggregate Market Value
PCD Nominee Corp. (NF)	42,086,529	11.81%	₱9,822,995,868.60
Others	103,516,151	29.06%	24,160,669,643.40
TOTAL	145,602,680	40.87%	₱33,983,665,512.00¹

¹ Computed on the basis of closing price at ₱233.40/share as of December 28, 2012 as quoted by the Philippine Stock Exchange.

**SEMIRARA MINING CORPORATION
SEC FORM 17-A**

TABLE OF CONTENTS

	Page
PART I - BUSINESS AND GENERAL INFORMATION -----	4
A. Description of Business -----	4
1. Business Development -----	4
2. Business of Issuer -----	4
B. Description of Property -----	8
1. Property -----	8
2. Mining and Oil Companies -----	9
C. Legal Proceedings -----	10
PART II - SECURITIES OF THE REGISTRANT -----	13
A. Market Price and Dividends on Registrant's Common Equity and Related Stockholders Matters -----	13
1. Market Information -----	13
2. Holders -----	14
3. Dividends -----	16
4. Recent Sales of Unregistered Securities -----	16
5. Minimum Public Ownership Report -----	16
PART III - FINANCIAL INFORMATION -----	16
A. Management's Discussion and Analysis of Financial Condition and Results of Operation (years 2009-2012) -----	16
1. Full Years 2011-2012 -----	16
2. Full Years 2010-2011 -----	24
3. Full Years 2009-2010 -----	29
B. Information on Independent Accountant and Other Related Matters -----	33
1. External Audit Fees and Services -----	33
PART IV - MANAGEMENT AND CERTAIN SECURITY HOLDERS -----	34
A. Directors and Executive Officers of the Issuer -----	34
1. Citizenship, Educational Attainment, etc. -----	34
2. Significant Employees/Executive Officers of the Issuer -----	38
3. Family Relationship -----	38
4. Involvement in Certain Legal Proceedings -----	38
B. Executive Compensation -----	39
C. Security Ownership of Certain Beneficial Owners and Management -----	40
1. Security Ownership of Certain Record and Beneficial Owners -----	40
2. Security Ownership Management -----	41
D. Certain Relationship and Related Transactions -----	41
PART V - DISCUSSION ON COMPLIANCE WITH LEADING PRACTICE ON CORPORATE GOVERNANCE -----	41
PART VI - EXHIBITS AND SCHEDULES -----	59
A. Exhibits and Reports on SEC Form 17-C -----	59
1. Exhibits -----	59
2. Reports on SEC Form 17-C -----	59
SIGNATURES -----	61
INDEX TO FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES -----	62

NON-FINANCIAL DISCLOSURE REQUIREMENTS

PART I- BUSINESS AND GENERAL INFORMATION

A. DESCRIPTION OF BUSINESS

(1) Business Development

- (a) **Form and year of organization.** - The Company was incorporated on February 26, 1980 to explore, develop, and mine the coal resources in Semirara Island. The Company has five (5) wholly-owned (100%) subsidiaries, namely:
- (i) SEM-Calaca Power Corporation (SCPC) was incorporated on November 19, 2009 to engage in the business of power generation;
 - (ii) SEM-Cal Industrial Park Developers Inc. (SIPDI) was incorporated on April 27, 2011 to engage the development of economic zone in accordance with Republic Act No. 7916, as amended, otherwise known as the Special Economic Zone Act of 1995;
 - (iii) Southwest Luzon Power Generation Corporation (SLPGC) was incorporated on August 31, 2011 to engage in the business of power generation;
 - (iv) Semirara Claystone Inc. (SCI) was incorporated on November 29, 2012 to engage in the business of manufacturing of clay products and merchandize; and
 - (v) Semirara Energy Utilities Inc. (SEUI) was incorporated on February 18, 2013. SEUI was incorporated to perform qualified third party functions as an alternative electric service provider authorized to serve remote and unviable areas.
- (b) **Any bankruptcy, receivership or similar proceedings.** - None.
- (c) **Any material reclassification, merger, consolidation, or purchase or sale of a significant amount of assets not in the ordinary course of business.** - None.

(2) Business of Issuer

(a) Description of Registrant

- (i) **Principal product or services and their markets.** - The Company generates its revenues through the production and sale of sub-bituminous coal. The coal handling services at the National Power Corporation's Calaca Power Plants, located in Batangas was terminated after the Company's wholly-owned subsidiary, SCPC acquired ownership over the Calaca Power Plants in December 2, 2009. Over the years the Company diversified its coal market. In 2012, volume sold to export market accounted for 37% of the total coal sales, the power generation sector 35%, cement and other industries at 21%. Year on year, market share varies depending on the demand from each of the major market sector. The Company's wholly-owned power subsidiary, SCPC supplies power under various bilateral contracts and its excess power generated are sold to Whole Sale Electricity Sport Market (WESM) or the spot market. SIPDI intends to develop certain areas within the premises of the Calaca Power Plant into an economic zone to cater certain industries that will benefit due to its proximity to Calaca Power Plants. To date, approval to develop the areas within the Calaca Power Plants is pending with the Philippine Economic Zone Authority (PEZA). The new wholly-owned subsidiary, Semirara Claystone, Inc. was created to primarily engage in, conduct, and carry on the business of manufacturing, buying, selling, distributing, marketing at wholesale and retail all kinds of goods from clay and other related raw materials. Finally, SLPGC is the project company that will own, develop and operate the 2x150 MW Coal Fired Thermal Power Plant to be

located adjacent to the Calaca Power Plants own by its affiliate, SCPC. Project implementation is on-going with target completion by 2015.

- (ii) **Percentage of sales or revenues and net income contributed by foreign sales for each of the last three years.** - For years 2012, 2011 and 2010, the coal segment, foreign sales accounted for 40%, 36% and 53% of gross coal sales revenues, respectively and around 13.5%, 25%, 21.0% in net income after tax, respectively. For the power revenue, 100% is local sales.
- (iii) **Distribution methods of the products or services.** - In general Marketing policy is to sell directly to ultimate consumers for local sales on FOB basis. Export sales are distributed through coal traders, also on FOB basis.
- (iv) **Status of any publicly-announced new product or services.** - Not applicable.
- (v) **Competition.** - Competition is insignificant in so far as domestic coal mine is concerned. The Company remains the largest coal producer in the Philippines. Based on the 2010 production data from Department of Energy, the Company's production output accounted for 95.7% of total production in the Philippines of 7.33M MT while the nominal balance is shared by small-scale mines in Cebu, Batan Island, Albay and other areas. Nonetheless, domestic coal demand is still anchored heavily on imported coal. In 2011, the Company contributed 7.12 million metric tons (MT) to the country's coal production. The competitiveness of domestic coal producers is threatened by the more superior quality of imported coal as well as the government's policy on liberalization. This is however compensated by the Department of Energy's policy to promote indigenous energy resources and lower freight costs of local coal vis-à-vis imports. The Company remains to be competitive while it continues to exert efforts to improve the quality of its coal and keep production costs low. Common Effective Preferential Tariff rates (CEPT) on coal among ASEAN member nations is 0%, outside ASEAN, the tariff rate is at 5%.

To be competitive, local coal industry must be priced competitively against imported coals, currently from, Indonesia, China & Australia. Pricing of domestic coal is based on import parity inclusive of taxes and duties (at the current rate of taxes and duties). With the inherent quality of Semirara coal, it is estimated that it will be used by approximately 50% of the total Philippine market. The promptness of delivery and quality of coal is required. The power companies are mostly located in Luzon and a few in the Visayas and Mindanao.

- (vi) **Sources and availability of raw materials and the name of Principal suppliers; any major existing supply contracts.** - The Company has a Coal Operating Contract (COC) with Department of Energy (DOE) in 1977 (amended 1981) for the exploration, development, mining and utilization of coal over Semirara Island, Antique pursuant to Presidential Decree No. 972. On May 13, 2008, the DOE approved the term extension of the Company's COC from July 13, 2012 to July 14, 2027. Semirara Island has an estimated coal reserve of 150 million metric tons representing 50% of the country's known coal reserve. On November 12, 2009, DOE and the Company executed Second Amendment to Coal Operating Contract. The second amendment amended the coordinates of the contract area to include an area of 3,000 and 4,200 hectares, more or less situated in Caluya Island and Sibay Island, Antique.

Currently, the Company has an existing coal supply contract with SCPC. Potential requirement of the Calaca Plants is approximately 1.5 to 2.0 Million MTs.

- (vii) Dependence upon a single customer.** -The Company is no longer dependent upon a single customer. It successfully diversified its market base. For the year 2012, export and local sales registered at 44% and 56% in terms of volume and 40% and 60% in terms of value, respectively, from 37% and 63% in terms of volume and 36% and 64% in terms of value, respectively in 2011. Sales to Calaca Power Plant was at 21% from 22% in 2011 with 18% contribution in sales value compared to 19% in 2011. The balance was shared among other power plants, cement plants and other industries.

Historically, approximately 98% of the Company's revenue streams are from then NPC Calaca Plants. NPC's consumption of Semirara Coal has steadily increased since the Company worked on improving the quality of its coal. Note that the Company started washing 25% of its production in mid-1999. Resultantly, its market has widened, to include other power plants, the cement industry and other small industrial plants and in 2007, Semirara coal was tested by the export market. In 2007, NPC's share in volume and value of the Company's sales went down to 38% and 45%, respectively, from 63% to 68% in 2006. In 2008, NPC share in volume and value further dropped to 24% to 40% due to steady increase in total volume sold resulting from increase in domestic sales to other power plants and industries and export sales as well. In 2007, sale to domestic customers (outside NPC) accounted for 39% and 37%, respectively, in terms of volume and value, and rose to 46% in volume and decreased by 27% in value in 2008. Likewise, in 2007, export sales' share in volume and value registered at 22% and 18%, respectively, and went up to 30% and 22% in 2008. In 2009, NPC Calaca Power plants' share in volume remained at 24%, while in terms of value it slid to 39%. Market share of domestic customers, other than NPC registered at 25% for both volume and value. Notably, the share of export market went up to 51% and 37% in volume and value respectively in 2009. In December 2009, the 2 x 300 MW power plants of NPC at Calaca, Batangas were turned-over to Semirara Mining Corporation after successful privatization of PSALM of said power plants.

While on the other hand, for its power segment, around 98% of its average load capacity is contracted. Majority of the power generated is sold to Meralco.

- (viii) Transactions with and/or dependence on related parties.** - Please refer to Note 18 (Related Party Transactions) of Notes to Parent Company Financial Statements and Note 17 (Related Party Transactions) of Notes to Consolidated Financial Statements.

The company has no other transaction with other parties (outside the definition of "related parties") whom the company or its related parties have relationship that enables the parties to negotiate terms of material transactions that may not be available from other, more clearly independent parties on an arm's length basis. Related Party Transaction do not include financial assistance to affiliates or related entities not wholly-owned subsidiaries.

- (ix) Patents, trademarks, copyrights, licenses, franchises, Concessions and royalty agreements held.** - Under its Coal Operating Contract, the Company is required to pay royalties to the Department of Energy (DOE) - 3% royalty based on FOB sales and compensation for entry and use of private lands under the provisions of PD 972, as amended by PD 1174, to land owners-₱0.50/MT for untitled land and ₱1.00/MT for titled land.

- (x) Need for any government approval of principal products or services.** - The Company has secured permits and licenses from the government as follows: a)

Coal Operating Contract with the DOE effective until 2012;² b) Mineral Exploration Permit No. 99-001-VI issued by the DENR renewable every 2 years; c) Environmental Compliance Certificate (ECC) No. 9805-009-302 issued by the DENR effective for the duration of the project; d) Business Permit issued by Caluya, Antique and Makati City; e) Aerodrome Rating Certificate No. 218 issued by the ATO-yearly renewable by site; f) Certificate of Registration of Port Facilities No. 149 until December 31, 2014; and g) DENR Special Land Use Permit No. 6-1-SLUP-OLP002-03152013 until March 12, 2016.

(xi) Effect of existing or probable governmental regulations on the business. -
None

(xii) Estimate of amount spent on research and development Activities (2 fiscal years). - None.

(xiii) Costs and effects of compliance with environmental laws. - The Company has programs being implemented to comply with the conditions of ECC, which includes the Regular Monitoring by the Multi-partite Monitoring Team (MMT), Marine Assessment Studies/Surveys, and Social & Environmental Development Programs such as expanded mangrove areas, initiated and supported livelihood projects, implemented reforestation programs on the island and cultivated marine sanctuary, i.e., giant clams and abalones. The Company has spent ₱428.17 Million for these activities from 1999-2011. The Company has established an Environmental Monitoring Fund for MMT, which has an initial amount of ₱600,000.00 determined by the work and financial plan of the Monitoring Team. Also, an Environmental Guarantee Fund was established with a cash component of 1.5 Million. This enables the continued mining operations of the Company.

(xiv) Total number of employees. - The average number of personnel of the Company is 2,158 and 2,195 for the years 2012 and 2011, respectively, inclusive of employees based at the Company's head office in Makati. Out of the 2,158 personnel for 2012, 252 are employed by the Company while the rest are employed by the Company's contractor, DMC Construction Equipment Resources, Inc., an affiliate of Dacon Corporation. The Company does not anticipate hiring additional employees for the ensuing year except when due to contingencies resulting in separation, resignation, termination of services of existing employees. The breakdown of the Company's employees according to type, are as follows:

Executive	9
Managers	26
Supervisors	52
Rank and File	165
Total	252

On the other hand, in 2012 the average number of personnel working at the SCPC's Calaca Power Plants are 378, 345 are employees of the O&M contractor. In 2011 its workforce were 420. Finally to date, SLPGC has one employee while the Company's other subsidiaries, namely: SIPDI, SCI, and SEUI are non-operational, hence, no employees were hired.

A new CBA was signed between the Company and Semirara Mining Corporation Labor Union (SMCLU) last December 14, 2006, which will last five (5) years after effectivity. There was a notice of strike which, however, did not materialize due to settlement resulting in the signing of the new CBA. After the expiration of the CBA on August 31, 2011, no new CBA was executed by SMCLU and the

² Extended on May 13, 2008 for 15 years or until July 14, 2027.

Company. Meanwhile, there are no existing labor unions in the Company's subsidiaries.

(xv) Major Risks. - Major business risks are operational, regulatory, and financial risks. For Financial Risk Management Objectives and Policies, please see details in Note 28 to the Audited Consolidated Financial Statements. The operational and regulatory risks are being mitigated by the company's compliance to its IMS Policy which is ISO certified. Its Integrated Management System (IMS) covers the following: Quality Management System (ISO9001:2008), Environmental Management System (ISO 14001:2004) and Occupational, Health and Safety System (OHSAS 18001:2007). The Company is ISO certified since 2008. Meanwhile, its power subsidiary mitigates its business risks by employing equipment redundancy to manage the risk of prolonged unplanned shutdowns and by securing business interruption insurance for its power plants.

B. DESCRIPTION OF PROPERTY

(1) Property. - The mine site located in Semirara Island, Caluya, Antique, is part of the coal mining reservation under Proclamation No. 649 issued by then President Manuel L. Quezon on November 20, 1940. Certain areas in the minesite are leased *with rental payments of ₱7,774,760 for 2012*. The infrastructures and road network, office administration buildings, and power plants, are some of the improvements made by the Company on the leased area, as well as the following:

a. <u>Building/Offices:</u>	Units		Units
Administration Building	1	Mirrless Black Stone	1
Site Office	1	Staff House at Tabunan	4
Auxiliary Building	1	Marine Laboratory at Tabunan	1
Laboratory Building	1	Messhall/Kitchen at Tabunan	1
Washing Plant Office	1	Hatchery at Tabunan	1
Power Plant Shed	1	Messhall at waffle crete	1
Product Field Office	1	Covered tennis court	1
Service Base/Pit Shop Building	1	Mine pit shop	1
Briquetting Building	1	Workshop	1
Ice Plant	1	Shipping office	1
Genset Shed at Power Plant	1	Semirara High School	12
Magazine Building	3	Bunlao Elem School	6
Pottery Building	1	Combine Technical Office	1
Water Refilling Station	1	Resident Manager's Office	1
Classrooms for Divine Word College	6	Mobile maintenance repair shop	1
STCI Lecture & Admin Building	6	Motorpool extension	1
STCI Workshops Building	4	Warehouse extension	1
STCI Tool Rooms Building	4	HRD Office & library	1
STCI Faculty Office	2	Core shed	1
Classrooms for Semirara Training Center	2	Core house	1
Classrooms for Semirara Elementary	4	Panama Office	1
Classrooms for Villaresis	4	SMC Library	1
Classrooms for Sabang	4	Pitshop	1
Humic Acid Plant Building	1	Drilling shop	1
Kiln Building Lime Plant	1	Sitio Villaresis pier	1
Oxy/Acetylene Building	1	Theater building	1
MS4 Building	1	Pall Water Siltration Plant Building @ Wild B	1
Dynamite Magazine Building	1		

b. <u>Housing:</u>	Units		Units
Bachelor's Quarters	6	Food House	3
Ladies Quarters	2	Molave Heights (Laborer's Unit)	898
Quadruplex	24	Pinatubo	51

Group Staff House	5	Kalamansig	78
Individual Staff House	3	Lebak	145
Laborer's Clusters	36		

<i>c. Others:</i>	Units		Units
Commissary Building	1	Boys Quarter (for altar boys)	1
Wet Market	1	Waffle Crete Building	2
Hospital	1	Wet Market	2
Guardhouse	2	Dry Market	3
Site Hangar	3	ATM Machine Building	1
Site Chapel with Convent	1	MS1 near Hospital	1
School Building	1	Multi-purpose Center at Bunlao	1
SMC Smart & Globe Cell Site Tower	1	Grotto	1
Multi-purpose Gym	4	Swimming pool	1
Slaughter House	1	Pump house & landscaping	1
Coast Guard Building	1	Commuter terminal	1
MS2 Office	1	Concreting of runway strip	1
Chapel Bell Tower	1	Gantry at Mayflower	1

All properties with the net book values are active assets. These are all located in Semirara Island, Caluya, Antique (mine site). All properties are free of any liens and encumbrances except some mining equipments used as collateral for the Company's loans. The Company also invested in mining and other equipment worth ₱1.683 billion, ₱2.043 billion and ₱3.292 billion for 2012, 2011 and 2010, respectively.

On the other hand, its power subsidiary, SCPC owns the following equipment, structures, buildings and improvements located over parcels of land subject of a lease contract for 25 years *from* the Power Sector Assets Liabilities and Management Corporation (PSALM) at Calaca, Batangas *with rental payments of ₱150,568,000 to cover the entire duration of the lease:*

1. 2x300 MW units of the Calaca Power Plant with its major components and accessories
2. Staff Housing Units
3. Guest House
4. Pier
5. Conveyor Unloading System
6. Coal Stockyard
7. Administrative Building
8. Motorpool

On July 4, 2011, SCPC exercised its option to buy several parcels of land with an aggregate area of 29.3 hectares, subject of the lease from PSALM all located within the premises of the Calaca Power Plants. SCPC assigned to its option to buy over an additional 8.2 hectare lot to the Company which option was exercised on July 4, 2011.

- (2) Mining and Oil Companies.** - The mining claims are located in Semirara Island, Caluya, Antique covering an area of 3,832 hectares. On March 10, 1999, the Company was granted an Exploration Permit for a period of two years and renewable for a like period for a maximum of 6 years. The Exploration Permit is for limestone, silica and other quarry minerals. On June 28, 2004, the Mines & Geoscience Bureau issued a renewal of the permit. The Company during the term of the Exploration Permit undertook geological mapping, rock sampling and analysis and beneficiation testing. The preliminary exploration conducted by the Company indicates a considerable resource of limestone, silica and clay with potential commercial value. *As of December 31, 2012, the Company's application to convert its Exploration Permit to Mineral Production Sharing Agreement (MPSA) remains pending with the Mines & Geosciences Bureau.*

Meanwhile, on September 10, 2012 the Technical Report on Bobog Coal Deposit was released, which showed a resource estimates of 27.5 million metric tons of measured and 9 million metric tons of indicated in situ coal in Bobog mine. The coal resource is contained in 26 seams but only 19 were considered in the estimate as mineable due to thickness, quality and consistency factors. Of the 19 seams, 12 attained thickness greater than 3 meters and occasionally up to 20 meters. The coal resource has a heating value ranging from 6,930 to 10,149 BTU/lb, with a mass-weighted average of 9,500 BTU/lb. Under the ASTM classification of coal by rank, the seams in Bobog range from Sub-bituminous B to Sub-bituminous A. As of December 31, 2012, the Company has commenced its development and mining preparatory activities such as construction of access roads, pier and other mining facilities.

C. LEGAL PROCEEDINGS

The following are the existing legal cases of the Company:

1. **The HGL Case.** - Sometime in January 2004, the Company received a complaint filed by HGL Development Corporation (“HGL”). The facts are as follows:

On August 28, 1984, HGL entered into a Forest Land Grazing Lease Agreement (FLGLA No. 184) with the Department of Environment and Natural Resources (“DENR”) covering a 367-hectare land located at the barrios of Bobog and Pontod, Semirara, Antique. In its Order dated December 6, 2000, the DENR cancelled FLGLA No. 184 explaining that the subject area is within the coverage of Proclamation No. 649, which set apart the island of Semirara in the Province of Antique as coal mining reservations. HGL filed a letter requesting a reconsideration of the Order but the request was denied in the DENR’s letter-Order dated December 9, 2002.

The Caloocan Case:

On November 17, 2003, HGL filed a complaint against the DENR for specific performance and damages in Branch 121, Regional Trial Court of Caloocan City (RTC-Caloocan). HGL prayed that DENR should perform its obligations under FLGLA No. 184 and pay HGL for moral and exemplary damages and attorneys’ fees.

On March 2, 2004, the Company filed a Motion for Intervention because the Order canceling FLGLA No. 184 sought to be reconsidered by HGL covers property located in the island of Semirara, Antique, which was granted by RTC-Caloocan. Subsequently, the Company filed a Motion to Dismiss on the ground of lack of cause of action/jurisdiction and forum shopping. The Company’s prayer for dismissal and its subsequent Motion for Reconsideration having been both denied, the Company filed its Petition for Review with the Court of Appeals (CA) on November 28, 2005 on the premise that RTC-Caloocan has no jurisdiction over the case.

On January 16, 2007, the CA reversed RTC-Caloocan’s decision and finding grave abuse of discretion on the part of the presiding judge for failing to dismiss the case for lack of jurisdiction. The CA ruled that the DENR Order canceling the FLGLA No. 184 of HGL had long been final and executory on account of its failure to appeal said Order to the Office of the President. Eventually, HGL’s Motion for Reconsideration was denied by the CA and accordingly dismissed the case.

Due to CA’s denial of HGL’s Motion for Reconsideration, a Petition for Certiorari (SC G.R. No. 177844, 2nd Division) was filed by HGL before the Supreme Court (SC) on November 14, 2007, which was denied by the SC for failure of HGL to sufficiently show any reversible error in the assailed CA decision and further denies HGL’s motion for leave and first and second motions of time to file a reply to the Company’s comments on the petition. HGL’s Motion for Reconsideration was denied with finality by the SC on July 2, 2008.

Meanwhile, in a case docketed as SC G.R. No. 180401, 1st Division (*DENR vs. HGL*), DENR's Petition for Certiorari was denied by the SC on February 4, 2008. DENR then filed its Motion for Reconsideration on March 25, 2009, which later denied by the SC with finality.

Citing as basis the dismissal of the RTC-Culasi of SMC vs. HGL (the Culasi Case) on the ground of forum shopping, SMC filed a Motion to Dismiss with the RTC-Caloocan (Civil Case No. C-20675). However, RTC-Caloocan denied the motion on December 24, 2008 and cited the SC decision on G.R. No. 180401 (*DENR vs. HGL*) to sustain its decision to retain jurisdiction over the case. With the denial of its MR on June 24, 2009, the Company filed its Petition for Certiorari with the CA on September 14, 2009. The case is pending to date.

The Culasi Case:

HGL also filed a separate case against the Company on November 17, 2003 in Branch 13 of the Regional Trial Court of Culasi, Antique (RTC-Culasi) for the recovery of their alleged possession of a 367-hectare land located at the barrios of Bobog and Pontod, Semirara, Antique. HGL prayed for (i) the issuance of a preliminary mandatory injunction in order to secure immediate possession of the property pending litigation, and (ii) actual, moral and exemplary damages and attorney's fees in the total amount of P10 million. The Company received the summons on January 15, 2004.

On February 6, 2004, the Company filed its Answer and prayed for the outright dismissal of the case for being baseless and unfounded as the Order canceling FLGLA No. 184 had long been final and executory and can no longer be disturbed. The Company claims exemplary and moral damages and attorneys' fees.

On September 16, 2004, the RTC-Culasi granted HGL's prayer for preliminary mandatory injunction, which order was affirmed by the CA-Cebu. The Company elevated the case to the SC by way of Certiorari with prayer for Temporary Restraining Order (TRO) and/or Injunction to be issued against HGL, the CA-Cebu and RTC-Culasi. The SC initially granted the TRO on March 2, 2005, but on December 06, 2006, the SC promulgated its decision, which denied the Company's Petition for Certiorari. On January 18, 2007, the Company filed its Motion for Reconsideration and later on January 25, 2007 due to the ruling by the CA in the Caloocan case filed a Supplemental Motion for Reconsideration.

On February 14, 2007, the SC denied with finality the Company's Motion for Reconsideration and its supplement to the aforesaid motion for lack of merit.

Meanwhile, on July 16, 2007, the RTC-Culasi dismissed the main case, as the two (2) cases filed by HGL was a deliberate violation of the rule on forum shopping. RTC-Culasi further stated in its decision that in both cases, HGL's cause of action rests on the validity of its FLGLA No. 184. HGL filed its Motion for Reconsideration, but on November 20, 2007, RTC-Culasi ruled against HGL. No appeal was taken by HGL.

Thereafter, on February 5, 2008, HGL filed before the SC a Petition for Indirect Contempt docketed as "*HGL Development Corporation, represented by its President, Henry G. Lim, Petitioner vs. Hon. Rafael L. Penuela, in his capacity as Presiding Judge of RTC-Culasi, Antique, Branch 13, and Semirara Coal Corporation (now Semirara Mining Corporation, Respondents,*" SC G.R. No. 181353. HGL alleged, among others, that the dismissal of the Culasi case constitutes indirect contempt as HGL was not able to implement the SC's decision dated December 6, 2006 (affirming the earlier order of RTC-Culasi granting HGL's prayer for preliminary mandatory injunction) and resolution dated February 14, 2007, as RTC-Cualsi dismissed the main case or the Culasi case on the ground of forum shopping. The Company filed its Comments/Opposition to the Petition. Subsequently, the SC required the parties to submit their respective Memoranda. The case is pending to date.

2. **Tax Refund/Credit Case.** - The Company filed several cases against the Commissioner of Internal Revenue (CIR) before the Court of Tax Appeals (CTA) for tax credit/refund due to erroneously withheld and remitted VAT on coal sales by National Power Company (NPC) to the Bureau of Internal Revenue in the total amount of ₱190,500,981.23.
- 2.1. *CTA Case No. 7717.* - On October 13, 2009, the CTA rendered a Decision granting the Company's petition in the amount of ₱11,847,055.07 for the month of December 2005. The CIR moved for reconsideration. After the Company filed its comment on November 21, 2009, the CTA on August 10, 2010 issued a Writ of Execution on its decision dated October 15, 2009. The Writ of Execution was served to BIR on August 13, 2010. Notwithstanding this, the Company's tax credit certificate remained pending with the BIR.
- 2.2. *Commissioner of Internal Revenue vs. Semirara Mining Corporation, SC G.R. No. 202534 (CTA EB No. 752).* - On January 4, 2011, the CTA granted the Company's petition in the amount of ₱15,292,054.91 for the month of January 2007. CIR's Motion for Reconsideration was denied on March 18, 2011. CIR appealed the case to CTA En Banc (CTA EB No. 752) but the CTA En Banc dismissed the CIR's petition for lack of merit. The CIR again moved to reconsider the En Banc decision, but was denied on June 28, 2012. Thereafter, the CIR filed a petition for review on certiorari with the Supreme Court, to which the Company filed a comment. The petition remains pending to date.
- 2.3. *Commissioner of Internal Revenue vs. Semirara Mining Corporation, SC G.R. No. 202922 (CTA EB No. 772).* - On February 10, 2011, the CTA granted the Company's petitions in the amount of ₱86,108,626.10 for the period covering January 1, 2006 to June 30, 2006. On February 22, 2011, as CIR's Motion for Reconsideration was denied, it elevated the case to the CTA *En Banc* (CTA EB No. 772) which also denied the petition on June 22, 2012 for lack of merit. The CIR filed a Motion for Reconsideration but was again denied by CTA on September 17, 2012. The CIR elevated the case to the Supreme Court (SC) via a Petition for Review on Certiorari dated November 5, 2012. In a minute resolution dated January 30, 2013, the Second Division of the SC dismissed the CIR's petition outright without requiring the Company to file a comment on the ground that the petition failed to sufficiently show any reversible error in the assailed judgment.
- 2.4. *Commissioner of Internal Revenue vs. Semirara Mining Corporation, SC G.R. No. 202922 (CTA EB No. 793).* - On March 28, 2011, the CTA granted SMC's petition in the amount of ₱77,253,245.39 for the periods covering July 1, 2006 to December 31, 2006. The CIR's Motion for Reconsideration was denied on June 3, 2011. The CIR elevated the case to the CTA *En Banc* (CTA EB 793), but the CTA dismissed the petition on April 23, 2012 for lack of merit. As the CIR's Motion for Reconsideration was likewise denied on May 29, 2012, it filed a petition with the Supreme Court. The case remains pending to date.
3. *SMC vs. Municipality of Calaca, RTC- Makati City, Branch 137, Civil Case No. 07-180* (Business Tax Case). - On February 26, 2007, the Company filed a complaint () to seek the reversal and cancellation of the tax assessment by the Municipality of Calaca for unpaid business tax for the CY 2003, 2004 and 2005 in the amount of ₱66,685,189.00. The basis of the claim is that since coal is being delivered to the port of Calaca and that the Company is doing business there as shown by the existence of an office; therefore, the situs of taxation is in Calaca. The Company maintains that it is not maintaining an office in the Municipality of Calaca, despite delivery to NPC-Calaca, hence the proper situs of taxation is not in Calaca but in its principal office. The Company's initial presentation of its evidence is set on April 5, 2013.

4. *Municipality of Caluya, Antique vs. SMC, RTC-Culasi, Branch 13, Civil Case No. C-051* (Real Property Tax Case). - On February 19, 2008, the Municipality of Caluya Antique filed a case against the Company for enforcement of the compromise agreement submitted to the RTC on November 17, 2003 involving the balance of ₱82,979,702.24 in real property taxes for lots located in Semirara Island. The Company maintains that the Motion for Execution has no legal basis and premature due to a clause in the compromise agreement requiring the parties first determines the correctness of the tax assessments which shall be subject to the verification of the parties. The parties submitted on October 11, 2012 a Compromise Agreement dated July 2, 2012 for approval of the Court.

5. *Power & Synergy, Inc. vs. SMC, et. al, RTC-QC, Branch 97, Civil Case No. Q-10-66936* (Specific Performance Case). - The complaint alleges fraudulent acts against the Company and its directors and officers, and prayed that defendants jointly and severally perform and comply with the terms and conditions under the Consultancy Agreement and to honor plaintiff's services under the said Agreement. On June 2, 2010, the Company sought the dismissal of the case for lack of jurisdiction over the case, improper venue in so far as other individual defendants, and complaint states no cause of action. To date, the Court is yet to rule on the motion of the Company.

6. *Gabinete, et. al. vs. SMC, et. al, Civil Case No. 210-C, MCTC-Pandan, Antique* (Forcible Entry Case). - The complaint hinges from the alleged entry of the Company to a portion of plaintiffs' properties located in Barangay Alegria, Caluya, Antique. Plaintiffs' prayed to the Court to order defendants to vacate the properties and pay damages and attorney fees. The case was referred for mediation, but to date, no order has been received on the schedule of mediation.

7. *Bornea, Jr., vs. SMC, et. al., NLRC-Cagayan de Oro City, NLRC Case No. RAB-IX-11-00663-11* (Illegal Dismissal Case). - This is an illegal dismissal case filed by Engr. Bornea docketed as with the Arbitration Branch of Davao seeking for his reinstatement as the Foreman Supervisor of the Company's mining facility in Caluya, Antique. Bornea alleged that there was no justifiable ground to dismiss and that due process was not observed. On April 24, 2012, the Labor Arbiter resolved to dismiss the complaint for lack of merit. Bornea appealed the case, but the NLRC-Cagayan de Oro City likewise dismissed the appeal for lack of merit in its Decision dated December 28, 2012. On February 19, 2013, Bornea moved to reconsider the NLRC decision, but the NLRC in its Resolution dated March 27, 2013 dismissed the motion for lack of merit.

Except for the foregoing cases, the Company or its subsidiaries is not a party to any pending legal proceedings. It is not involved in any pending legal proceedings with respect to any of its properties. Apart from the foregoing, therefore, it is not involved in any claims or lawsuits involving damages, which may materially affect it or its subsidiaries.

PART II - SECURITIES OF THE REGISTRANT

A. MARKET PRICE OF AND DIVIDENDS ON REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

(1) Market Information

- (a) **Principal market where the registrant's common equity is traded.** - The Company is listed in the Philippine Stock Exchange (PSE). There has been no substantial trading since 1983 or 17 years. However in 2004, DMCI Holdings, Inc. (DMCI-HI) increased its shareholdings from 74.36% to 94.51%. The National Development Co. (NDC) shares were decreased from 21.27% to 4.55% shares and the others from 4.3% to 0.94% shares. None of them sold their shares hence, no substantial trading occurred. These changes in the percentage of holdings resulted from the equity restructuring of the Company's authorized capital stock and the subscription of DMCI-HI of 19,120,581 additional shares in 2004.

In February 2005, new additional shares of 46,875,000 were sold to the public by the Company in its international offer. Also in the same public offering, DMCI-HI as selling shareholder sold 58,171,000 reducing its shareholdings from 94.51% to 60%.

On April 8, 2010, the Company sold through PSE its treasury shares equivalent to 19,302,200 at ₱67.00 per share. In June 2010, by way of Stock Rights Offering, the Company offered for subscription 59,375,000 common shares to eligible existing stockholders at the ratio of 1:5 shares as of record date, July 1, 2010.

The market capitalization of the Company as of end-2012, based on the closing price of ₱233.40 is approximately ₱83.1 billion. As of March 15, 2013, the Company's capitalization stood at ₱82.3 billion based on the ₱231.00/share closing price.

- (b) The Company's security was traded at the PSE at a price of ₱0.40/share on December 23, 2002. There was no trading of the Company's securities in 2003 and 2004. The highs and lows (in Pesos) of trading during the past three (3) years are as follows:

	High	Low	Close
2013			
Jan-Mar ³	258.00	228.40	231.00
2012			
Jan-Mar	252.00	211.00	244.80
Apr-Jun	257.80	200.00	218.20
Jul-Sep	236.00	214.40	222.00
Oct-Dec	234.00	217.00	233.40
2011			
Jan-Mar	244.00	180.00	226.80
Apr-Jun	237.00	187.00	213.40
Jul-Sep	241.40	161.10	186.50
Oct-Dec	226.00	170.00	221.40
2010			
Jan-Mar	60.50	47.00	60.00
Apr-Jun	60.00	60.00	85.00
Jul-Sep	145.00	80.00	130.20
Oct-Dec	193.00	131.00	185.00

- (2) **Holders.** - *The number of shareholders (common) as of March 15, 2013 was 661.* As of *same date*, the Company has the following issued shares: **Common Shares - 356,250,000.**

Title Of Class	Name	Number Of Shares Held	% of Total
Common	DMCI Holdings, Inc.	200,647,533	56.32
Common	PCD Nominee Corp.	49,015,501	13.76
Common	Dacon Corporation	43,608,509	12.24
Common	PCD Nominee Corp. (<i>Foreign</i>)	42,086,529	11.81
Common	Others	20,891,928	05.86

Names of Top Twenty (20) Stockholders as of March 15, 2013:

Name of Stockholders	No. of Shares	Percentage ⁴
1. DMCI Holdings, Inc.	200,647,533	56.32
2. PCD Nominee Corp.	49,015,501	13.76

³ As of March 15, 2013.

⁴ Based on Corporation's issued and outstanding shares.

3. Dacon Corporation	43,608,509	12.24
4. PCD Nominee Corp. (<i>Foreign</i>)	42,086,529	11.81
5. National Development Company	11,364,658	3.19
6. DFC Holdings, Inc.	6,614,003	1.86
7. Fernwood Investments, Inc.	796,334	0.22
8. Privatization and Management Office	769,450	0.22
9. Double Spring Investments Corporation	433,606	0.12
10. Augusta Holdings, Inc.	253,475	0.07
11. Guadalupe Holdings Corporation	189,809	0.05
12. Berit Holdings Corporation	150,937	0.04
13. Vendivel, Olga P.	80,000	0.02
14. Garcia, Jaime B.	40,030	0.01
15. Windermere Holdings, Inc.	35,077	0.01
16. Fernwood Investments Inc.	28,109	0.01
17. Amatong, Isagani S.	13,900	0.00
18. Freda Holdings, Inc.	11,534	0.00
19. Teng, Ching Bun	10,000	0.00
20. Gala, Luismil De Villa	7,500	0.00

- (i) The table sets forth the record or beneficial owners of more than 5% of the outstanding common shares of the Corporation, which are entitled to vote and the amount of such record or beneficial ownership as of March 15, 2013:

Title Of Class	Names	No. Of Shares	% of Total
Common	DMCI Holdings, Inc.	200,647,533	56.32
Common	PCD Nominee Corp.	49,015,501	13.76
Common	Dacon Corporation	43,608,509	12.24
Common	PCD Nominee Corp. (<i>Foreign</i>)	42,086,529	11.81

- (ii) each director and nominee

Office	Names
Chairman	David M. Consunji
Vice-Chairman/CEO	Isidro A. Consunji
President/COO	Victor A. Consunji
Director	Cesar A. Buenaventura
Director/Resident Manager	George G. San Pedro
Director	Jorge A. Consunji
Director	Herbert M. Consunji
Independent Director	Victor C. Macalincag
Independent Director	Federico E. Puno
Director	Ma. Cristina C. Gotianun
Director	Ma. Edwina C. Laperal

- (iii) all directors and officers as a group, and the registrant's present commitments to such persons with respect to the issuance of any class of its common equity.⁵

Title Of Class	Name	No. Of Shares	% of Total
Common	David M. Consunji	212	00.00
Common	Isidro A. Consunji	256,064	00.07
Common	Victor A. Consunji	725,180	00.20

⁵ See also the beneficial ownership under Part IV(C)(2), pg. 41.

Common	Cesar A. Buenaventura	6,010	00.00
Common	Herbert M. Consunji	10,010	00.00
Common	Jorge A. Consunji	4,834	00.00
Common	George G. San Pedro	40,030	00.01
Common	Ma. Cristina C. Gotianun	300,098	00.08
Common	Ma. Edwina C. Laperal	1,499	00.00
Common	Victor C. Macalincag	288,130	00.08
Common	Federico E. Puno	60,010	00.02
Common	Jaime B. Garcia	48,036	00.01
Common	Denardo M. Cuayo	1,500	00.00

- (3) **Dividends.** - On April 4, 2005 the Board approved the Company's Dividend Policy, which adopted a minimum of 20% of Net Profit After Tax starting from the period ending December 31, 2005; provided, however, that the Board of Directors shall have the option to declare more than 20% if there is excess cash and less than 20% if no sufficient cash is available. Below are dividends declared for the past two (2) years:

Year	Board Approval	Nature	Dividend/Share	Record Date	Payment Date
2012	4-30-2012	Cash	₱12.00	5-29-2012	6-25-2012
2011	4-27-2011	Cash	₱10.00	5-27-2011	6-22-2011

- (4) **Recent Sales of Unregistered Securities.** - No unregistered securities were sold in 2012, 2011 and 2010.
- (5) **Minimum Public Ownership Report.** - Pursuant to the requirement of the Philippine Stock Exchange, particularly Section 3, Art. XVIII of its Continuing Listing Requirements Listing and Disclosure Rules, the Company's minimum public ownership as of December 31, 2012 is 27.55%.

PART III - FINANCIAL INFORMATION

A. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (YEARS 2009-2012)

Full years 2011-2012

I. PRODUCTION AND OPERATIONS

COAL

Total materials moved in 2012 decreased by 9% at 77,072,255 from 85,060,883 bank cubic meters (bcm) last year due to longer hauling cycle and lower operating days. During the year, mining operations were concentrated at the lowest level of the pit, thus resulting to longer hauling cycle. Meanwhile, total rainfall this year of 2,771 mm is 2% lower than last year.

The advance stripping activities in the previous periods benefit the current period's mining operations as activities in 2012 were more focused on coal production rather than overburden stripping. As a result, strip ratio dropped by 15% at 8.66:1 from 10.13:1 last year. This explains the 5% increase in run-of-mine (ROM) coal production at 8,235,875 metric tons (MTs) from 7,840,467 MTs last year, despite the decrease in material movement. Coal recovery improved with the sale of unwashed coal to subsidiary Sem-Calaca Power Generation Corporation (power segment) for the use of its Unit 2. Hence, net total product coal increased by 8% at 7,656,849 MTs from 7,118,460 MTs last year.

Ending inventory increased by 39% at 1,382,607 MTs from beginning inventory of 991,887 MTs also as a result of higher coal recovery.

The table below shows the quarterly comparative production data for 2012 and 2011.

COMPARATIVE PRODUCTION DATA											
<i>(in '000, except Strip Ratio)</i>											
	Q1 '12	Q2 '12	Q3 '12	Q4'12	YTD '12	Q1 '11	Q2'11	Q3'11	Q4'11	YTD '11	%Inc (Dec)
Total Materials (bcm)	22,303	19,273	15,666	19,830	77,072	26,850	22,294	16,120	19,797	85,061	-9%
ROM Coal (MT)	1,805	2,220	1,739	2,472	8,236	1,822	2,296	1,837	1,887	7,840	5%
Strip Ratio	11.64:1	7.97:1	8.30:1	7.38:1	8.66:1	14.03:1	9.00:1	8.06:1	9.78:1	10.13:1	-15%
Net TPC (MT)	1,651	2,089	1,579	2,337	7,657	1,642	2,149	1,646	1,682	7,118	8%
COAL WASHING											
Washable Coal (MTs)	344	334	358	278	1,314	408	313	434	470	1,625	-19%
Washed Coal (MTs)	206	200	215	167	788	245	188	261	282	975	-19%
%recovery	60%	60%	60%	60%	60%	60%	60%	60%		60%	
Beg. Inventory (MTs)	992	950	963	1,276	992	491	469	74	237	491	102%
End Inventory (MTs)	950	963	1,276	1,383	1,383	469	74	237	992	992	39%

POWER

UNIT 1

When Calaca Power Plant assets were acquired in December 2009, Unit 1 can only generate 160 MW or 53% of its rated capacity using pure Semirara Coal. The rehabilitation of the unit was centered on improving the loading capacity to at least 220 MW or 73% of its rated capacity.

The rehabilitation of the plant started in August 2011 and completed in July 2012. It took more than a year of planning to cover all major repair works. The rehab project suffered delays in the commissioning stage to ensure the safe and reliable operation of the plant. The original equipment manufacturers (OEMs), Foster Wheeler for the boiler and Toshiba for the Turbine/Generator, supervised the repair to commissioning of the Unit. Although delayed, the unit can now load 235 MW or 77% of its rated capacity, an improvement of 24% or 75 MW on pure Semirara Coal.

Generation capacity is low at 20% in the five months of running against 27% last year but the average load is significantly higher at 197 MW against 155 MW. In general, the unit is now better in terms of generation capacity and efficiency.

Unit availability was only 2,697 hours or 31% compared to 54% last year since Unit 1 was down for about 7 months during the current period due to the rehabilitation works. Total energy generated was 531 Gwh or 27% down compared to last year.

UNIT 2

Unit 2 is on its second year of operation after its rehabilitation in the last quarter of 2010.

The unit performed better this year in all aspects of operation compared to last year. Gross generation has increased by 71% or 1,932 Gwh. Unit availability improved from 60% to 88% and force outage was limited to only 12% from 36% last year. Running hours in 2012 is remarkably higher at 7,761 hours than 2011 48% increase.

Loading capacity is limited to 260 MW due to some leaks on two of its high pressure heaters 7 & 8. The average load capacity during the current period is at 249 MW or 20% more than last year.

The table below shows the quarterly comparative plant performance for 2012 and 2011.

COMPARATIVE PLANT PERFORMANCE DATA											
YTD'12 vs YTD'11											
	Q1 '12	Q2 '12	Q3 '12	Q4 '12	YTD '12	Q1 '11	Q2 '11	Q3 '11	Q4 '11	YTD '11	% Inc (Dec)
Gross Generation, Gwh											
Unit 1	-	-	128	403	531	243	245	239	-	727	-27%
Unit 2	473	478	508	473	1,932	189	395	181	367	1,132	71%
Total Plant	473	478	636	876	2,463	432	641	420	367	1,860	32%
					-					-	
% Availability											
Unit 1	0%	0%	36%	87%	31%	70%	74%	70%	0%	54%	-43%
Unit 2	88%	88%	92%	86%	88%	49%	83%	37%	71%	60%	48%
Total Plant	44%	44%	64%	86%	60%	59%	78%	54%	35%	57%	5%
Capacity Factor											
Unit 1	0%	0%	19%	61%	20%	0%	0%	36%	0%	28%	-27%
Unit 2	72%	72%	77%	72%	73%	29%	60%	27%	56%	43%	70%
Total Plant	18%	18%	24%	33%	47%	17%	24%	16%	14%	35%	32%

II. MARKET

COAL

Total coal sold in 2012 increased by 10% at 7.18 million MTs compared to 6.52 million MTs in 2011. Q1 2012 sales of 1.67 million MTs was 2% higher than 1.64 million MTs sold in Q1 2011, however, Q2 2012 sales volume of 2.06 million MTs was 18% lower as against 2.52 million MTs in Q2 2011, while Q3 sales continued to drop by 15% at 1.25 million MTs this year from 1.46 million MTs in 2011. Q4 sales recovered with an increase of 145% at 2.21 million MTs from 902 thousand MTs last year.

The table below shows the quarterly comparative coal sales volume data for 2012 and 2011.

COMPARATIVE SALES VOLUME DATA													
(in '000 MTs)													
CUSTOMER	Q1 '12	Q2 '12	Q3 '12	Q4 '12	YTD '12	%	Q1 '11	Q2 '11	Q3 '11	Q4 '11	YTD '11	%	% Inc (Dec)
Power Plants													
Calaca	205	285	545	456	1,492	21%	412	320	420	256	1,408	22%	6%
Other PPs	325	382	203	126	1,037	14%	384	325	569	270	1,547	24%	-33%
TOTAL PPs	531	667	748	582	2,528	63%	795	645	989	525	2,955	72%	-14%
Other Industries													
Cement	272	338	224	220	1,053	15%	187	145	146	182	660	10%	59%
Others	98	105	128	98	430	6%	197	60	107	111	475	7%	-9%
Total Others	370	443	352	318	1,482	21%	384	205	254	292	1,135	17%	31%
TOTAL LOCAL	901	1,110	1,100	900	4,011	56%	1,180	850	1,242	818	4,090	63%	-2%
EXPORT	771	946	146	1,310	3,173	44%	462	1,665	218	85	2,430	37%	31%
GRAND TOTAL	1,672	2,056	1,245	2,211	7,184	100%	1,641	2,516	1,460	902	6,519	100%	10%

Sale to power plants decreased by 14% this year at 2.53 million MTs from 2.96 million MTs last year. Although Q1 and Q2 off-take of the power segment were lower this year as compared to last year as rehabilitation of Unit 1 was completed only in Q3, coal off-take increased in the second half. As a result, the power segment's total coal purchases increased by 6% at 1.49 million MTs this year from 1.41 million MTs last year. Meanwhile deliveries to other power plants dropped in the second half, resulting to a 33% drop YoY at 1.04 million MTs this year from 1.55 million MTs in 2011.

On the other hand, with three new customers this year, sales to cement plants increased by 59% at 1.05 million MTs from 660 thousand MTs last year.

The 9% drop in sales to other local customers was mainly caused by weaker purchases by some small traders in Q1 and Q4 this year. Deliveries to other industrial plants totaled to 430 thousand MTs from 475 thousand MTs in 2011.

The increase in sales to cement plants helped offset the decrease in deliveries to power plants and other industrial customers, thus softening the drop in total local sales at 2% to 4.01 million MTs this year from 4.09 million MTs in 2011.

On the other hand, export sales rebounded in Q4, bringing total exports to 3.17 million MTs this year or a 31% growth from last year's 2.43 million MTs.

All supply contracts with the Corporation are already priced at market. As a result, the drop in global coal prices brought down composite average FOB price per MT this year to PHP2,453, a 20% decrease from last year's PHP3,078.

POWER

The power segment's 2012 recorded sales for bilateral contracts increased to 2,007 GWh from 1,553GWh in 2011 or 29% improvement. This mainly came from the contract with MERALCO which was effective since 26 December 2011.

MERALCO is still the single biggest customer of the power segment in 2012, accounting for 80% share of the total energy sales to bilateral contracts. BATELEC I and Trans-Asia accounted for 12% and 6% market share, respectively, the balance is for other small contracts.

Meanwhile, spot market sales dropped by 26% from 472 GWh in 2011 to 348 GWh in 2012. The decrease in spot sales was due to the increase in contracted power which effectively reduced the excess capacity for sale in the spot market.

Total energy sold in 2012 posted at 2,355 GWh 85% directly to the customers through bilateral contracts, and 15% to the spot market. Total energy sales increased by 16% from 2,025 GWh recorded in 2011.

Of the total energy sold, 99% was sourced from the generation of the power plants, while 1% was purchased from the spot market.

Spot market prices in 2012 were more volatile compared to 2011. This is due to the abrupt forced outages and scheduled maintenance of major power plants which decreased the supply in the months of May to July 2012. Also, It was observed that the demand increased by an average of 4% in 2012. These two factors caused the increase of spot prices in the market.

In the last quarter of 2012, spot prices escalated due to the planned outages of Ilijan Block A (600 MW) and Sta. Rita Mod 30 (256 MW) amidst the increased demand as business activities stepped up until Christmas Eve. This situation in the market provided Unit 1 an opportunity to generate more Revenues as power generated during the plant's testing were sold to the spot market.

The table below shows the quarterly comparative sales volume data and composite average price for 2012 and 2011.

COMPARATIVE SALES VOLUME DATA											
<i>(in GWh)</i>											
CUSTOMER	Q1'12	Q2'12	Q3'12	Q4'12	YTD'12	Q1'11	Q2'11	Q3'11	Q4'11	YTD'11	%Inc (Dec)
Bilateral Contracts	489	427	518	573	2,007	362	457	398	336	1,553	29%
Spot Sales	0.59	1	68	278	347	94	215	75	88	472	-26%
GRAND TOTAL	489	428	586	851	2,354	456	671	474	425	2,025	16%
Composit Ave Price	4.14	4.41	3.79	4.19	4.12	4.58	4.79	4.51	5.12	4.75	-13%

III. FINANCE

A. Sales and Profitability

Consolidated Revenues, net of eliminating entries, dropped by 6% YoY at PHP24.15 billion from PHP24.81 billion last year. Although coal sales volume increased, lower composite average price/MT pulled down coal Revenues before elimination to PHP17.63 billion this year from PHP20.06 billion last year. Net of eliminations, Coal Revenues dropped by 11% YoY at PHP14.45

billion from PHP16.20 billion last year. On the other hand, higher energy generation offset the decrease in average price per kwhr caused by the decrease in international coal price index. As a result, energy sales slightly improved by 1% at PHP9.70 billion from PHP9.61 billion last year.

Consolidated Cost of Sales decreased by 12% at PHP14.64 billion from PHP16.66 billion last year. Before elimination, Cost of Coal Sold dropped by 12% at PHP12.33 billion from PHP14.01 billion last year due to lower cost/MT sold. Net of elimination, Cost of Coal Sold likewise dropped by 12% YoY at PHP9.82 billion from PHP11.10 billion. Cost of Coal Sold per MT dropped by 24% compared to last year due mainly to higher units of production and tightening control on some mine overhead costs. This partially offsets the decline in Revenues due to lower average coal prices.

In the same note, power Cost of Energy Sales before elimination reduced by 14% at PHP5.55 billion from PHP6.40 billion last year. Minimal spot purchases for replacement power and lower coal fuel average cost this year accounted for the decrease in cost.

The resulting consolidated Gross Profit increased by 4% at PHP9.51 billion, with the coal power segments each contributing PHP4.63 and PHP4.88 billion, respectively. Last year's consolidated Gross Profit stood at PHP9.15 billion last year, PHP5.10 billion from coal and PHP3.05 billion from power. Consolidated Gross profit margin improved to 39% from 35% last year.

Consolidated Operating Expenses increased by 19% at PHP3.39 billion from PHP2.86 billion last year. Net of eliminating entries, the coal segment's Operating Expenses increased by 9% at PHP2.0 billion from last year's PHP1.84 billion as lower Cost of Sales increased Government Share by 5% at PHP1.56 billion from PHP1.48 billion last year. The power segment's Operating Expenses after elimination also went up by 35% at PHP1.38 billion from PHP1.02 billion last year due to write-down of net book value of replaced major components and parts relative to the rehabilitation of Unit 1 amounting to PHP341 million. The pre-operating Southwest Luzon Power Generation Corp. (SLPGC), a wholly-owned subsidiary of the Corporation incorporated to expand its power capacity with the construction of 2 x 150 MW power plants, incurred PHP21.55 million pre-operating expenses, representing taxes, licenses and fees incurred during the year. Another subsidiary, Sem-Cal Industrial Park Developers, Inc. (SIPDI) and Semirara Claystone Inc. also incurred Pre-operating Expenses of PHP37 thousand and PHP65 thousand during the period, respectively.

Consolidated Forex Gains posted a remarkable PHP391 million as against losses of PHP38.32 million last year. The PHP continued to strengthen against the USD during the year. Since most of its loans are USD-denominated, bulk of this year's Forex Gains is attributed to the coal segment which recognized PHP387.83 million versus last year's Loss of PHP26.01 million. Meanwhile, with minimal Forex exposure, the power segment's Forex Gains registered at PHP3.17 million as against Losses of PHP12.31 million last year.

Lower cash and lower placement interest rates resulted to the decrease in consolidated Finance Income by 39% at PHP82.15 million from PHP134.88 million last year. The coal segment's investible funds reduced after its additional equity infusion of PHP2.5 billion to SLPGC, thus its Finance Income decreased by 83% at PHP13.12 million from PHP79.45 million last year. On the other hand, the power segment's Finance Income increased by 24% at PHP68.95 million from PHP55.43 million due to higher short-term placement income from SLPGC in the first half of 2012 with its higher cash level, coming from the proceeds of the initial drawdown from the project loan facility and equity infusion by the parent, parked in short-term placements.

Consolidated Finance Costs slightly increased by 4% at PHP501.28 million from PHP483.29 million last year. The coal segment's interest-bearing loans increased by 6% at PHP4.91 billion from PHP4.62 billion last year. Although interest rates are lower this year, Finance Costs increased by 17% at PHP122.61 million from PHP104.93 million last year as it only started paying off short-term debts toward the end of the year. Meanwhile, the power segment's total ending interest-bearing loans balance dropped to PHP7.35 billion from PHP8.84 billion last year. Of this

amount, P550 million reflects the new availment by SLPGC. With the availment of short-term working capital loans during the year, the power segment's Finance Costs slightly increased at PHP378.67 million from PHP378.36 million last year.

Consolidated Other Income increased by 219% at PHP31-08.40 million from PHP99.91 million generated by the coal segment last year from gain on sale of retired assets. After eliminating the PHP 1.5 billion Dividend Income from the power segment, the coal segment's Other Income this year, increased by 78% at PHP187.63 million from PHP99.91 million last year, included gain on sale of retired assets, sale of electricity and insurance claims. Meanwhile, the power segment's Other Income of PHP131.26 million this year is mainly composed of sale of fly ash.

The resulting consolidated Income Before Tax stood at PHP6.40 billion, with the coal and power segments contributing PHP3.10 billion and PHP3.30 billion, respectively; meanwhile SLPGC registered a loss of 3.56 million. This year's consolidated Income Before Tax posted a 6% growth over last year's PHP6.01 billion.

Both operating business units enjoy Income Tax Holidays (ITH) as Board of Investments (BOI)-registered companies. Moreover, on 20 September 2012, the coal segment received the approval of its BOI registration for Bobog Mine, another mine site to be developed next to the current active Panian mine. The ITH benefit will start upon commercial operation of the new mine. SLPGC's application for BOI registration was also approved during the year. With these tax holidays, consolidated Provision for Income Tax remained minimal at PHP39.45 million this year. In 2011, consolidated Benefit from Income Tax posted at PHP22.17 million. The coal and power segments' tax provision this year stood at PHP1.3 million and PHP28.0 million, respectively.

The resulting consolidated Net Income After Tax posted a 5% growth at PHP6.36 billion from PHP6.031 billion last year. Coal and power segments respectively generated PHP3.10 billion and PHP3.28 billion this year, while SLPGC recorded a net loss of PHP8.0 million. Earnings per Share (EPS) correspondingly increased by 5% at PHP17.85 from PHP16.93 last year.

B. Financial Condition, Solvency and Liquidity

Consolidated cash provided by operating activities this year amounted to PHP6.72 billion. Consolidated loan availments totaled to PHP4.47 billion. Meanwhile, sale of assets during the year generated PHP127.49 million, while increase in Other Noncurrent Liabilities of PHP57.94 million resulted to a positive impact to the cash flow. With Beginning Cash of PHP5.01 billion, total consolidated Cash available for the period stood at PHP16.38 billion.

Of the available cash, PHP5.15 billion was used to fund major CAPEX; PHP3.8 billion for the power plant expansion under construction in progress, PHP1.15 billion for mining equipment, and PHP237.54 million for the existing power plants.

The Corporation also paid cash dividends of PHP12 per share or a total of PHP4.27 billion. Meanwhile, PHP5.30 billion was spent for debt repayments, PHP2.03 billion for the maturing obligations of power, and PHP3.27 for the coal segment.

Other investing activities during the period also utilized cash, namely, additions to investments and advances amounting to PHP 17.25 million which included investment in sinking fund. With this year's intensive expenditures, consolidated Ending Cash closed at PHP534.39 billion, a significant 89% drop from last year's PHP5.01 billion due to investments made in the power segment and long-term debt service.

The consolidated current ratio as of end of the current period went down at 0.97x versus 1.25x in 2011 due to reclassification of long-term debt to current portion and short-term refinancing of long-term debt principally from the coal segment, capitalizing the lower LIBOR rate and spreads for USD short-term borrowings coupled with stronger Philippine peso.

C. Financial Condition

Consolidated Total Assets stood at PHP36.19 billion, reflecting a 2% increase from beginning balance of PHP35.63 billion due to acquisition of new mining equipment for re-planting of retired units and rehabilitation of Power Unit 1. After eliminations, the coal and power segments' Total Assets closed at PHP11.37 billion and PHP20.83 billion, respectively. SLPGC, SCI and SIPDI recorded Total Assets of PHP3.97 billion, PHP2.5 million and PHP2.6 million, respectively.

Consolidated Current Assets dropped by 17% to PHP11.71 billion from PHP14.12 billion as at end of 2011. Coal, power, SLPGC, SCI and SIPDI accounted for PHP7.88 billion, PHP3.76 billion, PHP64.19 million, PHP2.5 million and PHP2.57 million, respectively.

Consolidated Cash and Cash Equivalents' 89% decrease to PHP534.39 million from PHP5.01 billion beginning balance mainly accounted for the decrease in consolidated Current Assets. The substantial decrease in Cash is attributable to payment of dividends and payment of Trade and Other Payables, particularly the down payment for the 2 x 150MW power plant expansion.

On the other hand, Net Receivables increased by 11% at PHP3.58 billion from PHP3.22 billion last year mainly from increased receivables of electricity sales and coal export sales towards the end of the year. The coal and power segments Receivables of PHP1.28 billion and PHP2.3 billion, respectively, are mainly trade related.

Consolidated Net Inventories likewise increased by 23% at PHP5.66 billion from PHP4.59 billion as at the end of 2011. The coal segment's ending Inventory of PHP4.54 billion is mainly comprised of cost of ending coal inventory and materials and supplies, while the power segment's Inventory of PHP1.16 billion is mainly comprised of coal inventory and spareparts inventory for corrective, preventive and predictive maintenance program.

Consolidated Other Current Assets increased by 48% at PHP1.94 billion from PHP1.31 billion in 2011. The coal segment's Other Current Assets of PHP1.64 billion is mainly comprised of creditable withholding taxes, advances to suppliers, and pre-paid insurance. The power segment's Other Current Assets of PHP262 million mainly accounted for advances to suppliers and pre-paid insurance.

Consolidated Non-Current Assets grew by 14% at PHP24.47 billion from PHP21.50 billion as at end of 2011. Coal, power, and SLPGC accounted for PHP3.50 billion, PHP17.07 billion, and PHP3.9 billion, respectively.

The increase in consolidated non-current assets is largely attributed to the 10% increase in consolidated net PPE of PHP22.72 billion from PHP20.74 billion in 2011. Down payments were made to suppliers for the expansion of power capacity under SLPGC, while the coal segment also purchased replacement mining equipment for its retired assets. Coal, power, and SLPGC accounted for net PPE of PHP3.39 billion and PHP16.46 billion, and PHP2.88 billion, respectively.

Consolidated Investments posted a minimal increase of 4% at PHP508.04 million from PHP490.79 million beginning balance. This accounts for the sinking fund maintained by the power segment.

Consolidated Deferred Tax Assets of PHP1.54 million accounted for the power segment's provision for decommissioning and site rehabilitation of PHP1.52 million and PHP19.36 thousand NOLCO of Semirara Claystone, Inc., another subsidiary of the Corporation. In 2011, consolidated Deferred Tax Assets closed at PHP17.41 million.

Consolidated Other Non-Current Assets increased by 382% to PHP1.24 billion from PHP257.38 million in 2011. This is mainly comprised of advances to contractor, input VAT withheld and pre-paid rent. Coal, power, and SLPGC accounted for Other Non-Current Asset of PHP115 million and PHP94 million, and PHP1.03 billion, respectively.

Consolidated Total Liabilities decreased by 7% at PHP19.29 billion from PHP20.82 billion last year. Coal, power, SLPGC, SCI and SIPDI accounted for PHP9.78 billion, PHP8.31 billion, PHP675 million, PHP44 thousand and PHP67 thousand, respectively.

The drop in Total Liabilities is primarily due to the reduction in Consolidated Total Long-term Liabilities which decreased by 26% at PHP7.12 billion from PHP9.52 billion in 2011. Coal, power, SLPGC accounted for PHP9.8 billion, PHP9.6 billion, PHP675 million, respectively.

After settlement of the balance of the coal segment's government share for prior year of P905.0 million and payment of other trade accounts for both coal and power segments, consolidated Trade and Other Payables decreased by 7% at PHP6.81 billion from PHP7.30 billion beginning balance. Coal, power, SLPGC and SIPDI respectively accounted for PHP4.82 billion, PHP1.93 billion, PHP69.98 million, PHP65 thousand and PHP87 thousand of Trade and Other Payables.

Consolidated Current Portion of Long-Term Debt likewise increased by 73% at PHP5.18 billion from PHP2.99 billion as at end of 2011 since majority of the loans availed for CAPEX will mature next year, which recorded a closing balance of PHP3.37 billion and PHP1.51 billion, respectively.

On the other hand, consolidated Total Non-Current Liabilities decreased by 25% at PHP7.12 billion, from PHP9.52 billion in 2011. Coal, power, and SLPGC accounted for PHP1.16 billion, PHP5.35 billion and PHP605 million, respectively.

Consolidated Long-Term Debt decreased by 12% at PHP7.0 billion from PHP9.47 billion beginning balance, primarily due to reclassification to short-term of maturing CAPEX loans of the coal segment and power segment's debt servicing. This caused the decrease in Total Non-Current Liabilities. Coal, power, and SLPGC accounted for PHP1.12 billion, PHP5.34 billion and PHP547 million, respectively.

Provision for Decommissioning and Site Rehabilitation increased by 31% at PHP62.45 million from PHP47.58 million due to an additional provision made by the coal segment after its contract area was expanded to include portions of Caluya and Sibay islands.

During the year, the Corporation recognized consolidated Pension Liability of PHP5.85 million. After dividend payment of PHP4.28 billion and accounting of income generation of PHP6.36 billion, consolidated Stockholders' Equity increased by 14% at PHP16.89 billion from PHP14.81 billion as at end of 2011.

Debt-to-Equity ratio improved by 18% at 1.14:1 from 1.41:1 as at the start of the year.

IV. PERFORMANCE INDICATORS:

1. **Earnings per Share** - Despite the drop in global coal prices, the Corporation was able to recognize an increase in profits this year, translating to an improved EPS. Cost management in the coal segment and success in rehabilitating both units of the power segment are factors that paved the way for the Corporation's continued remarkable performance during the year.
2. **Debt-to-Equity Ratio** - The Corporation's healthy balance sheet allowed it to pay off debts. Hence despite incurring an additional PHP 550 million loan for the expansion of the power capacity, DE improved as at the end of the year. The Corporation's strong financial condition enables it to enjoy the best commercial terms for its financing requirements.
3. **Business Expansion** - Taking an extra step in its forward integration to the power business, the Corporation started with its expansion plans to put up another 2 x 150 MW power plants during the year. This will further maximize the value of its coal reserves as these plants are designed to use unwashed coal, thus improving coal recovery.
4. **Expanded Market** - The successful breakthrough in the export market in 2007 paved way for the increased acceptance of Semirara coal amongst local users. The thrust of the

Corporation now is to further develop its local market, and slowly displace export sales with domestic deliveries as the latter give better margins.

Meanwhile, the power segment limited its exposure to the volatility of the spot market by signing bilateral contracts, both firm and non-firm. As base load plants, it is more ideal to have a stable market for the generated electricity.

5. **Improved coal quality** – The consistent implementation of measures to improve or enhance coal quality resulted to increased acceptance both in the export and domestic markets. Meanwhile, to improve coal recovery and cost efficiency, the power plants started to burn unwashed coal during the year. This also provides additional income to the power segment as sale of fly ash dramatically increased.

V. OTHER INFORMATION

1. There were no known trends, events or uncertainties that have material impact on liquidity.
2. The Corporation provides interim corporate suretyship in favor of the lenders of SCPC for its PHP9.6 billion 7-year loan availed on 26 May 2010. The security may however be suspended within the term of the loan when the conditions set forth in the loan contract are met. SCPC started to amortize the loan in 2011; as at end of the year outstanding balance decreased to PHP8.75 billion.
3. There are no material off-balance sheet transactions, arrangements, obligations, and other relationships of the Corporation with unconsolidated entities or other persons created during the reporting period.
4. The Corporation has issued purchase orders to suppliers for mining equipment amounting to P180 million for delivery Q1 2012. Additional mining equipment worth USD7.65 million will be purchased in 2012 with various delivery dates falling on the second half 2012. Moreover a 1 x 15 MW CFB Power Plant will be constructed in Semirara Island for its mine operation, a replacement of the old unit with estimated cost of P1.2 billion. The equipment purchases will be financed with medium-term loans that match the life of the assets while the power plant will be financed via long term loan, all to be sourced from local banks.
5. For 2012, we expect an increase in the demand for Semirara Coal in the domestic market with the commissioning of new power plants and small boilers that can utilize 100% Semirara coal. This trend is expected to continue in the next two years as a result of the competitiveness of Semirara Coal over imported coal.
6. There are no significant elements of income or loss from continuing operations.
7. There were no subsequent events that came to our knowledge, which are material enough to warrant an adjustment in the consolidated financial statements.
8. The Group's operation is not cyclical or seasonal in nature. Mining activities is continuous throughout the year as coal production output from period to period can be adjusted through efficient mine planning on both short-term and long-term, mitigating negative impact of the rainy season to mine operations. The power generation business is also operational throughout the year as maintenance shutdown is just part of normal operation of the plant and programmed ahead of time.

Full Years 2010-2011

I. PRODUCTION AND OPERATIONS

COAL

The acquisition and operation of the 2 x 300 MW power plants in Calaca, Batangas gave market security to the coal business segment and the Company, as a group, to hold position in the power sector. The imbalance in the power demand and supply of energy in our country drove the Company to expand its power plant capacities in the next three years. The thrust of the mine operations in 2011 was anchored on this business decision.

There were more drilling programs implemented, particularly focusing on the eastern part of the island, which indicated positive results. These extensive drilling activities are being done to ensure that the expansion of power plant capacities will be accordingly supported by sufficient mineable coal reserves. The data gathered from the exploration and confirmatory drilling are going to be submitted to a local competent person for verification for certification by a competent person according to Philippine Mineral Resource Code (PMRC) standards and will ultimately be subjected to certification process in accordance with Joint Ore Reserve Code (JORC) standards.

With almost the same equipment complement, operations achieved a new record high of total material movement of 85.06million bank cubic meters (bcm), registering an 8% growth from 2010 material movement of 78.68 million bcm. At a higher strip ratio this year of 10:13:1 from 9:73:1 in 2010, run-of-mine (ROM) coal posted a more modest growth of 4% at 7.84million metric tons (MTs) from 7.54million MTs last year. Despite a higher percentage of washable coal this year, net total product coal recorded a 2% increase at 7.12 million MTs from 6.95 million MTs in 2010.

The fourth (4th) loading facility was made operational towards the end of the year. The strategic location of the new loading facility cuts coal transfer time. This improved logistic support necessary for the expanded activities in the island and make coal loading rate faster.

Despite the increased production, marketing efforts were restrained by the impact of the economic woes in Europe and US to the Asia Pacific Region. Exports declined due to high coal inventory in China from Europe which were diverted to Asian market and lower coal demand in Thailand due to flooding. Thus, local orders were given priority and export sales slowed down towards the end of the year. As a result, ending inventory stood at 1.0 million MTs more than double the beginning inventory of only 0.49million MTs.

POWER

UNIT 1

In 2011 Unit 1 was limited to 157 MW average load due to thinned boiler tubes and only one Circulating Water Pump (CWP) in service starting 14 April 2011. Also, the unit was under rehabilitation starting 29 August 2011, hence gross generation reduced by 20% from 2010 level of 915 GWh at 727 GWh this year. Capacity factor, availability, and forced outage rates during the year stood at 28%, 54%, and 4%, respectively. The unit was running for a total of 4,704 hours during the year, and it consumed 477,272 MTs Semcoal.

Unit 1 has been operating for 25 years and issues related to safety, reliability, efficiency, upgrade, obsolescence and environmental consequently arose. The rehabilitation of Unit 1 was undertaken to address these issues that caused the inefficient operations of the plant. It was officially shutdown for rehabilitation last August 29, 2011.

UNIT 2

In 2011 Unit 2 was running at 254MW average load due to extended commissioning and high pressure heater leak. Gross generation for 2011 was 1,132 GWh with 43% capacity factor, 60% availability, and 36% forced outage rates. After the rehabilitation works, generation this year is 57% higher than in 2010 as operating hours improved from 4,230 hours in 2010 to 5,234 hours this year.

The unit experienced 2,976 hours forced outage which is 19% higher than 2010 level due to the increase in load which exposed the plant's weak points leading to de-rating and shutdowns. Fine tuning of boiler was done progressively to correct overheating. Meanwhile, the remaining overheated boiler tubes will be replaced by end 2012, to coincide with the scheduled preventive maintenance shutdown of the plant.

The Distributed Control System (DCS) and the dry bottom ash system will also be installed during the aforementioned scheduled preventive maintenance shutdown. Moreover, all other improvements, correction of deficiencies and modifications will be undertaken during this time. The full rehabilitation program of the plant is expected to be completed and by start of 2013.

II. MARKET

COAL

Demand for Semirara coal, both from the local and export markets, remained strong in 2011. However, with its new objective of resource maximization for its investments in the power, the Company strategically cut export sales during the year, such that sales of 6.52million MTs was 9% lower than 2010 sales volume of 7.15million MTs.

The cut in sales volume came from export deliveries which dropped by 41% at 2.43million MTs from 4.10million MTs in 2010. Conversely, local sales increased by 34% at 4.09million MTs from 3.05million MTs in 2010.

With increasing local demand, marketing efforts shifted back to prioritizing the domestic market to fully benefit from its competitive advantages over imported coal. Thus, from a 43% : 57% market share in favor of export sales in 2010, the scale has tipped to 63%: 37% in 2011.

Bulk of the local sales were delivered to the power plants, totaling to 3.27million MTs, increasing by 92% from power plant sales of 1.70million MTs in 2010. SCPC's total deliveries increased by 47% at 1.41million MTs this year from 0.96million MTs in 2010 as first phase of Unit 2 rehabilitation was completed this year, thus increasing the plant's effective capacity and utilization rate. Meanwhile, deliveries to other power plants tripled from 0.74million MTs in 2010 to 1.86million MTs this year. The huge increase mainly came from the increase in off-take of a customer with power plants in the Visayas with a long-term supply agreement with the Company. Sales to the power sector accounted for 50% of total sales in 2011.

Sales to local cement plants remained flat at 0.66million MTs in 2011 from 0.66 MTs in 2010. This year, the Company has more direct sales to end-users, unlike in the previous years, wherein most of its sales to cement plants were made via local trader. Cement plant's market share inched up slightly at 10% this year from 9% in 2010.

Meanwhile, sales to other industrial plants recorded a significant 77% drop from 0.68 million MTs in 2010 to 0.16 million MTs this year. This was caused by lower purchases by a local broker who delivers to small industrial plants. As a result, this industry's market share dropped to 2% from 10% in 2010.

High global coal prices translated to a remarkable 31% increase in composite average price from PHP2,343 in 2010 to PHP3,078 this year. The Company already adopted a coal pricing mechanism which is indexed to global coal prices.

POWER

SCPC's recorded sales for bilateral contracts for 2011 increased by 14% to 1,553 GWh from its recorded sales in 2010 of 1,368 GWh. This is attributed to the renewal of contract with one of its previous customers, the Batangas I Electric Cooperative, Inc. (BATELEC I); a new power supply contract with Trans-Asia Oil and Energy Development Corporation, which took effect in April and March 2011, respectively; and an arrangement with the National Power Corporation (NPC) for a non-firm power supply to MERALCO on top of the existing firm power supply to MERALCO under the existing Contract for the Supply of Electric Energy inherited by SCPC from NPC.

MERALCO remained to be the biggest customer of SCPC accounting for 33% share of the total energy sales for SCPC's bilateral contracts.

SCPC's sales from the spot market, however, dropped by 1%, from 476 GWh in 2010 to 472 GWh in 2011. The decrease in sales to spot market was mainly due to the approval of non-firm nominations of Meralco.

Overall, a total energy of 2,025 GWh was sold in 2011, 77% directly to the customers through bilateral contracts, and 23% to the spot market. The total energy sales increased by 10% from 1,845 GWh recorded in 2010.

Of the total energy sold, 85% was sourced from the generation of the power plants, while 15% was purchased from the spot market. SCPC secured replacement power from the spot market to meet its supply obligation to MERALCO.

In December 2011, SCPC inked a new power supply contract with Meralco effective December 26, 2011 for a term of seven (7) years with an option to extend for another three (3) years upon mutual agreement. The initial contracted capacity is 210 MW and will be increased to 420 MW upon commercial operation of the other unit after rehabilitation or 210 MW for each unit.

III. FINANCE

A. Sales and Profitability

High coal prices and increase in energy sales resulted to a 13% growth in consolidated Revenues in 2011 at PHP25.81 billion from PHP22.90 billion in the previous year. Net of eliminating entries, coal and energy Revenues stood at PHP16.20 billion and PHP9.61 billion, respectively.

Consolidated Cost of Sales increased by 5% at PHP9.15 billion from PHP6.99 billion in 2010. After eliminating entries, the coal and power segments accounted for Cost of Sales of PHP10.26 billion and PHP6.40 billion, respectively. Cost of Coal Sold/MT increased by 21% from PHP1,770 in 2010 to PHP2,148 this year due to significant increases in rate of fuel consumption per cycle time and fuel, materials and spare parts prices, along with the increase in stripping ratio. On the other hand, the power segment's Cost of Sales/KWhr registered a slight 1% growth from PHP3.13 in 2010 to PHP3.16 in the current period.

The increase in per unit Cost of Sales was sufficiently covered by the increase in selling prices for both the coal and power segments. Thus, Gross Profit Margin increased from 31% in 2010 to 35% in the current period. As a result, consolidated Gross Profit registered a healthier growth of 31% from PHP6.99 billion in 2010 to PHP9.15 billion this year.

Meanwhile, consolidated Operating Expenses increased by 6% from PHP2.72 billion in 2010 to PHP2.88 billion this year. The coal segment's Operating Expenses of PHP1.86 billion is mainly composed of Government Share of PHP1.48 billion. On the other hand, the power segment incurred PHP999.00 million in Operating Expenses, which comprised mainly of the O&M fee of the plant. In addition, the Company invested in two new companies during the year. One is the Southwest Luzon Power Generating Corp. (SLPGC) which will undertake the expansion of the power capacities with the construction of 2 x 150 MW plants adjacent to the existing power plants of SCPC. Pre-operating expenses of PHP20.23 million were incurred during the year. Another Company was incorporated, the SEM-Cal Industrial Park Developers, Inc. (SIPDI) which aims to develop areas in the Calaca property into an economic zone. In 2011, it incurred Pre-operating Expenses of PHP50 thousand.

Consolidated Financing Cost dropped by 28% from PHP668.44 million in 2010 to PHP483.29 million this year. The decrease was due to the decline in the balance of the SCPC loan, which partly financed the acquisition of the asset, from PHP9.6 billion in 2010 to PHP8.6 as at the end of 2011. Augmented by the drop in interest rates, Financing Cost of the power sector decreased by 19% from PHP490.63 in 2010 to PHP396.78 million this year. Meanwhile, although total loans of the coal segment increased in 2011, due to the decrease in interest rates, its Financing Costs in 2011 of PHP86.51 million decreased by 56% from 2010 level of PHP177.81 million, mainly from dollar denominated loans.

On the contrary, consolidated Finance Income rose by 134% from PHP57.67 million to PHP134.88 million. Short-term placement rates improved in 2011 compared to 2010. Moreover, all business units had healthier cash positions during the year. The coal segment's Finance Income increased by 165% at PHP79.45 million from PHP30.02 in 2010; while the power segment generated PHP55.43 million this year, posting a 100% increase from last year's level of PHP27.65 million.

Meanwhile, SLPGC recognized Finance Income of PHP10.54 from its partially paid-up capital placed in short-term time deposit accounts.

Meanwhile, foreign exchange fluctuations resulted to consolidated Forex Losses of PHP38.32 million, the coal and power segments incurred Forex Losses of PHP26.01 million and PHP12.31 million, respectively. In 2010, the fluctuations moved in favor of the Company, thus enabling it to recognize consolidated Forex Gains of PHP 199.49 million.

Consolidated Other Income of PHP99.91 was generated by the coal segment mainly from sale of retired mining equipment and proceeds from insurance claims of PHP53.55 million and 35.12 million respectively. This posted a 53% growth from 2010 level of PHP65.43 million.

Consolidated Net Income Before Tax showed an impressive growth of 53% at PHP6.01 billion from PHP3.95 billion last year. Minimal losses from the two pre-operating companies were sufficiently covered by the healthy income generation of the coal and power segments, which stood at PHP4.14 billion and PHP1.87 billion, respectively, net of eliminating entries. Meanwhile, both business segments have Income Tax Holidays as Board of Investments registered companies (as expanding coal producer and as power generator). As a result, consolidated Tax Provision amounted to negative provision of PHP22.17 million consisting of final income taxes amounting to PHP22.76, net of deferred income taxes of PHP44.93 million.

The resulting consolidated Net Income After Tax closed at PHP6.03 billion, the coal and power segments respectively contributed PHP4.17 billion and PHP1.87 billion. Net earnings this year posted a remarkable 51% growth from consolidated Net Income After Tax in 2010 of PHP3.95 billion. Earnings per Share increased by 40% from PHP12.10 last year to PHP16.93 this year, after the number of outstanding shares increased mid-2010 due to a stock rights offering exercise.

B. Financial Condition, Solvency and Liquidity

Strong revenues resulted to healthy cash generation for the Company. This allowed the Company to increase its investments, particularly property, plant and equipment (PPE) which totaled to a consolidated amount of PHP35.63 billion.

The Company was also able to afford to pay dividends, which is double of last year's figure amounting to PHP3.56 billion. Although still under rehabilitation, the power segment contributed PHP1.2 billion in dividends.

Total consolidated debt repayment was also sizeable at PHP2.80 billion.

Despite the considerable cash out, consolidated Cash End stood at PHP5.01 billion, posting a 31% growth over beginning balance of PHP3.81 billion.

Consolidated Net Receivables increased slightly by 1% from beginning balance of PHP3.18 billion, closing at PHP3.22 billion. After hitting its target for the year, the coal segment slowed down its coal deliveries toward the end of the year, thus decreasing its receivable level from PHP1.47 billion as at the start of the year to PHP1.07 billion as at year-end. Meanwhile, the power segment's Receivables slightly increased to PHP2.15 billion from PHP1.71 billion from the start of the year, while SLPGC recorded net Receivables of PHP384 thousand.

On the other hand, consolidated Net Inventories increased by 93% from beginning balance of PHP2.35 billion to PHP4.59 billion as at yearend. This is mainly due to increased coal inventory. Coal production was at record high in 2011, but sales volume was controlled in congruence to the Company's strategy of maximizing reserves for its own power plants. The coal and power segments' inventories closed at PHP3 billion and PHP1.6 billion, respectively.

Meanwhile, consolidated Other Current Assets increased by 44%, closing at PHP1.31 billion, from a beginning balance of PHP912.76 million. This is mainly comprised of Creditable withholding taxes and Advances to suppliers and other prepayments amounting to PHP418.92 million and PHP891.51 respectively

The resulting consolidated Total Current Assets increased by 38% from beginning balance of PHP10.26 billion, closing at PHP14.12 billion. The coal and power segments contributed PHP8.77 billion and PHP5.4 billion, respectively; power segment is inclusive of the pre-operating power Company, SLPGC, which accounts for PHP758.44 million current assets. SIPDI contributed PHP2.5 million.

Consolidated Non-Current Assets recorded a more modest 6% growth at PHP21.50 billion as at yearend from beginning balance of PHP20.23 billion.

Net of depreciation, consolidated PPE closed at PHP20.74 billion, increasing by 6% from beginning balance of PHP19.58 billion. More mining equipment were purchased during the year, thus increasing the coal segment's PPE from PHP3.70 billion beginning balance to PHP3.72 billion ending balance; while rehabilitation works at the Calaca power plants increased the value of its PPE from PHP15.88 billion beginning balance to PHP17.07 billion as at yearend.

Investment and Advances increased by 6% from PHP310.23 million beginning balance to PHP490.79 million as at yearend. This accounts for the power segment only.

Meanwhile, consolidated Other Non-Current Assets dropped by 19% from beginning balance of PHP317.59 million to PHP257.38 million. The coal and power segments accounted for PHP158.45 million and PHP98.93 million, respectively. The decrease is due to the recovery of the related assets.

The resulting consolidated Total Assets posted a 17% growth, closing at PHP35.63 billion from PHP30.50 billion in 2010. The coal and power segments respectively accounted for PHP12.61 billion and PHP23 billion inclusive of the assets relating to the pre-operating power companies - SLPGC amounting to PHP765 million. SIPDI contributed PHP2.50 million.

Consolidated Total Liabilities also increased by 15% from beginning balance of PHP18.16 billion, closing at PHP20.82 billion. The coal segment accounted for Total Liabilities of PHP9.38 billion, comprised of PHP6.7 billion and PHP2.68 billion Current and Non-Current portions, respectively. Meanwhile, the power segment's Current and Non-current portions closed at PHP4.60 billion and PHP6.84 billion, respectively, resulting to Total Liabilities of PHP20.82 billion.

Consolidated Current Liabilities increased by 63% from beginning balance of PHP6.93 billion to PHP11.31 billion as at year-end. This is primarily due to the substantial Accounts and Other Payables recognized by the coal and power segments amounting to PHP4.61 billion and PHP2.69 billion, respectively. These liabilities principally arose from purchase of materials, spare parts fuel and services. Consolidated Short-Term Loans likewise increased by 125% from PHP449.85 million as at the start of the year to PHP1.01 billion as both business segments' working capital requirements for the period increased. Finally, Current Portion of Long Term Loans also posted a significant increase of 164% from beginning balance of PHP1.13 billion, closing at PHP2.99 billion. The coal segment has maturing medium term loans, in relation to the financing of its CAPEX, within the next twelve months. On the other hand, the power segment is already amortizing its term loan which partially financed the acquisition of the power plants.

Conversely, consolidated Non-Current Liabilities decreased by 15% from beginning balance of PHP11.22 billion to PHP9.52 billion as at yearend. This is primarily due to the reclassification of the maturing portion of both segments' long-term debts to short-term.

The 20% increase in consolidated Total Stockholders' Equity, from beginning balance of PHP 12.30 billion to close at PHP14.81 billion, came from the growth in Retained Earnings. Despite paying out record high cash dividends during the year, both business segments' robust income generation during the period resulted to a stronger equity level.

Consolidated Current Ratio dropped by 16% from 1.48:1 in 2010 to 1.24:1 as at yearend. This is primarily caused by the increase in Current Liabilities. On the other hand, Debt-to-Equity ratio improved by 4% from 1.47:1 in 2010 to 1.41:1 as at yearend due to reclassification of maturing long-term loans to short-term.

C. Performance Indicators

1. **Earnings per Share** - Despite a bigger capital base in 2011, the Company's EPS increased by 40%, a testament to its strong absolute earnings during the year. This performance indicator is crucial in determining the Company's ability to declare cash dividends.
2. **Debt-to-Equity Ratio** - Aside from portraying its robust financial health, improving Debt-to-Equity Ratio boosts the Company capability to expand its business for capital growth. With a healthy DE ratio, the Company's financing options are likewise broadened, enabling it to enjoy low interests.
3. **Business Expansion** - Its investment in the power sector opened several doors of opportunity for the Company. A deeper knowledge in the industry guided the Company's plans of expanding its power plant capacities. The shift in the Company's strategy from expansion in the coal segment to development in the power sector provides a multiplier effect in the value of its finite coal reserves.
4. **Expanded Market** - The increased acceptance by the local customers for Semirara coal allowed the Company to refocus its marketing efforts back to the domestic market, thus maximizing its intrinsic competitive advantages over imported coal. Meanwhile, the power segment's supply contract with MERALCO secures its operating efficiency as base-load power generator.
5. **Improved coal quality** - Ensuring that its coal quality improvement measures are strictly complied with is essential in maintaining the Company's marketing success. The Company now takes a step further by creating a market for its lowest quality coal which no existing customer could take. Its expansion in the power sector aims to employ the latest technology that could burn its waste coal.

IV. OTHER INFORMATION

9. There were no known trends, events or uncertainties that have material impact on liquidity.
10. The Company provides interim corporate suretyship in favor of the lenders of SCPC for its PHP9.6 billion 7-year loan availed on 26 May 2010. The security may however be suspended within the term of the loan when the conditions set forth in the loan contract are met. SCPC started to amortize the loan in 2011; as at end of the year outstanding balance decreased to PHP8.75 billion.
11. There are no material off-balance sheet transactions, arrangements, obligations, and other relationships of the Company with unconsolidated entities or other persons created during the reporting period.
12. The Company has issued purchase orders to suppliers for mining equipment amounting to P180 million for delivery Q1 2012. Additional mining equipment worth USD7.65 million will be purchased in 2012 with various delivery dates falling on the second half 2012. Moreover a 1 x 15 MW CFB Power Plant will be constructed in Semirara Island for its mine operation, a replacement of the old unit with estimated cost of P1.2 billion. The equipment purchases will be financed with medium-term loans that match the life of the assets while the power plant will be financed via long term loan, all to be sourced from local banks.

13. For 2012, we expect an increase in the demand for Semirara Coal in the domestic market with the commissioning of new power plants and small boilers that can utilize 100% Semirara coal. This trend is expected to continue in the next two years as a result of the competitiveness of Semirara Coal over imported coal.
14. There are no significant elements of income or loss from continuing operations.
15. There were no subsequent events that came to our knowledge, which are material enough to warrant an adjustment in the consolidated financial statements.
16. The Group's operation is not cyclical or seasonal in nature. Mining activities is continuous throughout the year as coal production output from period to period can be adjusted through efficient mine planning on both short-term and long-term, mitigating negative impact of the rainy season to mine operations. The power generation business is also operational throughout the year as maintenance shutdown is just part of normal operation of the plant and programmed ahead of time.

Full Years 2009-2010

I. PRODUCTION AND OPERATIONS

Coal:

Over the years, global consumption for thermal coal has steadily increased. To meet rising demand, the Company further expanded capacity in 2010 by commissioning additional mining equipment worth USD32.25 million. With additional three units 16-cubic meter excavators, 25 units 100-tonner dump trucks, and corresponding support equipment, operations registered a new record high of total material movement of 78,681,611 bank cubic meters (bcm). This is 31% higher than 2009 material movement of 60,286,812 bcm. Strip ratio likewise improved by 17% at 9.73:1 from 10.91:1 in 2009. As a result, run-of-mine (ROM) coal produced posted a higher increase of 47% at 7,536,094 metric tons (MTs) from 5,144,143 MTs in 2009. Net total product coal correspondingly grew by 45% at 6,950,333 MTs from 4,798,398 MTs in 2009. Notably, good weather conditions during the year positively impacted mining operations.

The Company supports the expansion in production capacity with exploratory and confirmatory drilling activities. Initial results of the drilling program showed that coal seams extend throughout the eastern part of the 5,500-hectare island.

Moreover, in order to provide logistic support to match increased level of operations, a USD16 million investment was made to purchase additional barges and tugboats for domestic deliveries and to support mid-stream loading for vessels with capacity greater than 30,000MT.

Strong demand from both local and export markets is manifested by a 36% drop in inventory, despite increased production, from a beginning balance of 763,575 MTs to 490,7135 MTs as at the end of the year.

Power:

Meanwhile, the two power generating units of SCPC, which is 100% owned by the Company, attained their expected capabilities based on their pre-rehabilitation conditions. In terms of availability, Unit 1 was running for 238 days, representing an availability of 65%, while Unit 2 was running for 174 days, representing an availability of 48%. The lower availability for Unit 2 was due to the scheduled rehabilitation during the second semester of 2010, from August 8 up to year end.

In terms of capacity utilization, the two generating units churned out their expected output when it was bid out by Power Sector Asset & Liability Management (PSALM). Unit 1 was utilizing an average of 53% of its rated capacity, while Unit 2 was utilizing an average of 57% of its rated capacity. Both units have a rated capacity of 300 MW each.

Coal consumption for the generating units totaled 1,059,538 MTs for the year, inclusive of imported coal, at an average coal price of PHP2,817 per MT.

Total energy generated reached 937 million Kwh for Unit 1 and 720 million Kwh for Unit 2, or an aggregate generation of 1,657 million Kwh for the year 2010.

II. MARKET

Coal:

Increasing number of coal-fired plants and supply disruption in key coal exporting countries fueled global demand for thermal coal in 2010. The latest round of capacity expansion enabled the Company to meet more orders, thus recording another marketing milestone with an impressive 60% growth in sales from 4,464,029 MTs in 2009 to 7,146,286 MTs in 2010.

Local sales comprised 43% of total volume at 3,047,405 MTs, while 57% were export sales totaling to 4,098,781 MTs. In 2009, market shares of local and the export sales were 49% and 51%, respectively.

Of the total volume sold to local markets, more than half were delivered to power plants. Deliveries to SCPC aggregated to 957,908 MTs, and other power plants sales totaled to 746,911 MTs, thus registering total sales to local power plants at 1,704,819 MTs. Two newly commissioned plants in the Visayas area started to buy Semirara coal this year. Despite recording a 31% increase over 2009 power plants' sales of 1,301,776 MTs, current market share of the local power industry dropped to 24% from 29% last year.

Sales to local cement plants posted a modest growth of 8% from 615,164 MTs in 2009 to 661,392 MTs in 2010. A major player in the cement industry started to use Semirara coal this year. Due to a more significant increase in total sales, its market share likewise dropped from 14% in 2009 to 9% in 2010.

Conversely, other industrial plants increased its market share from 6% in 2009 to 10% in 2010 with a more significant increase of 139% in sales volume. A total of 681,242 MTs were delivered in 2010 to different industrial users, usually through local traders who have the logistic support to supply to inland customers. This market only accounted for 285,392 MTs in 2009.

Export sales continued to be the Company's main growth driver with a remarkable 81% increase from 2009 sales volume of 2,261,695 MTs. Around 75% of export deliveries in 2010 went to China. The rest were delivered to India, Thailand, Hong Kong, and South Korea.

Composite average FOB price per MT dropped by 10% at PHP2,343 this year from PHP2,600 in 2009. When the Company acquired the power business in December 2009, the pricing mechanism was amended to reflect current market prices, instead of the import parity pricing scheme as provided for in the Coal Supply Agreement with National Power Corporation.

Power

SCPC sold a total of 1,370 million Kwh to its customers by virtue of its Transition Supply Contracts (TSCs), which form part of the Asset Purchase Agreement (APA) when SCPC acquired the Calaca Coal-fired Power Plants from PSALM in December 2009. The major customers under the TSCs include Meralco, which comprised 51% of total TSC volume sold, the Cavite Export Processing Zone (CEPZ) for 29%, Batangas Electric Cooperative 1 (Batelec 1) for 18%, and other small customers for the remaining 2%.

In excess of SCPC's TSC commitments, additional power sales were generated by selling to the Wholesale Electricity Spot Market (WESM) during off-peak hours. Total spot sales reached a volume of 480 million Kwh for the year.

In some instances, SCPC purchased power from the WESM to be able to meet its commitment under the TSCs. Power purchased from the spot market totaled to 340 million Kwh for the year. It is worthy to note that replacement power contracts with other power generators were put in place before the scheduled rehabilitation of Unit 2, which resulted in putting a cap on SCPC's exposure from the WESM by generating savings of over PHP200 million for the year.

Of total sales volume for the year, SCPC's sales mix ratio was at 77% for TSCs and 23% for spot sales. This sales mix ratio is deemed to be within the ideal mix to limit SCPC's exposure to the volatility of the spot market, and to minimize exposure to the contracted capacities in case of unavailability.

III. FINANCE

A. Sales and Profitability

The Company's investment in SCPC boosted profitability in 2010. Consolidated Revenue of PHP22.90 billion is almost double 2009's Revenues of PHP11.94 billion. Net of eliminating entries, PHP14.24 billion and PHP8.66 billion represented coal and energy revenues, respectively. The 24% increase in coal revenues versus PHP8.92 billion generated in 2009 is mainly driven by the significant increase in sales volume. Before elimination, total coal revenue amounted to P16.75 billion. On the other hand, the surge in energy sales from PHP443.49 million in 2009 is due to the full year contribution of SCPC in the current period under review against barely a month operation in 2009.

Net of eliminating entries, the coal and power segments recorded Cost of Sales amounting to PHP10.14 billion and PHP5.77 billion, respectively. Although consolidated Cost of Sales increased by 70% from PHP9.34 billion in 2009 to PHP15.90 billion this year due to higher number of units sold for both coal and power, the results reflected a lower cost for each unit sold. For the coal segment, Cost of Coal Sold/MT dropped to PHP1,698 from PHP1,919 in 2009, manifesting the positive impact of economies of scale. Non-Cash Cost slightly rose from 12% in 2009 to 14% this year reflecting increased accounting for depreciation of new mining equipment. On the other hand, cost of energy sales registered at PHP3.12 per Kwh sold.

The resulting consolidated Gross profit recorded an increase of 169% from PHP2.60 billion in 2009 to PHP6.99 billion this year. Gross profit margin likewise registered an improvement at 31% in the current year as against 22% last year.

Operating Expenses of the coal segment amounting to PHP1.81 billion in 2010 is mainly composed of Government Share at PHP1.31 billion. SCPC incurred PHP982.09 million, thus resulting to a consolidated Operating Expenses of PHP2.79 billion. The 272% increase from 2009 consolidated Operating Expenses of PHP749.58 million is due to expanded operations for the coal segment and full year accounting for the power business, inclusive of P383.29 million provision for billing disputes with PSALM.

A substantial portion of consolidated Finance Costs of PHP685.91 million this year was incurred by SCPC mainly in relation to its PHP9.6 billion loan which refinanced the PSALM debt. SCPC booked total financing charges of PHP490.63 million, while the coal segment incurred a total of PHP195.27 million for new loans availed to finance purchase of equipment and other capital expenditures. Finance Cost in 2009 is significantly lower at PHP112.19 million.

Meanwhile, Finance Income rose by 9% from 2009 level of PHP52.75 million to PHP57.67 million this year. It is however important to note that ending cash balance is healthier this year. Two factors will explain the minimal growth in finance

income vis-à-vis higher increase in cash: interest rates are lower this year and the Company only accumulated cash towards the end of the year after it has paid dividends.

Meanwhile, fluctuations in foreign exchange rates benefited the coal segment as shown by recording Forex Gains of PHP235.80 million this year, of which P67.31 million represented net unrealized Forex gain due to restatement of foreign currency denominated loans outstanding as of end of the year. Conversely, the power business incurred Forex Losses of PHP36.31 million due to peso depreciation at the time of full settlement of PSALM loan in USD. As a result, the Company reported a consolidated Net Forex Gains of PHP199.49 million. This figure is 318% higher than 2009 Forex Gains of PHP47.70 million.

In July 2010, the Company divested its investments in DMCI Power Corp. and DMCI Mining Corp. As presented at consolidated level, it booked Equity in Net Income of Associates amounting to PHP76.83 million, prior to divestment. At beginning of the year, the accumulated share in equity losses amounted to PHP39.35 million, thus recognized Income from Divestments during the year is PHP41.38 million using equity method. At the parent level, recognized gain on sale of investment is P77.09 million using the cost method.

In addition, the coal segment recorded Other Income amounting to PHP24.05 million from gain on sale of retired equipment, recoveries from insurance claims and other miscellaneous income. In 2009, Other Income was remarkably higher at 107.94 million also consisting of similar nature.

Consolidated Net Income Before Tax showed a sizeable jump of 105% from PHP1.91 billion in 2009 (as restated) to PHP3.92 billion this year. The coal and power segments posted net Income Before Tax of PHP2.48 billion and PHP1.41 billion, respectively, before eliminating entries. As both business segments enjoy Income Tax Holidays, consolidated Tax Provision was (PHP 35.16) million, due to reversal of deferred income tax provision on the power segment net of current tax provision representing final taxes on interest income for both segments. The resulting consolidated Net Income After Tax is PHP3.95 billion, the coal and power segments each contributing PHP2.52 billion and PHP1.44 billion, respectively. This year's Net Income is 114% higher than PHP1.85 million in 2009. Increased number of shares outstanding slightly tempered growth in consolidated Earnings per Share to 82% from PHP6.65 in 2009 to PHP12.10 this year.

B. Financial Condition, Solvency and Liquidity

The Company recorded consolidated Ending Cash balance of PHP3.81 billion, almost 7x the beginning Cash balance of PHP481.92 million. The remarkable increase in the coal segment's sales this year was sufficient to fund its own working capital requirements, pay cash dividends of PHP1.78 billion and service debts totaling to PHP5.89 billion. Net Ending Cash contribution of the coal segment was at PHP2.81 billion. Meanwhile, SCPC posted ending cash balance of PHP1.00 billion this year despite spending for rehabilitation of Unit 2.

Consolidated Net Receivables reflected an increase of 154% from PHP1.25 billion in 2009, closing at PHP3.18 billion as at the end of 2010. The substantial Receivables of the coal segment were due to increased sales towards the end of the year when it took advantage of rising coal prices. SCPC's Receivables are mostly composed of Energy Sales.

On the other hand, consolidated Net Inventories dropped by 20% from PHP2.98 billion in 2009 to PHP2.38 billion this year. Orders for semcoal exceeded production, such that ending coal inventory dropped by 43% in terms of value at PHP833.47 million from beginning level of PHP1.47 billion. This offset the 70% increase in value of spare parts and supplies, which correspond to increased equipment complement, from PHP527.64 million in 2009 to PHP894.80 million as at the end of the year. SCPC booked an ending inventory of PHP658.81 million in 2010, recording a 34% drop from beginning balance of PHP998.50 million, which consisted mostly of spare parts and supplies.

Meanwhile, consolidated Other Current Assets increased by 50% from PHP608.94 million 2009 (as restated) closing balance to PHP912.76 million as at the end of 2010. Bulk of this is comprised of security deposits from operating leases and, advances to suppliers. SCPC accounted for PHP138.02 million of Other Current Assets, representing prepaid rent.

As a result of the movements of the foregoing accounts, consolidated Total Current Assets registered a growth of 93% at PHP10.29 billion as at the end of the period from PHP5.33 billion (as restated) in 2009. Before consolidation, the coal and power segments' Total Current Assets level registered at PHP6.94 billion and PHP4.00 billion, respectively.

Consolidated Non-Current Assets registered a more modest growth of 7% at PHP20.21 billion as at the end of the period from 2009 ending balance of PHP18.93 billion (as restated).

Consolidated Net Property, Plant and Equipment (PPE) registered a 7% growth from PHP18.36 billion in 2009 to PHP19.58 billion as at the end of the review period. This is mainly due to accounting of additional mining equipment that arrived during the year. The coal and power segments recorded PHP3.70 billion and PHP15.88 billion ending balances, respectively.

Investment and Advances increased by 27% from PHP244.43 million in 2009 to PHP310.23 million as at end 2010, consisting solely of the sinking fund of SCPC.

Consolidated Other Non-Current Assets reflected a 5% decline to PHP317.59 million from PHP334.95 million (as restated) as at end 2009 due mainly to reclassification to current portion of some accounts. The coal and power segments each contributed PHP139.92 million and PHP138.02 million, at each respective level.

The resulting consolidated Total Assets grew by 26% from PHP24.26 billion in 2009 to PHP30.49 billion this year. Of this amount, PHP10.74 billion is attributed to the coal segment, while PHP19.75 billion reflected SCPC's Total Assets. Before consolidation, each segment reported Total Assets of P18.79 billion and P20.33 billion, respectively.

Consolidated Total Liabilities likewise increased by 26% at PHP18.15 billion from PHP14.38 billion in 2009. Current and Non-current portions of the coal segment stood at PHP4.43 billion and PHP2.86 billion, respectively, adding up to Total Liabilities of PHP7.29 billion. On the other hand, SCPC's Current and Non-current portions closed at PHP2.50 billion and PHP8.36 billion, respectively, resulting to Total Liabilities of PHP10.87 billion.

Consolidated Current Liabilities of PHP6.93 billion recorded a 17% growth from PHP5.91 billion in 2009. The 64% increase in consolidated Accounts and Other Payables which closed at PHP5.35 billion this year from PHP3.25 billion as at end 2009 is mainly due to significant provision for government share close to P1.0 billion, consignment payables and accrued payable for materials, supplies and contracted services. This increase is offset by decrease in Current-portion of Long Term loans which closed at PHP1.13 billion from PHP1.81 billion in 2009. The account reflected the current portion of SCPC's PHP9.6 billion loan availed to take out PSALM liabilities. Last year's loan balance was already serviced during the year.

Consolidated Non-Current Liabilities posted a 33% increase from 2009 closing balance of PHP8.47 billion to PHP11.22 billion. This is mainly due to the coal segment's loan availments in 2010 to finance its capacity expansion. This is specifically reflected in the 33% increase in consolidated Long-Term Debt from PHP8.36 billion in 2009 to PHP11.16 billion as at the end of 2010. The acquisition of the power plant assets was refinanced by a 7-year project loan of PHP9.6 billion syndicated by three local banks in May 2010. This was already reflected in the books as at the end of 2009 as debt to PSALM.

On 19 July 2010, the Company listed additional 59,375,000 shares to finance its investment in SCPC. This generated PHP4.39 billion for the Company. In addition, in the second quarter of the year, the Company reissued its 19,302,200 Treasury Shares, generating a total of PHP 765 million. These activities, further augmented the cash generated by the Company and beefed up Total Stockholders' Equity by 25% from PHP9.88 billion in 2009 to PHP12.34 billion as at the end of 2010. The Company recognized additional paid in capital of P5.10 billion resulting from the issuance of new shares via a stock rights offering and reissuance of the treasury shares.

Consolidated Current Ratio significantly improved at 1.48:1 compared to 0.90:1 in 2009 (based on restated amounts). However, Debt-to-Equity ratio dipped slightly from 1.45:1 to 1.47:1 as at the end of 2010. This is due to the availment of additional debts during the year.

D. Performance Indicators

1. **Earnings per Share** - To finance its investment in SCPC, the Company went into a 1:5 stock rights offering in 2010, increasing issued shares to 356,250,000 from 296,875,000 in 2009. Moreover, all the issued shares are outstanding this year with the sale of 19,302,200 shares previously held in treasury. Despite this development, EPS managed to reflect a healthy growth of 82%. This does not only signify that the coal business is performing well, but the power business as well. The investment in SCPC undoubtedly created more value for the Company.
2. **Debt-to-Equity Ratio** -The Company's robust financial health is indicated by consistently recording low DE ratio in the past few years. As a result, when the opportunity to own its single biggest customer arose, its balance sheet was ripe and ready to take on the challenge. While the Company's current DE ratio of 1.47:1 shows its leveraged condition, it is positive that it can afford to be in this position given the remarkable performance of both coal and power segments.
3. **Business Expansion**- Motivated by good prospects in the power industry, the Company aggressively expands its operations for both business segments. The coal business launched into another expansion activity in 2010, thus enabling it to benefit from strong demand during the year. Meanwhile, Unit 2 of SCPC underwent rehabilitation works to ramp up productivity and improve efficiency. These activities are geared to create more value for the Company.
4. **Expanded Market** - The improved performance of the Company is mainly attributed to its ability to serve growing global demand for coal. Over the years, more customers are steadily buying its coal. On the other hand, the rehabilitation of SCPC's Unit 2 promises to further increase yield since being a cheap producer of power, SCPC is confident that it can successfully dispatch its additional production either through supply contracts or through the open market.
5. **Improved coal quality** - Enhancing coal quality is a going concern for the Company. This challenge is highlighted by the inherent low quality of its product. This is an important aspect of operations as this dictates its marketing success.

IV. OTHER INFORMATION

1. There were no known trends, events or uncertainties that have material impact on liquidity.
2. The Company provides interim corporate suretyship in favor of the lenders of SCPC for its PHP9.6 billion 7-year loan availed on 26 May 2010. The security may however be suspended within the term of the loan when the conditions set forth in the loan contract are met.
3. There are no material off-balance sheet transactions, arrangements, obligations, and other relationships of the Company with unconsolidated entities or other persons created during the reporting period.
4. The Company has issued purchase orders to suppliers for mining equipment amounting to PHP40M. Delivery period starts on June 2011. These purchases will be financed with medium-term loans that match the life of the assets.

5. The recent calamity in Japan may have a positive impact on the demand and price of Semirara coal. Since Japan is an exporting country, any shortfall in their production may have positive impact to China. If China will increase production, demand of Semirara coal may escalate as most of our exports go to China.
6. There are no significant elements of income or loss from continuing operations.
7. There were no subsequent events that came to our knowledge, which are material enough to warrant an adjustment in the consolidated financial statements.
8. The Group's operation is not cyclical or seasonal in nature. Mining activities is continuous throughout the year as coal production output from period to period can be adjusted through efficient mine planning on both short-term and long-term, mitigating negative impact of the rainy season to mine operations. The power generation business is also operational throughout the year as maintenance shutdown is just part of normal operation of the plant and programmed ahead of time.

B. INFORMATION ON INDEPENDENT ACCOUNTANT AND OTHER RELATED MATTERS

The principal accountants and external auditors of the Company and its Subsidiaries is the accounting firm Sycip, Gorres, Velayo and Co. (SGV & Co.). Pursuant to the General Requirements of SRC Rule 68, paragraph 3 (Qualifications and Reports of Independent Auditors), the Company and its Subsidiaries (the latter incorporated in November 2009) has engaged the services of SGV & Co. as external auditor of the Company, and Mr. Davee M. Zuñiga is the Partner-In-Charge starting 2012 or less than five years following the regulatory policy of audit partner rotation every five years.

(1) External Audit Fees and Services

- (a) **Audit & Audit Related Fees.** - The Company and its Subsidiaries paid its external auditors the following fees in the past two (2) years:

In Millions Pesos with VAT	
2012	4.0 ⁶
2011	3.7 ⁷
Total	7.7⁸

- (b) **Tax Fees.** - There are no fees billed in each of the last fiscal years for professional services rendered by the SGV & Co. for tax accounting, compliance, advice, planning and any other form of tax services.
- (c) **All Other Fees.** - There are no fees billed in each of the last two fiscal years for products and services provided by SGV & Co. other than services reported under item (a) above.
- (2) There have been no changes in or disagreement with the Company and its Subsidiaries' accountant on accounting and financial disclosures.
- (3) The Company's Audit Committee oversees the external audit function on behalf of the Board of Directors (Board). It recommends the appointment, reappointment or replacement of external auditor to the Board. It is charge with the evaluation of the audit work engagements, its scope, fees and terms for approval of the Board. The Audit Committee also reviews non-audit services and taxation advice, if any, by the external auditor. At the conclusion of the annual audit, it discusses with Management and the external auditor significant reporting issues. Lastly, the Audit Committee reviews external audit findings in respect of any significant deficiencies or weaknesses in controls and ensure that Management responds appropriately with timely corrective actions, including audit adjusting entries noted or proposed but passed as immaterial or otherwise.

⁶ Includes Subsidiary's audit fee of P1.9 Million.

⁷ Includes Subsidiary's audit fee of P1.6 Million.

⁸ Audit and audit-related fees only; no fees for other assurance and related services were paid.

PART IV – MANAGEMENT AND CERTAIN SECURITY HOLDERS

A. DIRECTORS AND EXECUTIVE OFFICERS OF THE ISSUER

- (1) The following are the names, citizenship, educational attainment, positions, offices and business experiences of all incumbent Directors and Executive Officers of the Company:

Directors:

1. **David M. Consunji**, 91, Filipino, is the Chairman of the Board of the Company and has served as Director since May 2001. He is a graduate of B.S. Civil Engineering at the University of the Philippines. He is currently the Chairman of the Board of D.M. Consunji, Inc., Dacon Corporation, DMCI Holdings, Inc. (*listed company*), Semirara Cement Corp., SEM-Calaca Power Corporation, Southwest Luzon Power Generation Corporation, Semirara Claystone Inc., Semirara Energy Utilities Inc., and a director of Atlantic Gulf & Pacific Co., Inc. He was the former Secretary of the Department of Public Works, Transportation and Communications from August 23, 1971 to 1975, President of the Philippine Contractors Association, President of International Federation of Asian & Western Pacific Contractors' Association, President of Philippine Institute of Civil Engineers, Vice-President of the Confederation of International Contractors' Association. He also served as the Chairman of the Contractors Association, the Philippine Domestic Construction Board, the Philippine Overseas Construction Board, and the U.P. Engineering Research and Development Foundation, Inc.
2. **Isidro A. Consunji**, 64, Filipino, is the Vice-Chairman, Chief Executive Officer, and the Chairman of the Nomination & Election Committee of the Company. He has served as Director since May 2001. He is a graduate of B.S. Civil Engineering at the University of the Philippines. He holds a Masters Degree in Business Economics from the Center for Research & Communication, and Business Management from the Asian Institute of Management. He also took an Advanced Management from IESE School in Barcelona, Spain. He is currently the CEO of SEM-Calaca Power Corporation, Southwest Luzon Power Generation Corporation, Semirara Claystone Inc., and Semirara Energy Utilities Inc. He is also the Chairman and CEO of DMCI Mining Corporation, and Vice-Chairman of DMCI Masbate Power Corporation. He is a Director of Dacon Corporation, M&S Company Inc., DMCI Projects Developers, Inc., Crown Equities, Inc. (*listed company*), Semirara Cement Corporation, and Maynilad Water Services. He is also the President of DMCI Holdings, Inc. (*listed company*). He was the former President of the Philippine Constructors Association and Philippine Chamber of Coal Mines, Inc.
3. **Victor A. Consunji**, 62, Filipino, is the President, Chief Operating Officer (COO), and a member of the Audit Committee of the Corporation. He has served as Director since May 2001. He is a graduate of A.B. Political Science at the Ateneo de Davao. He is currently the President and COO of SEM-Calaca Power Corporation, Southwest Luzon Power Generation Corporation, Semirara Claystone Inc., and Semirara Energy Utilities Inc.; Chairman, President & CEO of Semirara Training Center, Inc.; Chairman and CEO of DMCI Power Corporation; Chairman & President of Sirawai Plywood & Lumber Corp.; Chairman of One Network Bank and Divine Word School of Semirara Island, Inc.; President of Sirawai Plywood & Lumber Corp.; and Vice-President of Dacon Corporation. He is also a Director of DMCI Holdings, Inc. (*listed company*), D.M. Consunji, Inc., M&S Company, Inc., Dacon Corporation, Sodaco Agricultural Corporation, DMC Urban Property Developers, Inc., Ecoland Properties, Inc., DMCI Masbate Power Corporation, and DMCI Mining Corporation.
4. **Jorge A. Consunji**, 61, Filipino, is a Director of the Company and has served as Director since May 2001. He is a graduate of B.S. Industrial Management Engineering at the De La Salle University. He is currently the Chairman of DMCI Masbate Power Corporation, and Director of DMCI Holdings, Inc. (*listed company*), Dacon Corporation, DMCI Project Developers, Inc., SEM-Calaca Power Corporation, Southwest Luzon Power Generation Corporation, Semirara Claystone Inc., Semirara Energy Utilities Inc., Cotabato Timberland Co., Inc., M&S Company, Inc., Sodaco Agricultural Corporation, DMCI Mining Corporation, DMCI Power Corporation, Eco-Process & Equipment Phils. Inc., and Maynilad Water Services, Inc. He is also the President & COO of D.M. Consunji, Inc., and Royal Star Aviation, Inc.; and Vice-President of Divine Word School of Semirara Island, Inc. He was the former Chairman of the Board of Contech Panel Mfg., Inc., and of Wire Rope Corp. of the Philippines. He was the former President of ACEL and Former First Vice-President of Phil. Constructors Association.
5. **Cesar A. Buenaventura**, 83, Filipino, is a Director of the Company and has served as Director since May 2001. He graduated from the University of the Philippines with a degree of Bachelor of Science in Civil Engineering. He received his M.S. Civil Engineering as Fulbright Scholar at

the Lehigh University, Bethlehem, Pennsylvania. In 1991, Mr. Buenaventura was made Honorary Officer of the Order of the British Empire (OBE) by Her Majesty Queen Elizabeth II. He is currently the Chairman of Maibarara Geothermal, Inc., and Vice-Chairman of Atlantic Gulf & Pacific Company of Manila (AG&P), DMCI Holdings, Inc. (*listed company*), and Montecito Properties, Inc. He is a director of DMCI Holdings, Inc., iPeople, Inc. (*listed company*), PetroEnergy Resources Corp. (*listed company*), AG&P Company of Manila, Maibarara Geothermal, Inc., Montecito Properties, Inc., Pilipinas Shell Petroleum Corporation, Philippine American Life Insurance Company, and Manila International Airport Authority. He is the founding Chairman of Pilipinas Shell Foundation, Inc., and founding member of the Board of Trustees of the Makati Business Club. His former affiliations are: President of the Benigno S. Aquino Foundation; Member of the Board of Trustees of Asian Institute of Management; Chief Executive Officer of Shell Group of Companies; Member of the Monetary Board of the Central Bank of the Philippines; Member of the Board of Directors of the Philippine International Convention Center; Member of the Board of Regents of the University of the Philippines. He was also a former director of Ayala Corporation, First Philippine Holdings Corporation, Philippine Airlines, Philippine National Bank, Benguet Corporation, Asian Bank, Ma. Cristina Chemical Industries, and Paysetter International Inc.

6. **Herbert M. Consunji**, 60 years old, Filipino, is a Director of the Company and has served as Director since May 2001. He earned his degree of Bachelor of Science in Commerce Major in Accounting at De La Salle University. Currently, he is the Chairman, Subic Water & Sewerage Corp.; CFO, Maynilad Water Services, Inc.; Vice-President & CFO, DMCI Holdings, Inc. (*listed company*); and Partner, H.F. Consunji & Associate. He is also a director of DMCI Holdings, Inc., DMCI Project Developers, Inc., DMCI Power Corporation, DMCI Mining Corporation, SEM-Calaca Power Corp., Southwest Luzon Power Generation Corporation, Maynilad Water Services, Inc. and Subic Water & Sewerage Corp.
7. **Victor C. Macalincag**, 77, Filipino, is an Independent Director, Chairman of the Audit Committee, member of the Compensation & Remuneration and Nomination & Election Committees of the Company. He has served as Independent Director since May 2005. He is a holder of a Bachelor of Business Administration (BBA) degree from the University of the East and a Certified Public Accountant (CPA). He completed his academic requirements for a Masteral Degree in Economics and is a fellow of the Economic Development Institute of the World Bank. Currently, he is an Independent Director of Ceres Property Ventures, Inc., Crown Equities, Inc. (*listed company*), Republic Glass Holdings, Inc. (*listed company*), and SEM-Calaca Power Corporation. He was formerly the Undersecretary of Finance from 1986 to 1991, Deputy Minister of Finance from 1981 to 1986, Treasurer of the Philippines from 1983 to 1987, President of Trade & Investment Development Corporation of the Philippines (PHILEXIM) from 1991 to 2001. He was also a director of the Home Guarantee Corporation from 1979 to 2001, the Philippine Overseas Construction Board from 1991 to 2001, the Philippine Long Distance Telephone Company from 1988 to 1995, the National Power Corporation from 1978 to 1986, Universal LRT-7 Corporation from 2003 to 2010, and Philippine Deposit Insurance Corporation from 1983 to 1991. He was Chairman of the Pilipinas Bank from 1984 to 1988 and Executive Vice-President of Land Bank of the Philippines from 1981 to 1982. He was also a director of Philippine Aerotransport, Inc., Paper Industries Corporation of the Philippines, Lumang Bayan Realty Corporation, and Manila Midtown Development Corporation.
8. **George G. San Pedro**, 73, Filipino, is a Director, Vice-President for Operation and Resident Manager of the Corporation. He has served as Director since May 2001. He is a graduate of B.S. Civil Engineering at the University of the Philippines. He used to work for D.M. Consunji, Inc., Dacon Wood Based Companies, DMC-CERI, and CONBROS Shipping Corporation. Currently, he is the President of Divine Word School of Semirara Island, Inc. and Vice-President of Semirara Training Center, Inc.
9. **Federico E. Puno**, 66, Filipino, is an Independent Director and a member of the Audit Committee, Compensation & Remuneration Committee and Nomination & Election Committee of the Company. He has served as Independent Director since May 2005. He is currently an Independent Director of SEM-Calaca Power Corporation. He is a graduate of B.S. Civil Engineering at the University of the Philippines. He took up his M.S. Industrial Administration at the Carnegie Mellon University, Pittsburgh, USA. He is President and Chief Executive Officer of TeaM Energy Corporation. He is also the Chairman of San Roque Power Corporation and ACI Philippines, Inc. Currently, he is a director of Republic Glass Holdings (*listed company*), Corp., Pampanga Sugar Development Corp., San Fernando Light & Power Company, and Lima Utilities. He was a Director of the Manila Electric Company (*listed company*), RGC Marine and Transport Corp., Nobel Philippines, Inc., Philippine National Oil Co. & Petrophil Corp., Luzon Stevedoring Corp., Philippine Resource Helicopters Inc., Philippine Dockyard Corp., and Union Savings Bank. He was also the President of National

Power Corporation, San Roque Power Corp., Republic-Asahi Glass Corp., and Republic Glass Holdings, Corp.; Chief Financial and Management Services of the Ministry of Energy, Assistant Treasurer of the Ministry of Finance, and Ministry Energy Representative of the National Electrification Administration.

10. **Ma. Cristina C. Gotianun**, 58, Filipino, is a Director, Chairman of the Remuneration & Compensation Committee, Vice-President for Administration and Compliance Officer of the Company. She has served as Director since May 2006. She is a graduate of B.S. Business Economics at the University of the Philippines and majored in Spanish at the Instituto de Cultura Hispanica in Madrid, Spain. She is currently a Director and Corporate Secretary of Dacon Corporation and Vice-President for Finance & Administration/CFO of D.M. Consunji, Inc. She is the Finance Director of DMC-Project Developers, Inc., and Director and Treasurer of SEM-Calaca Power Corporation, Southwest Luzon Power Generation Corporation, Semirara Claystone Inc., Semirara Energy Utilities Inc., DMCI Power Corporation, and DMCI Masbate Power Corporation. She is also the Assistant Treasurer of DMCI Holdings, Inc. (*listed company*) and a Trustee, CFO and Corporate Secretary of Divine Word School of Semirara Island, Inc.
11. **Ma. Edwina C. Laperal**, 51, Filipino, is a Director of the Company and has served as such since May 2007. She is a graduate of B.S. Architecture at the University of the Philippines. She also took her Master's Degree in Business Administration in the same University. She is currently the Director and Treasurer of DMCI Holdings, Inc. (*listed company*), and DMCI Project Developers, Inc.; Director of SEM-Calaca Power Corporation; Treasurer of Dacon Corporation and DMC Urban Property Developers, Inc.; and D.M. Consunji, Inc.

Other Officers:

12. **George B. Baquiran**, 68, Filipino, is the Vice-President for Special Projects and has served as such since May 2006. He is a graduate of B.S. Geology and also a holder of a Masters Degree in Geology at the University of the Philippines. He has held the position of Vice-President held the position of Vice-President for Energy Exploration from June 1979 to January 1982; AVP, Exploration from April 1979 to June 1979; Manager, Exploration from February 1977 to March 1979 in Vulcan Industries and Mining Corporation.
13. **Jaime B. Garcia**, 57 years old, Filipino, is the Vice President for Procurement and Logistics. He has served as such since May 2006 Over 20 years of experience in senior management level with DMConsunji Group of Companies inclusive of overseas experience in strategic sourcing and supply chain management, procurement, materials management and logistics in coal mining industry, energy (coal fired power plant), construction, shipping, agro-forest timber and wood processing, aviation and maritime industry. He is a graduate of B.S. Management and Industrial Engineering at Mapua Institute of Technology. He took also his Masters in Business Administration at De La Salle University in 1994 and Masters in Business Economics at the University of Asia & the Pacific in 1998. He is currently holding the position of Secretary and Treasurer of Royal Star Aviation, Inc., Director of Semirara Cement Corporation, Executive Vice-President of DMC Construction Equipment Resources, Inc., Director & Vice-President of M&S Company, Inc., Vice-President of Zanorte Palm-Rubber Plantation Inc., and South Davao Development Co., Inc. He is an Industrial Engineer by profession.
14. **Junalina S. Tabor**, 49 years old, Filipino, is the Chief Finance Officer of the Company and has served as such since May 2010. She graduated with a degree of Bachelor in Science in Commerce, Major in Accounting at Saint Joseph College and is a Certified Public Accountant. She took her Masters in Public Administration at the University of the Philippines in 1993. Prior to joining the Company in 1997, she was the State Auditor I, II, & III of the Commission on Audit from 1993 to 1997, respectively.
15. **Denardo M. Cuayo**, 48, Filipino is the Vice-President for Business Development of the Company and has served as such since May 2011. He graduated with a degree of BS Electrical Engineering at the University of the Philippines in 1986 and placed 11th at the 1987 Electrical Engineering Board Examinations. Prior to joining the Company, he was the Business Development Consultant of DMCI Power Corporation; Asst. Vice-President & Manager, Special Projects of San Miguel Corporation; and Cadet Engineer of Manila Electric Company.
16. **John R. Sadullo**, 42, Filipino, is the Corporate Secretary, Legal Counsel and Corporate Information Officer of the Company and has served as such since May 2005. He is a graduate of A.B. Major in Political Science at the University of Santo Tomas. He is a holder of a Bachelor of Laws Degree at the San Beda College of Law, took the BAR exam in 1996 and was admitted in 1997. He currently holds the position of Corporate Secretary of SEM-Calaca Power Corporation, Southwest Luzon Power Generation Corporation, Semirara Claystone Inc., and Semirara Energy Utilities Inc. He is also the Assistant Corporate Secretary of Semirara Training Center, Inc. and previously the Corporate Secretary of DMCI Mining Corporation, DMCI Masbate Power Corporation, and DMCI Concepcion Power Corporation.

The nominees for election or re-election of the directors have been indicated in the Company's Definitive Information Statement (SEC Form 20-IS) sent to stockholders of record. The officers of the company will be known in the organizational meeting of the Board of Directors which will follow immediately after the annual stockholders' meeting. Neither of the Company's directors nor senior management employed or became a partner of the current external auditor of the Company in the past two (2) years.

Board Meeting and Attendance. - At the beginning of the year, the Board is advised of the schedule of meetings for the calendar year without prejudice to call a special board meeting when required by the Corporation's operation and other exigency. In the conduct of meeting, the quorum requirement under the law is simple majority of the members of the Board while approval of corporate acts and resolutions requires of the Board present.

The record of attendance of the Board of Directors who were present (✓)/absent (—) during the meeting of the Company for the year 2012 is as follows:

Name of Director	2012 Board Meetings								
	1-11	2-3	2-24	3-6	4-30	5-10 ⁹	8-8	10-30	12-20
David M. Consunji	✓	✓	✓	✓	✓	✓	✓	✓	✓
Isidro A. Consunji	✓	✓	✓	✓	✓	✓	✓	✓	✓
Victor A. Consunji	✓	✓	✓	✓	✓	✓	✓	✓	✓
Jorge A. Consunji	✓	✓	✓	✓	✓	✓	✓	✓	✓
Herbert M. Consunji	✓	✓	✓	—	✓	✓	—	✓	✓
Cesar A. Buenaventura	✓	✓	✓	✓	✓	✓	✓	✓	✓
Ma. Cristina C. Gotianun	✓	✓	✓	✓	✓	✓	—	✓	✓
Ma. Edwina C. Laperal	✓	✓	✓	—	✓	—	—	—	✓
George G. San Pedro	✓	✓	✓	✓	✓	—	—	—	✓
Victor A. Macalincag*	✓	✓	✓	✓	✓	✓	✓	✓	✓
Federico E. Puno*	✓	✓	✓	✓	✓	✓	—	✓	✓

*Independent Director

None of the directors has absented himself for more than 50% from all meetings of the Board during the 12-month period of his incumbency.

Term of Office. - The term of office of the Directors and Executive Officers is one (1) year from their election. All Directors will have served for a period of approximately twelve (12) months by May 6, 2013.

Independent Directors. - DMCI Holdings, Inc. shall nominate and elect at least two (2) directors in the Board of Registrant pursuant to Section 38 of the Securities Regulation Code. Messrs. Victor C. Macalincag and Federico E. Puno were elected by the stockholders as independent directors of the Company. To date, they have served as such since 2004. The Company has not encountered any restraint from the stockholders in retaining its independent directors. It has been a consensus of the stockholders to elect them during the meeting. Notwithstanding the recent SEC Memorandum Circular No. 9, Series of 2011, which took effect on January 2, 2012, the independent directors herein are compliant with the term limit requirement.

Other Directorship Held in Reporting Companies:

David M. Consunji	▪ Chairman, DMCI Holdings, Inc.
Cesar A. Buenaventura	▪ Vice-Chairman, DMCI Holdings, Inc. ▪ PetroEnergy Resources Corporation ▪ iPeople, Inc.
Isidro A. Consunji	▪ President & CEO, DMCI Holdings, Inc.

⁹ Organizational Meeting.

	▪ Director, Crown Equities, Inc.
Jorge A. Consunji	▪ Director, DMCI Holdings, Inc.
Victor A. Consunji	▪ Director, DMCI Holdings, Inc.
Herbert M. Consunji	▪ Director, DMCI Holdings, Inc.
Ma. Cristina C. Gotianun	▪ Director, DMCI Holdings, Inc.
Ma. Edwina C. Laperal	▪ Director, DMCI Holdings, Inc.
Victor C. Macalincag	▪ Independent Director, Crown Equities, Inc. ▪ Independent Director, Republic Glass Holdings, Inc.
Federico E. Puno	▪ Independent Director, Republic Glass Holdings, Inc.

(2) The following are the Significant Employees/Executive Officers of the Issuer:

Names	Citizenship	Position	Age
David M. Consunji	Filipino	Chairman	91
Isidro A. Consunji	Filipino	Vice-Chairman/CEO	64
Victor A. Consunji	Filipino	President/COO	62
George G. San Pedro	Filipino	VP-Operations/Resident Manager	73
George B. Baquiran	Filipino	VP-Special Projects	68
Ma. Cristina C. Gotianun	Filipino	VP-Administration/Compliance Officer	58
Jaime B. Garcia	Filipino	VP-Procurement & Logistics	57
Junalina S. Tabor	Filipino	Chief Finance Officer	49
Denardo M. Cuayo	Filipino	VP-Business Development	48
John R. Sadullo	Filipino	Corporate Secretary & Corporate Information Officer	42

(3) Family Relationship. - The family relationship up to the fourth civil degree either by consanguinity or affinity among directors or executive officers is as stated below.

Mr. David M. Consunji is the father of Messrs. Isidro A. Consunji, Victor A. Consunji, Jorge A. Consunji, Ma. Cristina C. Gotianun and Ma. Edwina C. Laperal. Mr. Herbert M. Consunji is nephew of Mr. David M. Consunji and cousin of Messrs. Isidro A. Consunji, Victor A. Consunji Jorge A. Consunji, Ma. Cristina C. Gotianun and Ma. Edwina C. Laperal.

(4) Involvement in Certain Legal Proceedings. - None of the directors and officers was involved in the past five years in any bankruptcy proceeding. Neither have they been convicted by final judgment in any criminal proceeding, nor been subject to any order, judgment or decree of competent jurisdiction, permanently enjoining, barring, suspending, or otherwise limiting their involvement in any type of business, securities, commodities or banking activities, nor found in action by any court or administrative body to have violated a securities or commodities law.

Except for the following, none of the directors and executive officers of the Company is subject to any pending criminal cases:

- (a) **Pp. vs. Consunji, et. al., Criminal Case No. Q-02-114052, RTC-QC, Branch 78.** - A complaint for violation of Article 315(2)(a) of the Revised Penal Code, as qualified by Presidential Decree No. 1689 was filed in RTC-QC Branch 78 as Criminal Case No. Q-02-114052 pursuant to a resolution of the Quezon City Prosecutor dated December 3, 2002 in I.S. No. 02-7259 finding probable cause against the directors and officers of Universal Leisure Club (ULC) and its parent Company, Universal Rightfield Property Holdings, Inc., including Isidro A. Consunji as incumbent Chairman, Cesar A. Buenaventura and Ma. Edwina C. Laperal as former directors of ULC. Complainants claim to have been induced to buy ULC shares of stock on the representation that ULC shall develop a project known as “a network of 5 world clubs.”

The case was re-raffled to RTC-QC Branch 85 (the “Court”). On January 10, 2003 respondents filed their Motion for Reconsideration on the resolution dated December 3, 2002, which was granted on August 18, 2003. Accordingly, a Motion to Withdraw Information was filed in Court. On September 11, 2003, complainants’ sought reconsideration of the resolution withdrawing the information, but was denied by the City Prosecutor. By reason of the denial, Complainants’ filed a Petition for Review with the Department of Justice (DOJ) on August 26, 2005.

Meanwhile, the Court granted the withdrawal of information on June 6, 2005. Complainants filed a Motion for Reconsideration and Urgent Motion for Inhibition, but were both denied by the Court in its Omnibus Order dated November 29, 2005. Thereafter, a Notice of Appeal was filed by the complainants, but was ordered stricken out from the records by the Court for being unauthorized and declaring the Omnibus Order final and executory in its Order dated February 22, 2007.

The Petition for Review filed by the Complainants with the DOJ on August 26, 2005 is pending to date.

- (b) **Rodolfo V. Cruz, et. al. vs. Isidro A. Consunji, et. al., I.S. Nos. 03-57411-I, 03-57412-I, 03-57413-I, 03-57414-I, 03-57415-I, 03-57446-I and 03-57447-I, Department of Justice, National Prosecution Service.** - These consolidated cases arose out of the same events in the above-mentioned case, which is likewise pending before the DOJ.

In its 1st Indorsement dated December 9, 2003, the City Prosecutor for Mandaluyong City, acting on a motion for inhibition filed by complainants, through counsel, recommended that further proceedings be conducted by the DOJ. In an order dated February 3, 2004, the DOJ designated State Prosecutor Geronimo Sy to conduct the preliminary investigation of this case. The last pleading filed is a notice of change of address dated June 27, 2008 filed by complainants’ counsel.

B. EXECUTIVE COMPENSATION

All executive officers of the Company are elected or appointed by the Board of Directors and serve for one year and until their successors are duly elected and qualified. Set forth below are the names of the CEO and five (5) most highly compensated officers of the Company:

Name and Principal Position	Years	Salary	Bonus	Other Annual Compensation
Isidro A. Consunji Vice-Chairman & CEO				
Victor A. Consunji President and COO				
George G. San Pedro VP & Resident Manager				
Jaime B. Garcia VP-Procurement & Logistics				
Junalina S. Tabor Chief Finance Officer				
	2011	9,871,875.00	56,056,000.00	3,632,561.43
	2012	9,871,875.00	56,056,000.00	3,632,561.43
	2013*	10,042,500.00	60,588,235.59	3,165,753.43
	Total	₱29,956,875.00	₱177,232,471.18	₱18,787,598.29
All other Directors and Officers as a group	2011	9,655,401.05	45,335,007.04	5,288,040.99
	2012	8,979,750.00	24,745,000.12	4,363,863.01
	2013*	8,979,750.00	24,745,000.12	4,363,863.01
	Total	₱27,614,901.05	₱94,825,007.28	₱14,015,767.01

*Approximate amounts

The amount reflected as compensation of the named executive officers represents salary approved by the Company's Board of Directors. The amounts indicated in relation thereto are restated to conform to the new accounting standards.

All directors of the Corporation receives an annual per diem of ₱240,000.00 and ₱20,000.00 for every meeting held and attended for each of the directors who serves as Chairman and members of the Corporation's Board Committees. Aside from executive Directors with employment compensation, there are no other directors with arrangements such as consulting contracts.

There is no contract covering their employment with the Company and they hold office by virtue of their election to office. The Company has no agreements with its named executive officers regarding any bonus, profit sharing, except for benefits for which they may be entitled under the Company's pension plan.

There are no warrants and options outstanding held by the Registrant's CEO.

C. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

(1) **Security Ownership of Certain Record and Beneficial Owners.** - The following table sets forth as of March 15, 2013, the record or beneficial owners of more than 5% of the outstanding common shares of the Company and the amount of such record or beneficial ownership.

Title of Class	Name, Address of record owner and relationship with Issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizen-ship	Amount/ Nature of Record/ Beneficial Ownership	% of Class
Common	DMCI Holdings, Inc., 3/F DACON Building, 2281 Pasong Tamo Ext., Makati City, Stockholder of record	1. Dacon Corporation, stockholder of 1,215,393,901 shares or 45.77% 2. PCD Nominee Corp. (F), stockholder of 470,393,118 shares or 17.71% 3. PCD Nominee Corporation (NF), stockholder of 438,962,858 shares or 16.53%	Filipino	200,647,533 (R)	56.32
Common	PCD Nominee Corp., stockholder of record	N/A	Filipino	49,015,501	13.76
Common	Dacon Corporation, 2/F DMCI Plaza, 2281 Don Chino Roces, Makati City, stockholder of record	Inglebrook Holdings, Inc. holds 2,511,010 shares or 12.38% ¹⁰	Filipino	43,608,509	12.24
Common	PCD Nominee Corp., stockholder of record	Hongkong and Shanghai Banking Corp. Ltd. holds 29,750,664 shares or 8.35%	Other Alien (Foreign)	42,086,529	11.81

¹⁰ Other beneficial owners of Dacon Corporation with the same number of shares are Eastheights Holdings, Inc., Gulfshore Inc., Valemount Corporation, Chrismon Investment Inc., Jagjit Holdings, Inc., La Lumiere Holdings, Inc., Rice Creek Holdings, Inc. while Double Spring Investments Corporation only holds 201,909 shares or 1% of Dacon's issued and outstanding shares.

(2) **Security Ownership Management.** - The table sets forth as of March 15, 2013 the beneficial stock ownership of each Director of the Company and all Officers and Directors as a group.

Title of class	Name of beneficial owner	Amount and nature of beneficial ownership			Citizenship	%
		Direct	Indirect ¹¹	Total		
Common	David M. Consunji	12	202	212	Filipino	0.00%
Common	Isidro A. Consunji	2,012	254,052	256,064	Filipino	0.07%
Common	Cesar A. Buenaventura	6,010	-	6,010	Filipino	0.00%
Common	Victor A. Consunji	12	725,168	725,180	Filipino	0.20%
Common	Jorge A. Consunji	12	4,822	4,834	Filipino	0.00%
Common	Herbert M. Consunji	10,010	-	10,010	Filipino	0.00%
Common	Victor C. Macalincag	281,130	7,000	288,130	Filipino	0.08%
Common	George G. San Pedro	40,030	-	40,030	Filipino	0.01%
Common	Federico E. Puno	60,010	-	60,010	Filipino	0.02%
Common	Ma. Cristina C. Gotianun	119	300,098	300,217	Filipino	0.07%
Common	Ma. Edwina C. Laperal	349	1,150	1,499	Filipino	0.00%
Common	Jaime B. Garcia	48,036	-	48,036	Filipino	0.01%
Common	Denardo M. Cuayo	1,500	-	1,500	Filipino	0.00%
Aggregate Ownership of all directors and officers as a group		449,242	1,292,490	1,741,732	Filipino	0.49%

The percentages of ownership of the above officers and directors are very minimal. There are no arrangements, which may result in a change in control of the registrant.

D. CERTAIN RELATIONSHIP AND RELATED TRANSACTIONS

There has been no transaction or proposal, for the last two (2) years, to which the Company was or is party, in which any of the directors, executive officers or nominees for director has direct or indirect material interest, *outside the recurring regular business transactions incurred by the Company to support the business. Related parties' services were sought to take advantage of affiliated companies' expertise and for cost efficiency, among others. These related party transactions were trade related and transacted at arms-length basis and at terms generally available to an unaffiliated third party or more clearly independent parties, under the same or similar circumstances. There were no transactions in the form of direct financial assistance to affiliates or related entities. Note 18 of Notes to Parent Company Financial Statements and Note 17 of Notes to Consolidated Financial Statements for the period ended December 31, 2012 indicate the Company's significant transactions with related parties.*

PART V - DISCUSSION ON COMPLIANCE WITH LEADING PRACTICE ON CORPORATE GOVERNANCE

CORPORATE GOVERNANCE

The Company is committed to the principles and leading practices of good corporate governance that promote higher standards of accountability and transparency, provide effective oversight of the Company's business, and enhance shareholder value. The Company has complied with the principles and leading practices of good governance. To date, there has been no deviation from the Company's Revised Code of Corporate Governance and SEC's Revised Code of Corporate Governance. The Company has annually reported and disclosed its level of adoption to Corporate Governance Guidelines for Publicly Listed Companies to SEC and PSE as being generally compliant and aligned with recommended governance guidelines and global best practices. The Company's Revised Code of Corporate Governance, Board Committee Charters and good governance policies are disclosed in its website : www.semiramining.com.

¹¹ Shares are either held by members of the family sharing the same household or by a corporation of which such person is a controlling shareholder.

The Company seeks to continually improve its governance framework through review and adoption of global best practices to align with the higher corporate governance standards of the ASEAN Corporate Governance Scorecard for ASEAN publicly-listed companies and good governance principles espoused by the Organization for Economic Co-operation and Development.

VISION AND MISSION

In October 30, 2012, the Board reviewed, reaffirmed and approved the Company's Vision "Coal Towards an Energy-Sufficient Philippines" and its Mission of continuing to remain as the undisputed leader in the coal mining industry in the country through engagement with its various stakeholders.

CORPORATE OBJECTIVES

The Company's strategies are focused towards optimizing shareholder value and ensuring sustainable growth of its business. Its corporate objectives are :

Continuing Growth

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

Value Creation

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

Value Protection and Sustainability

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

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

THE BOARD OF DIRECTORS

The Board of Directors (Board) is responsible for the overall governance of the Company. It establishes the vision, mission, strategic objectives, key policies as well as adequate control mechanisms and risk management systems to effectively oversee and monitor Management's performance. The Board establishes decision authority policies, levels, limits and guidelines for Management according to its risk appetite level and required Board approvals for governance matters such as debt commitment, equity investment or divestment, change in share capital, asset mortgage, among others.

The full Board consists of eleven (11) Directors of whom four (4) are regular executive directors, five (5) are regular non-executive directors and two (2) are non-executive Independent Directors. The number of Independent Directors is in compliance with the Philippine regulatory requirement for boards of publicly-listed companies. The Board represents a mix of highly qualified individuals of such stature and experience in industry, finance, business and operations which enable them to effectively participate in Board deliberations. All Directors were evaluated and nominated by the Nomination and Election Committee as having met the criteria and qualifications in accordance with regulatory requirements and Good Governance Guidelines for the Board of Directors on tenure policy, term limits and service to other boards. All non-executive Directors and executive Directors including the CEO are subject to election or re-election annually at the Annual Shareholders' Meeting.

Board seat memberships held by the Company's Directors are in consonance with global best practices espoused by the ASEAN Corporate Governance Scorecard. One of its non-executive Independent Directors has prior extensive work experience in the coal mining industry. In 2012, each Director has held simultaneously no more than five (5) board seats in publicly-listed companies. Moreover, the Company's executive directors do not serve on more than two (2) boards of listed companies outside its parent DMCI Holdings Inc. group of companies.

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

Chairman

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

CEO

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

Independent Directors

An Independent Director is defined as one with no interest or relationship with the Company that may hinder his independence from the Company or its management, or may reasonably be perceived to materially interfere in the exercise of his independent judgment in carrying out the responsibilities expected of a director. The Company's Independent Directors possess the qualifications and none of the disqualifications under existing Philippine regulatory rules and requirements for Independent Directors. They are independent of Management and major shareholders of the Company. More importantly, they bring objectivity and independent mindset during Board deliberations and discussions. The Company's Independent Directors are subject to SEC's prescribed term limit for Independent Directors of ten (10) years and re-election which took effect in 2012. They have been elected also as such in the Company's wholly-owned subsidiary SEM-Calaca Power Corporation and have adhered to SEC's prescribed limit for Independent Directors to be elected as such in no more than five (5) companies in each conglomerate.

Good Governance Guidelines for Board Directors

The Good Governance Guidelines for Board Directors approved by the Board provide policies regarding Director tenure, service on other Company boards, conflict of interest, continuing education, among others.

- **Conflict of Interest**

Notwithstanding the Annual Disclosure Statement requiring all Directors to submit their financial, business or personal interests or dealings with the Company or its subsidiaries at the end of each financial year, Directors are required to disclose to the Board (and any applicable committee) any financial interest or personal interest in any contract or transaction that is being considered by the Board for approval. The interested Director should abstain from voting on the matter and, in most cases, should leave the meeting while the remaining directors discuss and vote on such matter.

- **Company Loan**
It is the Company's policy not to extend personal loans or credit to Directors unless approved by the Board.

Director Compensation

Director remuneration consists of an annual retainer fee, per diem, short-term cash incentive and reimbursement of allowances, as appropriate. The shareholders approved in its 2009 Annual Shareholders' Meeting director compensation at a fixed annual retainer fee of Two Hundred Forty Thousand (P240,000) per Board Director per calendar year and a fixed per diem of Twenty Thousand Pesos (P20,000) for each Director serving as a Board Committee Chairman or Committee Member for every Board Committee meeting held and attended. When appropriate, the Board approves, upon recommendation of the Compensation and Remuneration Committee, short-term corporate performance-based bonuses for Board Directors. The Company's Amended By-Laws prescribe a limit to the aggregate amount of Director bonuses which shall not exceed two percent (2%) of the Company's profit before tax during the previous year, while limit to total yearly compensation package, including bonuses granted, of Directors as such directors shall not exceed ten percent (10%) of the Company's net income before tax during the previous year.

In 2012, executive and non-executive Directors including Independent Directors and the CEO received cash bonus incentives relating to preceding year's financial performance the aggregate amount of which did not exceed the abovementioned limits set by the Company's Amended By-laws. Details of Director compensation are disclosed in relevant sections of the Company's SEC 20-IS Information Statement and 17-A Annual Report.

Board Performance

The Board had nine (9) meetings including its organizational meeting in 2012. All Directors have fully complied with SEC's minimum Board meeting attendance requirement of 50%. Board meetings are open and candid with independent views given due consideration.

At the beginning of each year, the Corporate Secretary advises the schedule of regular Board meetings and Board committee meetings in line with the Company's regulatory reporting dates. Special Board meetings may be called as the need arises. The Corporate Secretary assists the Chairman in setting the Board agenda and informs the Directors of the agenda prior to Board meetings to ensure that they have accurate information and adequate materials to enable them to arrive at informed decisions on matters requiring their approvals. The Corporate Secretary ensures that all Board procedures, rules and regulations are strictly followed by the Directors. He is responsible for the safekeeping and preservation of the integrity of the minutes of Board meetings. The Corporate Secretary is concurrently the Legal Counsel Head, who keeps the Directors updated regarding statutory and regulatory changes.

The Board's annual performance evaluation process involves self-assessment of the Board as a whole and individual peer director evaluation. Formal questionnaire for the full Board self-assessment covers Board responsibilities, structure, meetings, processes, and management support, while that of individual director performance assessment areas cover leadership, interpersonal skills, strategic thinking and participation in Board meetings and committee assignments. Board evaluations are administered and compiled by the Good Governance Officer who subsequently advises results thereof to the Board highlighting the Board's strengths and those areas needing Board attention for appropriate action, including private feedback to each Director for his individual performance.

The Board members and their meeting performance are summarized below:

BOARD OF DIRECTORS PERFORMANCE 2012			
Directors	Board Appointment	Meeting Performance	
		Board Meetings, incl. Organizational	Annual Shareholders' Meeting
David M. Consunji	Chairman	9/9	1/1
Isidro A. Consunji	Vice Chairman, Chief Executive Officer	9/9	1/1
Victor A. Consunji	Executive Director, President & Chief Operating Officer	9/9	1/1
George G. San Pedro	Executive Director, VP-Operations & Resident Manager	6/9	1/1
Ma. Cristina C. Gotianun	Executive Director, VP-Human Resources & Administration, Compliance Officer	9/9	1/1
Jorge A. Consunji	Non-executive Director	9/9	1/1
Herbert M. Consunji	Non-executive Director	7/9	1/1
Cesar A. Buenaventura	Non-executive Director	9/9	1/1
Ma. Edwina C. Laperal	Non-executive Director	5/9	0/1
Victor C. Macalincag	<i>Independent Director</i>	9/9	1/1
Federico E. Puno	<i>Independent Director</i>	8/9	1/1

Board Committees

The Board established three (3) Committees to support in the performance of its fiduciary functions. The Committees are guided by Board-approved Charters in the discharge of their roles and oversight responsibilities. The Company adopts best practices with having majority membership of Independent Directors in all Board Committees thus going beyond the requirements of SEC's 2009 Revised Code of Corporate Governance. Majority membership of Independent Directors in all Board Committee extends a strong presence of independence and enhances the Board's oversight of Management through checks and balance. The Board Committees annually review their respective Charters for effectiveness, and endorse changes, if any, for Board approval.

The Board Committees annually conduct a review of the effectiveness of the Committees' performance using formal self-assessment questionnaires as benchmarked against best practices, with results thereof and recommended plans discussed for appropriate action. The Audit Committee solicits feedback from Executive Management to affirm and/or improve its Committee performance.

The Corporate Secretary, Good Governance Officer and Legal department provide full support to the Board and its good governance committees.

Nomination and Election Committee

Chairman – Isidro A. Consunji

Member – Victor C. Macalincag, Independent Director

Member – Federico E. Puno, Independent Director

The Nomination and Election Committee is comprised of three (3) Board Directors, with majority membership of Independent Directors. The Committee's main function is to review, recommend and promulgate guidelines involving the nomination process and criteria for the Board of Directors as stated in the Amended By-Laws, Revised Code of Corporate Governance and pertinent SEC rules. It reviews each Director's continuation on the Board every year, taking into account meeting attendance, participation and contribution to the Board. The Nomination and Election Committee Charter is disclosed in the Company's website : www.semiramining.com.

The Committee had two (2) meetings attended by all Members in March 1, 2012 and March 20, 2012. It reviewed the qualifications of Board nominees for directorship ensuring they meet the requisite qualifications and endorsed the final list of nominees for election.

Compensation and Remuneration Committee

Chairman – Ma. Cristina C. Gotianun

Member – Victor C. Macalincag, Independent Director

Member – Federico E. Puno, Independent Director

The Compensation and Remuneration Committee is comprised of three (3) Board Directors, with majority membership of Independent Directors. The Committee's main function is to establish a formal and transparent procedure for developing a remuneration policy for Directors, officers and key employees consistent with the Company's culture, strategy and control environment. It annually reviews and recommends for Board approval Director remuneration set within the maximum level by the Company's Amended By-Laws and as approved by the shareholders. It reviews compensation-related disclosures of Directors and Executives in the Company's annual and related reports to be in accordance with regulatory requirements and reporting standards. It also requires Directors and Officers to declare under penalty of perjury all their existing business interests or shareholdings that may directly or indirectly cause conflict of interest in the performance of their duties. The Committee is authorized by its Charter to engage, at the Company's expense, the services of an adviser or consultant to assist or advise the Committee in fulfilling its oversight responsibilities. Rodolfo C. Salazar serves as a consultant of the Committee, and is concurrently a nominee Board Director of the Company's power subsidiary SEM-Calaca Power Corporation. The Compensation and Remuneration Committee Charter is disclosed in the Company's website: www.semiraramining.com.

The Committee had one (1) meeting attended by all Members in December 18, 2012. It discussed Director and Executive compensation levels, benefits and performance reward system, including those of the CEO and COO based on the results of the Board's evaluation of their performance. Its Committee Charter is disclosed in the Company's website: www.semiraramining.com.

Audit Committee

Chairman – Victor C. Macalincag, Independent Director

Member – Federico E. Puno, Independent Director

Member – Victor A. Consunji

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

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

The Audit Committee meeting performance is summarized below.

Audit Committee	MEETING PERFORMANCE 2012								TOTAL
	Feb 28	Apr 19	May 9	Jul 10	Aug 6	Aug 22	Oct 30	Dec 18	
Victor C. Macalincag Chairman <i>Independent</i> Director	✓	✓	✓	✓	✓	✓	✓	✓	8/8
Federico E. Puno Member <i>Independent</i> Director	✓	x	✓	✓	✓	✓	✓	✓	7/8
Victor A. Consunji Member	✓	✓	✓	✓	✓	x	✓	✓	7/8

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

Related Party Transactions

Per Board-approved Related Party Transaction (RPT) Policy, the Audit Committee shall assist the Board in its review of RPTs. The Committee may establish guidelines to manage and monitor conflict of interest of Management, Board Directors and shareholders, including misuse of corporate assets and abuse in RPTs. The Committee's quarterly review of the financial statements included related party accounts to ensure that RPTs are fair to the Company, conducted at arms' length terms and considered such factors as materiality, commercial reasonableness of the terms and extent of conflict of interest, actual or apparent, of the related party, as defined by the policy, participating in the transaction. In 2012, the Committee considered that these RPTs are ordinary and normal in the course of the Company's business and did not include financial assistance or loans to affiliates or related entities which are not wholly-owned subsidiaries.

Good Governance

The Committee continues to support the Company's governance framework through continual review and support of good governance policies and best practices. During the year, it endorsed to Management and the Board the Hotline reporting mechanism as a reporting tool for raising governance related issues. It amended its Committee Charter to include explicit provisions on training and education of Committee members, review or issuance of critical compliance certifications, among others, and to align with SEC's Audit Committee performance assessment guidelines for publicly-listed companies.

Committee Performance

In 2012, the Committee assisted the Board in fulfilling effective oversight of the following functions:

- **Financial reporting process and the financial statements**

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

- **External audit**
The Committee discussed and approved the external audit work engagement, scope, fees and terms. It reviewed and discussed with SGV & Co. and Management significant financial reporting issues, audit observations, adjusting entries and overall quality of the financial reporting process as well as regulatory updates in financial and tax reporting. It recommended to the Board the reappointment of SGV & Co. as external auditor in 2013.
- **Internal audit**
The Committee reviewed and approved Internal Audit's annual plan based on a risk-based approach and ensured Management provided adequate resources to support the function and maintain its independence. It met in executive sessions with the Internal Audit Manager to review and discuss Internal Audit's assurance and advisory work including its organization structure.
- **Internal control**
The Committee reviewed and discussed audit findings, internal control and compliance issues with Management, SGV & Co., Internal Audit and Compliance Committee, and ensured Management responded appropriately for the continuous improvement of controls and risk management processes.
- **Risk management**
The Committee discussed with Management the results of risk reviews and identified key risks to the Company's mission and strategic objectives, ensuring that the Company's Enterprisewide Risk Management framework is adequately supported by management information systems, risk mitigation measures, monitoring and reporting. It monitored through the Internal Audit the effectiveness of risk management action plans undertaken by Management to address and manage such risks.
- **Compliance with regulatory and legal requirements**
The Committee reviewed and discussed with the Compliance Committee significant updates and actions on SEC, PSE, legal, tax, claims, litigations, environmental, safety and other regulatory matters.

The duly-signed Audit Committee Report to the Board of Directors for 2012 is presented in the Consolidated Financial Statements section of this report.

Committee Performance Assessment

Per Audit Committee Charter, Committee shall annually conduct a self-assessment of its own performance using a formal questionnaire with defined quantitative rating and corresponding qualitative description for such rating. It shall also seek to obtain feedback from Management, internal auditor, general counsel and/or external auditor regarding its performance and/or possible ways for improvement thereof. In 2012, the Committee conducted, and reported to SEC, the results of its self-assessment and rating of its performance which indicated an overall compliance level in consonance with abovementioned SEC guidelines on effectiveness of Audit Committee performance.

INTERNAL AUDIT

The Internal Audit (IA) functionally reports directly to the Audit Committee. The IA is guided by a Board-approved Internal Audit Charter and adopts a risk-based, process-focused audit approach aligned with the professional auditing standards as mandated by SEC's 2009 Revised Code of Corporate Governance and as set by The Institute of Internal Auditors (IIA). It refers to IIA's Practice Advisories, Practice Guides and Positions Papers in keeping current on changes, emerging issues and leading practices of the internal auditing profession. The IA provides Management and the Audit Committee with independent and objective assurance and advisory services of the Company's business processes, controls, compliance and effectiveness of its risk management practices. It periodically reports audit activity and performance in relation to its annual internal audit plan, significant findings and recommendations to the Audit Committee and the President. Internal audit oversight of the Audit Committee includes appointment, performance evaluation and replacement of the Internal Audit head. The Company supports IA's continuous professional training and career development by memberships in professional organizations such as IIA, Information Systems and Control Association, Philippine Institute of

Certified Public Accountants, and participation in external and in-house trainings and seminars. Karmin Andrea B. San Juan is the Internal Audit Manager as of December 31, 2012.

The IA's Quality Assurance and Improvement Program (QAIP) aims to provide assurance of quality and added-value services to its stakeholders as well as to ensure operating efficiency and effectiveness of its internal organization and resources. Formal audit policies and procedures ensure adherence to IIA's applicable planning, fieldwork and reporting standards. Feedback from audit client is obtained through formal survey upon completion of an individual engagement to assess audit activity effectiveness in meeting the needs of its audit client and opportunities for improvement.

In 2012, the IA amended the Internal Audit Charter to enhance provisions reflective of IIA guidelines. The Audit Committee reviewed the performance of the IA function using a formal questionnaire covering areas on IA's understanding of its responsibilities and accountability, charter, organization structure, skills, experience, communication and quality performance. The review aims to benchmark against best practice principles and to determine ambiguities, if any, on IA's role, independence and effectiveness, and consequently to seek continual improvement of the function's strategic role in the organization. The Audit Committee members assessed the IA function's overall performance as very good, having performed its primary mandate of reassurance and value protection and also providing added value through advisory services, business risk insights and risk mitigation.

COMPLIANCE

Ma. Cristina C. Gotianun, Vice President- Human Resources and Administration, is appointed by the Board as Compliance Officer designated to ensure adherence to corporate governance principles and best practices, as well as compliance to the Company's Revised Code of Corporate Governance.

The Compliance Committee shares in the responsibility of assurance reporting on the Company's regulatory requirements. The Committee is headed by the Compliance Officer and has three (3) other Members who are executive officers tasked with ensuring compliance covering SEC, PSE, legal, accounting and reporting standards, environmental, health and safety matters that are aligned to their functional scope of work responsibilities. The Compliance Committee regularly reports to the Audit Committee for continuous monitoring and updates of legal, regulatory developments and compliance matters, thus assuring the Board of their effective management and strategic sustainability.

SEC and PSE

The Company fully complies with the disclosure and reportorial requirements of the Securities and Exchange Commission (SEC) and Philippine Stock Exchange (PSE), such as certifications on compliance with its Revised Code of Corporate Governance and Board attendance, structured reports, as well as timely disclosure of significant and material information, events or developments and reporting of transactions involving trading of the Company's shares by its Directors within the prescribed reporting period.

Environment

Environmental stewardship and social responsibility are core values of the Company. The Philippine coal industry is subject to stringent regulations of the Philippine government's Department of Environment and Natural Resources (DENR). The Company is compliant with the conditionalities of its Environmental Compliance Certificate (ECC) issued by the DENR relative to the development and opening of the Panian coal mine, and the closing and rehabilitation of its old mine. A Multi-Partite Monitoring Team (MMT) comprised of representatives of the government and various stakeholder groups oversees and evaluates the Company's compliance with such ECC conditions, applicable laws, rules and regulations on a quarterly basis. The MMT conducted on-site monitoring activities which included validation of Air, Water, Operation and Administration reports and Environment Management Plan.

The Company's Environmental Unit (EU) together with concerned groups regularly assess its environmental programs for effectiveness and improvement. Air and water quality, noise level and hazardous-regulated materials are regularly tested, measured and monitored against standards and baseline data. Regular and surveillance audits are conducted by internal auditors, external parties and local regulators to assess the Company's continuing compliance with corporate policies, government regulations, industry guidelines and internationally recognized standards. In December 2012, the Company's coal mining operation and support activities have been recertified in its fourth consecutive year by the Governing Board of Certification International Philippines, Inc. as being in conformance to International Organization for Standardization ISO 14001:2004 on Environmental Management System.

Safety

Safety is a core value of the Company and defines its culture as a responsible mining and energy company. The Company adopts the Australian standards and best practices in open-pit coal mining operation with safe production as its most important objective. It ranks loss of life or unacceptable threat to human safety as its most significant interruption impact factor. The Company's workplace safety objective is to eliminate or reduce to the lowest level any risk that may result in fatality, personal injury, illness, property or environment damage.

Safety risks are addressed with focus on prevention and zero tolerance for fatality. Safety procedures are strictly enforced, including measures on slope stability and rebuilding, installation of dewatering pumps to control water intrusion or seepage, a crack monitoring team to continuously monitor ground displacements. Road and safety driving rules are strictly observed by equipment operators to ensure non-vehicular collision due to poor visibility from dust, a common risk to coal mining activity. Reinforced education and training of workers and equipment operators for the proper use, repairs and maintenance of mining equipment have reduced accidents and injury events in the workplace. Job hazards, work instructions and guidelines are established and communicated to the workforce to ensure that such are carried out under controlled condition. Sufficient training and information are undertaken to promote a safety culture and safety behavior expected from everyone. The Company's suppliers and contractors working on the Company's premises as well as customers and other visitors are required to comply with the Company's health and safety procedures.

The Company is compliant with the regulatory and reporting requirements of various Philippine government agencies tasked to oversee health and safety, among others. In December 2012, the Company's coal mining operation and support activities have been recertified in its fourth consecutive year by the Governing Board of Certification International Philippines, Inc. as being in conformance to International Organization for Standardization ISO 18001:2007 on Occupational Health and Safety Management System.

ENTERPRISE RISK MANAGEMENT

The Board sets the tone and establishes the risk appetite level for the Company's Enterprise Risk Management (ERM) to be applied across the organization and to provide reasonable assurance that risks are identified, assessed, managed, monitored and communicated in a timely manner, and aligned to the Company's strategic and business objectives. The Audit Committee per its Board-approved Charter assists the Board in risk management oversight that risk management practices are aligned with strategic business objectives, policies are followed, limits are respected and controls are established. Management supports, implements and reports ERM processes and policies in the day to day business activities. The Internal Audit's roles in ERM include evaluation, monitoring and reporting the effectiveness of risk management processes.

Business units drive implementation of risk management processes embedded in performance management measures, annual planning and budgeting. Risk related practices include continual review and enhancement of business processes and mitigation measures, updating of control procedures and financial reporting system, among others. Functional unit heads conduct annual risk reviews and identify both inherent and residual risks in terms of probability, exposure and control strengths of their respective business functions. Appropriate risk responses and action

plans are aligned with the Board's risk appetite. Results of unit risk reviews are reported by Internal Audit to the Audit Committee for assurance reporting that significant risks are effectively managed or mitigated.

The Company's framework recognizes not only existing operations, financial and compliance risks but also external developments and emerging risks. The Chief Executive Officer as Chief Risk Officer meets regularly with the Management Committee to focus on the most critical enterprise-wide level risks and ensure integrated responses to such risks. Likewise, opportunities with identified risks are managed for strategic advantage.

Strategic Risk Profile

The Company considers operations risks as its topmost strategic risks. The Board and Management has ranked the following strategic risk categories as critical and significant to the attainment of the Company's objectives and sustainability:

- Operations risk - refer to coal quality and consistency, supply chain disruption, natural calamities (e.g. earthquake, tsunami), environment (typhoon, storm surge, flooding, landslide), slope stability, loss of core personnel;
- Market risk - refer to subsidiary and/or customer dependence, pricing, competition and macroeconomic shift on demand;
- Investment risk - refer to capital allocation, equity investment and guarantees in subsidiaries; and
- Reputation and compliance risk - refer to environment, workplace health & safety, regulatory compliance, community relations, loss of confidence or reputational damage, contractual obligations, among others.

Risk treatment for the Company's mining equipment and fixed assets also involves risk transfer through Industrial All-Risk, Floater, Fire, Marine Hull and Aircraft Hull insurance covers.

Integrated Management System

To manage the key risk areas for coal mining and mining-related activities, the Company has adopted the quality systems and principles of the International Organization for Standardization (ISO) since 2008. The Governing Board of Certification International Philippines, Inc. has recertified the Company's Integrated Management System covering the coal mining operations and its support activities as conforming to the Standards on ISO 9001:2009 Quality Management System, ISO 14001:2004 Environmental Management System and OHSAS 18001:2007 Occupational Health and Safety Management System. These management systems ensure continuous improvement of policies to guide operations in the areas of health and safety, environment and community relations.

Emergency Preparedness and Response Program

The Company has identified potential accidents and emergency situations and established appropriate preparedness and response procedures, including preventive actions and where appropriate, how to mitigate the environmental impacts and/or risk that may be associated with unplanned events, accidents and emergency situations. Building evacuation, fire and earthquake drills are conducted at least annually and evaluated by the designated government agency to test the effectiveness of these exercises. Emergency preparedness and response procedures are tested periodically to ensure full understanding and observance of all employees and regularly reviewed for improvement.

Business Continuity Management System

In 2012, the Company has started development of its Business Continuity Management System (BCMS) in accordance with ISO 22301:2012 Societal Security - BCMS - Requirements. It is establishing a holistic framework to ensure early business recovery and continuity of critical services in the event of a disruption, whether anticipated or unplanned, that might be, or could lead to a business loss, emergency or crisis. Its crisis management and business continuity processes are focused toward building organizational resilience with the capability for an effective response to safeguard the interests of the various stakeholders. Business impact

assessment workshops and training activities have been conducted for supervisory and management levels throughout the organization. The Company appointed George G. San Pedro, Vice President for Operations & Resident Manager and Jaime B. Garcia, Vice President for Procurement and Logistics as Business Continuity Planning (BCP) Directors for Mine Site and Makati Office, respectively, who are authorized and responsible for the activation, implementation and maintenance of the BCMS.

Information Technology Risk Management

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

Financial Risk Management

The Company's financial risk management objectives and policies to effectively manage its financial assets and liabilities are discussed in detail in the Notes to Consolidated Financial Statements.

GOOD GOVERNANCE PROGRAM

Semirara Mining Corporation believes that good corporate governance creates and adds shareholder value over the long-term and ensures sustainability of the Company. Its good governance policies and control activities are geared toward a culture of ethical conduct, higher standards of performance, transparency and accountability throughout the organization and its subsidiary operations. As part of its continuing advocacy on good corporate governance, it fosters partnership with and membership of its Directors/Officers in the Institute of Corporate Directors (ICD), a professional organization committed to the professional practice of corporate directorship and participates in ICD's governance initiatives.

Alternative Dispute Resolution Policy

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

Anti-Corruption and Fraud Policies

The Company is committed to the highest standards of openness, probity and accountability in all its affairs. It defines the nature and provides related guidelines to maintain a culture of integrity and an opposition to fraud and corruption.

Conflict of Interest Policy

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

To monitor compliance with the Conflict of Interest policy, the Company requires early submission by a Director, Officer and employee of a "single transaction" disclosure

statement, and due before potential conflict of interest arises, of his direct or indirect financial interest in a specific contract or purchase proposed to be entered into by the Company, subsidiaries or its affiliates with or from a particular contractor or supplier. Failure to make proper disclosure as required may result in disciplinary action.

Gift and Entertainment Policy

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

Fraud and Ethics Response Policy

This Policy reinforces the Company's approach by setting out the procedures and ways in which employees or other stakeholders can voice their concerns or complaints about suspected fraud or corruption. It also outlines how the Company will deal with such complaints and determine its course of action depending on their nature.

Board and Director Development Program

The Company's Board and Director development program aims to raise the quality of its Board operations to a higher level. This includes orientation, training, continuing education, committee assignments and Board evaluations for improvements, among others. Directors are given a formal Board Director performance expectations list which provides a common ground for their individual performance.

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

Board Directors have subjected themselves to formal self-assessments of their skills and expertise, including identification of development areas of interest to enhance their qualifications and effectiveness as Directors. Training varies upon each director's requirements, quality and relevance of the training available. All Directors are to avail themselves of educational opportunities as appropriate and as part of their continuous professional education. During the year, Directors including senior management participated in the parent company's groupwide in-house seminars on economic briefings, ERM and strategic topics. They are periodically provided with reference materials on global best practices and governance issues as part of their continuing education.

CEO and COO Performance Evaluation

The Board annually conducts reviews of the CEO's and COO's performance based on key result areas consisting of Board-approved financial performance metrics relating to the Company's business and operating objectives, and non-financial metrics covering strategic objectives, governance, internal processes, business development and corporate social responsibility. The Good Governance Officer administers the performance evaluation process, tabulates the rating results and summarizes evaluation comments. Evaluation results are submitted to and/or discussed with the CEO, COO, Nomination & Election Committee and Compensation & Remuneration Committee for proper disposition or action. In 2012, the Board evaluated the performance of the CEO and COO for the preceding year.

Code of Conduct

Semirara Mining Corporation has adopted Codes of Conduct for Directors & Executive Officers, and Employees (Codes) to affirm the Company's standards of professional and ethical business conduct, workplace safety and environmental responsibilities. The Codes reflect the Company's core values of teamwork, excellence, loyalty, integrity, commitment and professionalism. They provide policies and guidelines on observance of law, respect of environment, safety, insider trading, fair dealings, confidentiality of information, accounting and financial reporting integrity, corporate and charitable giving, among others. The Audit Committee administers the Code of Conduct for Directors and Executive Officers, while the Human Resources Management has the primary responsibility for implementing and administering compliance to the Employee Code of Conduct. The Company shall at all times observe due process and procedures in the implementation of the provisions of this Code.

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

Corporate Governance Training

The Board Directors, management and key Legal staff have participated in trainings and seminar updates on Corporate Governance and compliance-related topics. The Company encourages and supports participation of its Directors and officers in governance courses and programs such as the Professional Directorship Program of ICD and Strategic Business and Economics Program of the University of Asia and the Pacific.

Executive Succession Plan Policy

This Policy is a statement of commitment involving assessment of leadership needs and preparation for an eventual permanent leadership change to ensure the stability and accountability of the Company to its stakeholders. It also outlines succession procedures for the CEO including the process of appointment and time frame in case of an interim leadership, time frame for appointing a board transition committee and its roles – e.g. communicating to key stakeholders. The Company shall develop a pool of candidates while at the same time encouraging the professional development and advancement of current employees. Succession procedures are to be similarly applied for changes in key officers.

Hotline Reporting

In 2012, the Company launched a Hotline reporting mechanism as an additional and secure reporting venue for employees, customers, suppliers and other stakeholders to raise complaints and confidential concerns on fraud, questionable and unethical transactions in good faith. Hotline reporting procedures include the use of a Hotline reporting form to guide the reporter in providing adequate information and basis to enable the Company to effectively investigate, evaluate and resolve the reported matter. The reporter may choose to report a concern anonymously, however there must be adequate information provided for the Company to have sufficient basis to investigate and have an informed judgment to assess the genuineness of an anonymous complaint or concern. Reporting of the concern or complaint raised is treated with due care and confidentiality. The Company expressly prohibits retaliation, intimidation, harassment or adverse employment consequences against a reporter who raises a concern or complaint. It shall investigate and address promptly any concern of reprisal and harassment brought to its attention. The Hotline reporting is accessible at the Corporate Governance section of the Company's website: www.semiramining.com or through a dedicated email address at: hotline@semiraminingmkti.net.

Insider Trading Policy

Directors, Officers and employees are required to abide by the Company's prescribed restrictions and no-trading periods of its shares of stock in the market. Directors and officers are required to report their trades immediately to the Company upon completion of such trade activity. While SEC rules require that such trades be reported to PSE within five (5) trading days, the Company reports and discloses earlier or immediately to PSE upon receipt of written confirmation of a trading activity.

Related Party Transaction Policy

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

Subsidiary Good Governance Program

The Company's operating Subsidiary, SEM-Calaca Power Corporation mirrors the overall corporate governance framework of the Parent's through its Board-approved Code of Corporate Governance. It appointed its Parent's two (2) Independent Directors also as such and established good governance committees, specifically, Audit, Compensation & Remuneration and Nomination & Election Committees, to assist in the Board's oversight functions. The Committees are guided by Board-approved respective Committee Charters. The Subsidiary adopted good governance initiatives such as Code of Conduct and Business Ethics, Business Interest Disclosure and Related Party Transaction Policy, among others.

STAKEHOLDERS

The Company recognizes the rights and interests of its key stakeholders, specifically shareholders, employees, customers, suppliers, creditors, government, host communities and environment. The Company's Hotline mechanism's email address hotline@semiraraminingmkti.net and dedicated email address investor_relations@semiraraminingmkti.net provide stakeholders alternative reporting venues to raise any valid concern or query about the Company.

Shareholders

The Company is committed to creating and enhancing shareholder value through asset protection and sustainability of the Company's business. It promotes a culture of transparency with protection and equal respect of shareholder/investor rights embodied in its Revised Code of Corporate Governance.

Rights

The Company maintains a share structure that gives all shares equal voting rights. Shareholders rights include their participation in decisions concerning fundamental corporate changes such as amendments to the Company's constitution, authorization of additional shares and transfer or sale of all or substantially all of the Company's assets, sale of a business unit or subsidiary that accounts for a majority portion of the Company's assets. The Company respects other shareholder rights as provided for in the Corporation Code, specifically, to inspect corporate books and records, to information, to dividends and appraisal right. As part of its director nomination process, the Company provides non-controlling shareholders the right to nominate candidates for Board Directors. The Company discloses to PSE and subsequently in its website the nominations and due dates for submission of such nominations. The Company provides adequate information and the rationale for agenda items requiring shareholders' approval prior to the holding of annual shareholders' meetings in its Definitive Information Statement.

Dividend Policy

The Company is committed to providing reasonable economic returns to its investors. It has been consistently paying out cash dividends more than its dividend policy of 20% of preceding year's Net Income After Tax (NIAT) since its domestic and international shares offering in 2005. On April 30, 2012, the Board approved and declared cash dividends of P 3.56 billion representing 65% of 2011's NIAT which were fully paid on June 25, 2012.

Annual Shareholders' Meeting

The Company holds the Annual Shareholders Meeting (ASM) every first Monday of May each year to report to its shareholders as well as give them the opportunity to ask the Board updates or issues for clarification. The Company allows voting in absentia via proxy thus, giving a shareholder who is unable to attend such meeting the opportunity to participate and vote on the shareholder's behalf. The Company makes publicly available by the next working day the result of shareholder votes taken during the annual shareholders meeting for all resolutions.

On May 7, 2012, the Company held its ASM at the Manila Golf & Country Club, Forbes Park, Makati City, a meeting location that is accessible to the shareholders. The Chairman of the Board, Chairman of the Audit Committee, Chairman of the Compensation and Remuneration Committee and Chairman of the Nomination and Election Committee, other Board Directors, CEO, Chief Operating Officer, Chief Finance Officer, Corporate Secretary, other key officers and SGV & Co as external auditor attended the meeting to answer potential questions from shareholders. The meeting was conducted by following the agenda items as indicated and disclosed in the Company's Notice of ASM. The Corporate Secretary discussed and explained the rationale of agenda items requiring shareholders' approval. After discussion of the Management Report, the Vice Chairman and CEO gave the shareholders and other attendees the opportunity to raise any question and/or clarification. No such question or clarification was raised and duly minuted. There was also no added agenda item or amendment to material information without prior shareholder notice in compliance to regulatory rules. The list of Board Directors who attended the 2012 ASM are reported and disclosed in a certification of attendance to PSE and SEC. This certification and the minutes of the 2012 ASM are disclosed in the Company's website.

Investor Relations

The Company's Investor Relations unit which is under the Office of the Chief Finance Officer, implements its investor relations program aimed to provide knowledge, understanding and transparency of the Company's business, operating and financial condition to the investing public. To sustain investor confidence, the Company maintains a policy of open and constant communication and disclosure of its activities, subject to insider information guidelines. It maintains continuing dialogue with local and international institutional investors by engaging in conference calls, and meeting with institutional and prospective investors, investment analysts, fund managers and the financial community through participation in analyst-media briefings, reverse roadshows and investor conferences in the region. It also arranges visits to the Mine site and subsidiary power plant operations for institutional investors. Corporate information is communicated to shareholders by timely and adequate disclosures to SEC, PSE and in Company's website.

Employees

The Company recognizes that its greatest resources are its employees. Its policies and programs are implemented to meet its obligations toward its employees and support its mission of empowering employees in a climate of integrity and excellence. It understands the value of high-performing talent to the alignment of the Company's business needs and sustainability. The Company's compensation reward policy sets remuneration at levels having regard to industry and market standards for similar work responsibilities and positions and gives performance-

based cash incentives, with appropriate financial performance of the Company, to affirm or encourage performers. Its competency-based performance management system evaluates employee performance using a Balanced Scorecard that considers technical and behavioral competencies as well as employee support or compliance to the Company's Code of Conduct, good governance program and Environmental, Health and Safety (EHS) policies.

The Company's employee development program includes trainings, seminars and workshops such as skills upgrade, leadership, short management courses, ISO quality management principles, EHS, risk awareness, among others. Working safely as a condition to employment is reinforced by training sessions on basic occupational health and safety, and conducting regular drills on emergency preparedness such as fire and earthquake.

Employee well-being is promoted through its health care program covering annual physical examination, physical fitness and sports activities to encourage and maintain a proactive healthy lifestyle, recreational activities to foster camaraderie and team building, and spiritual activities to foster one's personal values, among others.

Benefits provided to full-time employees that are not provided to temporary or part-time employees cover health care, accident and life insurance, vacation leaves, sick leaves, retirement benefits, disability and death benefits. The Company has a funded, noncontributory defined benefit plan. Additional benefits are provided to Mine site employees such as free housing, power & water utilities, and education for their dependents, among others. The Company provides free primary medical services to Mine site employees and workforce including their dependents at a Company-owned hospital. The hospital's new pharmacy offers more reliable supply and discounted cost of medicines. Employee health and well-being are further discussed in the Company's Corporate Social Responsibility Annual Report.

Customers

The Company's mission is to supply its customers with quality coal that meets their stringent specification. It measures the characteristics of coal to ensure that customer requirements are determined and understood with notification to the customer of significant changes communicated in a timely manner before effecting any change. Tests are conducted and results recorded to evidence conformity with the requirements. Coal shall not be loaded and shipped until all the tests are conducted and all results passed the customer's specification. Client feedback mechanism is implemented to measure client perception in meeting customer requirements and complaints, if any, are resolved through corrective action and after-sales settlement guidelines. The Company's continuing recertification as being in conformance to ISO 9001:2008 on Quality Management System affirms its commitment to achieve and enhance customer satisfaction through continual improvement of processes. The Codes of Conduct promote fair dealings with customers and confidentiality of business information such as customer data.

Suppliers and Creditors

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

The Company's capital management strategy is to ensure it maintains a strong credit rating and healthy capital ratios to support its business, maximize shareholder value and safeguard creditors' rights. This is disclosed and further discussed, together with the financial risk management objectives, risks and policies in the relevant section of its Notes to Consolidated Financial Statements.

The Company's quality policy for procurement activities ensure competitive sourcing and pricing of highest quality of goods and services to support the Company's objectives. It includes procedures on accreditation, evaluation of new suppliers and re-evaluation of performance of accredited suppliers of critical materials every twelve months to ensure consistent quality of purchased products and services. Suppliers are selected and evaluated based on their track record, price, payment terms and performance on criteria such as product quality, response to problems and delivery. Canvassing procedures ensure competitive pricing, favorable terms and value-added services without compromising quality.

Government

The Company is committed to its vital role in the country's coal mining industry and related energy sector. It partners with the government in economic development through responsible citizenship, judicious use of the country's natural resources and compliance with relevant taxation, laws and regulations. Through payment of mining-specific royalties, the Company assists in providing significant and stable revenues to enable the government fulfill its fundamental objective of optimizing socio-economic benefits and welfare. In 2012, royalties paid to the Department of Energy and to the different local government units in the province of Antique amounted to P 1.56 billion. The Company's close partnerships with local government units and key sectors also involve community-based emergency preparedness initiatives such as disaster and risk reduction management workshops and drills.

Community and Environment

The Company works in partnership with its host communities to improve the sustainability of both the community and the environment while promoting local economic empowerment with judicious use of natural resources. Its comprehensive Corporate Social Responsibility (CSR) program is built on the Five Es - Electrification, Education, Employment and Livelihood, Economic Empowerment and Environmental Protection. The Company's commitment toward the sustainability of Semirara Island is described in a separate CSR section of the Annual Report. This robust commitment is cascaded in its subsidiary power company's separate CSR program also discussed in the CSR annual report section.

The Company's integrated Environment, Health and Safety (EHS) management system is built on a framework of continuous improvement of applied environmental and social responsibility performance standards. This includes a Hazard Identification and Risk Assessment process to ensure that environmental aspects associated with the Company's coal mining activity, products and services are identified, their impact to the environment, safety and health hazards evaluated for significance and necessary control measures implemented.

The Company integrates value chain processes that minimize pollution and damage to the environment. Standard operating procedures include close monitoring of spontaneous combustion activity of coal stockpiles by continuous and thorough compaction, and inspection of stockpiles every start and middle of the operation shift. Air pollution control measures include road watering by six water trucks during dry season and hauling operation, setting truck speed limits, installation of pollution control facilities on the power plant smoke stack, use of dust-treat coagulants during product transfers and preventive maintenance program of mobile and airconditioning equipment. Waste water from the Company's Coal Washing Plant operations is channeled to settling ponds before recycling for plant watering use or to a constructed dike area for containment. The Company also established procedures in handling and containment of industrial materials and wastes, including clean-up and restoration where needed. It implemented a progressive rehabilitation program of the old Unong mine and a section of the current Panian mine. Employees are mandated to comply with the Company's EHS objectives and policies such as the conservation and promotion of the local biodiversity, ecological solid waste management that promotes proper garbage segregation and reduced consumption of electricity, water and paper, among others.

WEBSITE

The Company's organization structure, performance and significant corporate information, including disclosures may be viewed at the Company's website, www.semiraramining.com.

PART VI - EXHIBITS AND SCHEDULES
A. Exhibits and reports on SEC Form 17-C

- (1) **Exhibits.** - See accompanying Index to Exhibits as well as the Company's Audited Financial Statements for the recently completed fiscal year. These financial statements are reports from the Company's Independent Public Accountant, SGV & Co.
- (2) **Reports on SEC Form 17-C.** - There are SEC Forms 17-C filed during the last six-month period covered by this report, to wit:

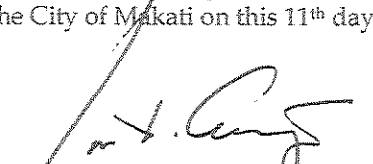
No.	Subject	Date Reported
1.	Filing of complaint for annulment of deeds of sale and quieting of title against the Corporation and several of its directors in the case docketed as " <i>Perla M. Gabinete, represented by Richel G. Mesullo and Richel G. Mesullo, in her behalf, Plaintiffs, vs. Semirara Mining Corporation, Rep. by Victor A. Consunji, President and Chief Operating Officer, George G. San Pedro, and Antonio C. Jayme, Defendants, Civil Case No. 260-C, 6th Municipal Circuit Trial Court, Branch XIII, Culasi, Antique.</i> "	July 16, 2012
2.	Board approval of the Corporation's quarterly financial statements for the interim period ended June 30, 2012.	August 8, 2012
3.	Disclosure of the Technical Report on Bobog Coal Deposit in Semirara Island, Caluya, Antique dated September 10, 2012 with resource estimates showed 27.5 million metric tons of measured and 9.0 million metric tons of indicated in situ coal in Bobog mine.	September 10, 2012
4.	Submission of the Corporation's Audit Committee Self-Assessment as of August 2012 in compliance with SEC Memorandum Circular No. 4, Series of 2012.	October 2, 2012
5.	Board approval of the Corporation's quarterly financial statements for the interim period ended September 30, 2012.	October 30, 2012
6.	Submission of the Corporation's Certifications on attendance of Directors during Board meetings and extent of the Corporation's compliance with its Revised Code of Corporate Governance for the year 2012.	January 11, 2013
7.	Receipt of NLRC-Cagayan de Oro City's Decision dated December 28, 2012 dismissing Bornea's appeal for lack of merit in the case docketed as " <i>Engr. Inocentes R. Bornea, Jr., Complainant/Appellant vs. Semirara Mining Corporation/Victor A. Consunji, President and George G. San Pedro, Resident Manager, Respondents/Appellee, NLRC Case No. MAC-06-012592-2012 (RAB-XI-11-00663-11).</i> "	January 15, 2013
8.	Confirmation of news article "DOE awarding 8 coal operation contracts" published in the February 12, 2013 issue of the Philippine Daily Inquirer.	February 12, 2013
9.	Disclosure on the incident where a section of the west wall of the Panian pit gave way at around 11:55 p.m., February 13, 2013. To ensure the safety of the personnel and equipment, mining activities has been temporarily stopped.	February 14, 2013

10.	Update on previous disclosure dated February 14, 2013 regarding the incident at the Panian coal pit in Semirara Island, Antique.	February 18, 2013
11.	Disclosure on SEC approval of Semirara Energy Utilities Inc.'s (SEUI) Articles of Incorporation and By-Laws. SEUI was incorporated to perform qualified third party functions as an alternative electric service provider authorized to serve remote and unviable areas.	February 19, 2013
12.	Signing of amended contract to purchase generated electricity between the Company's subsidiary, SEM-Calaca Power Corporation and Trans-Asia Oil and Energy Development Corporation.	February 27, 2013
13.	Results of the Company's NOMELEC meeting setting March 11, 2013 as the deadline of submission of nominees to Board, and March 20, 2013 as approval of the final list of candidates.	March 1, 2013
14.	DOE issued clearance to the Company to do preparatory activities at the North Panian area.	March 5, 2013
15.	Board approval of the Annual Audited Consolidated Financial Statements as of and for the year ended December 31, 2012; date, venue, time, and agenda of Annual Stockholders' Meeting on May 6, 2013; recommendation on re-appointment of Sycip Gorres Velayo & Co. as Independent External Auditor of the Company for the year 2013.	March 12, 2013
16.	Approval of the final list of nominees for directorship by the NOMELEC of the Company for election at the Annual Stockholders' Meeting on May 6, 2013	March 20, 2013
17.	Supreme Court's Resolution denying the Petition for Review filed by the Commissioner of Internal Revenue in the case docketed as "Commissioner of Internal Revenue vs. Semirara Mining Corporation, G.R. No. 203621" relative to the case filed by the Company for tax refund or issuance of tax credit certificate (CTA EB No. 772)	March 20, 2013

SIGNATURES

Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, this report is signed on behalf of the Issuer by the undersigned, thereunto duly authorized, in the City of Makati on this 11th day of April 2013.


By:


ISIDRO A. CONSUNJI
 Chief Executive Officer
 (Principal Executive Officer)


VICTOR A. CONSUNJI
 President & COO
 (Principal Operating Officer)


JUNALINA S. TABOR
 Chief Finance Officer
 (Principal Financial Officer/Comptroller)


LEANDRO D. COSTALES
 Accounting Manager
 (Principal Accounting Officer)



JOHN R. SADULLO
 Corporate Secretary

SUBSCRIBED AND SWORN, to before me on this 15 day of April 2013, at Makati City, Metro Manila, affiants exhibited to me:

Name	Passport/Valid ID No.	Expiry Date/Place Issued
Isidro A. Consunji	EB2033364	March 6, 2016/DFA, Manila
Victor A. Consunji	EB5899814	July 10, 2017/DFA, Manila
Junalina S. Tabor	XX3473561	April 14, 2014/DFA, Manila
John R. Sadullo	DL - N01-02-005690	July 22, 2014/LTO, Q.C.
Leandro D. Costales	SSS-33-5912087-4	N.A./SSS, Quezon City

who has satisfactory proven to me their identities through their valid identification cards, and that they are the same persons who personally signed before me the foregoing Annual Report (SEC Form 17-A) and acknowledged that they executed the same.

Doc. No. 668
 Page No. 133
 Book No. 1
 Series of 2013.


REDONDO C. VILLARIVERA
 Roll of Attorney's No. 45335
 Appointment No. M-410
 Notary Public for Makati City
 Until December 31, 2013
 4th Floor, Dacon Building, 2281
 Pasong Tamo Extension, Makati City
 IBP No. 887140/Jan. 19 2012/Makati City
 PTR No. 3202168/Jan. 20, 2012/Makati City
 MCLE Compliance No. III-0017731/June 29, 2010

SEMIRARA MINING CORPORATION

SEC FORM 17-A

INDEX TO FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES

CONSOLIDATED FINANCIAL STATEMENTS

Statement of Management Responsibility for Financial Statements -----	
Report on Independent Public Accountants -----	
Consolidated Statements of Financial Position as of December 31, 2012 & 2011 ---	
Consolidated Statements of Cash Flows as of December 31, 2012 & 2011 -----	
Notes to Consolidated Financial Statements -----	

SUPPLEMENTARY SCHEDULES

Report of Independent Public Accountants on Supplementary Schedules	
A. Financial Assets -----	
B. Amounts receivable from directors, officers, employees, related parties, and principal stockholders (other than affiliates) -----	
C. Amounts Receivables/Payables from/to related parties which are eliminated during the consolidation of financial statements -----	
D. Intangible Assets - Other Assets -----	
E. Long-Term Debt -----	
F. Indebtedness to Related Parties -----	N/A
G. Guarantees of Securities of Other Issuers -----	N/A
H. Capital Stock -----	
I. Schedule of all the effective standards and interpretations -----	
J. Retained Earnings -----	
K. Schedule on Financial Soundness Indicators -----	
L. Map of the Relationships of the Companies within the Group -----	

**STATEMENT OF MANAGEMENT'S RESPONSIBILITY
FOR CONSOLIDATED FINANCIAL STATEMENTS**

The management of SEMIRARA MINING CORPORATION is responsible for the preparation and fair presentation of the consolidated financial statements for the years ended December 31, 2012 and 2011, including the additional components attached therein, in accordance with Philippine Financial Reporting Standards. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

The Board of Directors reviews and approves the consolidated financial statements and submits the same to the stockholders.

SyCip Gorres Velayo & Co., the independent auditors, appointed by the stockholders has examined the consolidated financial statements of the company in accordance with Philippine Standards on Auditing, and in its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such examination.

Signed this 12th day of March 2013.



ISIDRO A. CONSUNJI
Chief Executive Officer



DAVID M. CONSUNJI
Chairman of the Board



JUNALINA S. TABOR
Chief Finance Officer

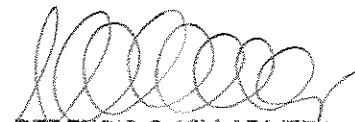
MAR 14 2013

SUBSCRIBED AND SWORN, to before me on this ___ day of March 2013, at Makati City, Metro Manila, affiants exhibited to me:

Name	Passport/CTC No.	Expiry Date/Place Issued
David M. Consunji	EB0531746	July 6, 2015 / DFA, Manila
Isidro A. Consunji	EB2033364	March 6, 2016 / DFA, Manila
Junalina S. Tabor	XX3473561	April 14, 2014 / DFA, Manila

who has satisfactory proven to me their identities through their valid identification cards, and that they are the same persons who personally signed before me the foregoing and acknowledged that they executed the same.

Doc. No. 577;
Page No. 106;
Book No. 1;
Series of 2013.



REDENCIO C. VILLARIVERA
Roll of Attorney's No. 45335
Appointment No. M-410
Notary Public for Makati City
Until December 31, 2013
4th Floor, Dacon Building, 2281
Pasong Tamo Extension, Makati City
IBP No. 887140/Jan. 19 2012/Makati City
PTR No. 3202168/Jan. 20, 2012/Makati City
MCLE Compliance No. III-001773/July 29, 2012

COVER SHEET

SEC

9 1 4 4 7

SEC Registration Number

S E M I R A R A M I N I N G C O R P O R A T I O N

(Company's Full Name)

2 2 8 1 D o n C h i n o R o c e s A v e n u e , M a k a t i C i t y

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

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)

Dept. Requiring this Doc.

Amended Articles Number/Section

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

Report on the Parent Company Financial Statements

We have audited the accompanying parent company financial statements of Semirara Mining Corporation, which comprise the parent company statements of financial position as at December 31, 2012 and 2011 and the parent company statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Parent Company Financial Statements

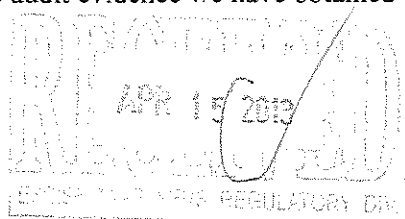
Management is responsible for the preparation and fair presentation of these parent company financial statements in accordance with Philippine Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of parent company financial statements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

Auditors' Responsibility

Our responsibility is to express an opinion on these parent company 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 parent company financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the parent company financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the parent company 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 parent company 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 parent company financial statements.

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



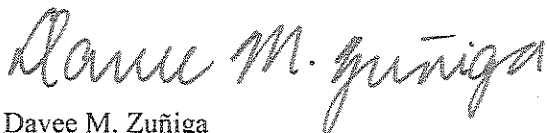
Opinion

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

Report on the Supplementary Information Required Under Revenue Regulations 19-2011 and 15-2010

The supplementary information required under Revenue Regulations 19-2011 and 15-2010 for purposes of filing with the Bureau of Internal Revenue is presented by the management of Semirara Mining Corporation in a separate schedule. Revenue Regulations 19-2011 and 15-2010 require the information to be presented in the notes to the parent company financial statements. Such information is not a required part of the basic financial statements. The information is also not required by Securities Regulation Code Rule 68. Our opinion on the basic financial statements is not affected by the presentation of the information in a separate schedule.

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

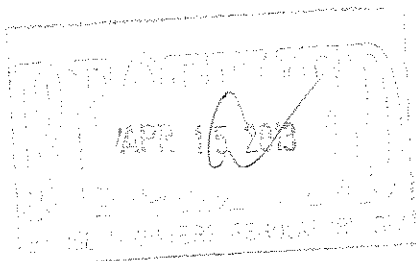
Tax Identification No. 160-302-953

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

April 11, 2012, valid until April 10, 2015

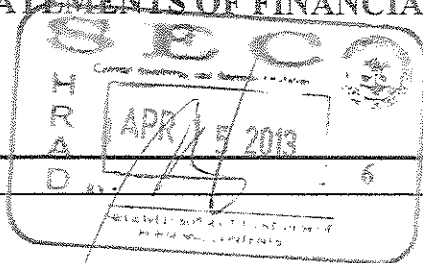
PTR No. 3670042, January 2, 2013, Makati City

March 12, 2013



SEMIRARA MINING CORPORATION

PARENT COMPANY STATEMENTS OF FINANCIAL POSITION



	December 31	
	2012	2011
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 4, 18, 28 and 29)	₱410,164,655	₱3,752,017,619
Receivables (Notes 5, 28 and 29)	2,098,503,584	1,914,953,792
Inventories (Note 6)	4,544,563,761	3,002,209,507
Other current assets (Note 7)	1,642,060,280	870,330,354
Total Current Assets	8,695,292,280	9,539,511,272
Noncurrent Assets		
Investments in subsidiaries (Note 8)	11,313,316,605	8,772,700,560
Property, plant and equipment (Note 9)	3,385,461,773	3,638,097,932
Investment property (Note 10)	-	83,981,100
Pension asset (Note 19)	-	1,021,507
Other noncurrent assets (Note 11)	115,361,497	158,450,106
Total Noncurrent Assets	14,814,139,875	12,654,251,205
	₱23,509,432,155	₱22,193,762,477
LIABILITIES AND EQUITY		
Current Liabilities		
Trade and other payables (Notes 12, 28 and 29)	₱4,815,450,528	₱4,693,213,980
Short term loans (Notes 13, 28 and 29)	138,474,613	623,457,376
Current portion of long-term debt (Notes 14, 28 and 29)	3,668,712,959	1,461,965,924
Total Current Liabilities	8,622,638,100	6,778,637,280
Noncurrent Liabilities		
Long-term debt - net of current portion (Notes 14, 28 and 29)	1,106,370,593	2,634,272,193
Pension liability (Note 19)	5,847,126	-
Deferred tax liabilities (Note 25)	-	565,481
Provision for decommissioning and site rehabilitation (Note 15)	52,696,210	43,894,479
Total Noncurrent Liabilities	1,164,913,929	2,678,732,153
Total Liabilities	9,787,552,029	9,457,369,433
Equity		
Capital stock (Notes 16 and 28)	356,250,000	356,250,000
Additional paid-in capital (Notes 16 and 28)	6,675,527,411	6,675,527,411
Retained earnings (Notes 17 and 28)	6,690,102,715	5,704,615,633
Total Equity	13,721,880,126	12,736,393,044
	₱23,509,432,155	₱22,193,762,477

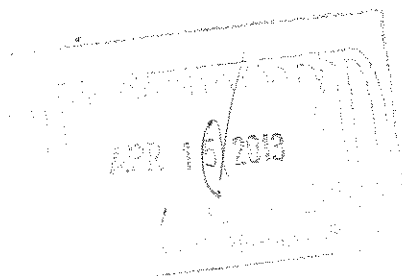
See accompanying Notes to Parent Company Financial Statements.



SEMIRARA MINING CORPORATION
PARENT COMPANY STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2012	2011
SALES (Note 32)	₱17,626,630,195	₱20,063,723,871
COST OF SALES (Note 20)	12,329,463,972	14,006,905,663
GROSS PROFIT	5,297,166,223	6,056,818,208
OPERATING EXPENSES (Note 21)	(2,000,917,709)	(1,856,329,499)
INCOME FROM OPERATIONS	3,296,248,514	4,200,488,709
OTHER INCOME (CHARGES)		
Dividend income (Note 8)	1,500,000,000	1,200,000,000
Foreign exchange gains (losses) - net	387,832,720	(26,011,453)
Finance income (Note 23)	13,115,104	79,447,325
Finance costs (Note 22)	(122,607,385)	(86,504,843)
Other income (Note 24)	187,184,598	99,905,297
	1,965,525,037	1,266,836,326
INCOME BEFORE INCOME TAX	5,261,773,551	5,467,325,035
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 25)	1,286,469	(16,428,062)
NET INCOME	5,260,487,082	5,483,753,097
OTHER COMPREHENSIVE INCOME	-	-
TOTAL COMPREHENSIVE INCOME	₱5,260,487,082	₱5,483,753,097

See accompanying Notes to Parent Company Financial Statements.



SEMIRARA MINING CORPORATION
PARENT COMPANY STATEMENTS OF CHANGES IN EQUITY

	Common Stock (Note 16)	Additional Paid-in Capital (Note 16)	Unappropriated Retained Earnings (Note 17)	Appropriated Retained Earnings (Note 17)	Total
For the Year Ended December 31, 2012					
At beginning of the year	₱356,250,000	₱6,675,527,411	₱5,004,615,633	₱700,000,000	₱12,736,393,044
Net income for the year	—	—	5,260,487,082	—	5,260,487,082
Other comprehensive income	—	—	—	—	—
Total	356,250,000	6,675,527,411	10,265,102,715	700,000,000	17,996,880,126
Cash dividends (Note 17)	—	—	(4,275,000,000)	—	(4,275,000,000)
At end of the year	₱356,250,000	₱6,675,527,411	₱5,990,102,715	₱700,000,000	₱13,721,880,126

For the Year Ended December 31, 2011					
At January 1, 2011	₱356,250,000	₱6,675,527,411	₱3,083,362,536	₱700,000,000	₱10,815,139,947
Net income for the year	—	—	5,483,753,097	—	5,483,753,097
Other comprehensive income	—	—	—	—	—
Total comprehensive income	—	—	5,483,753,097	—	5,483,753,097
Cash dividends (Note 17)	—	—	(3,562,500,000)	—	(3,562,500,000)
At end of the year	₱356,250,000	₱6,675,527,411	₱5,004,615,633	₱700,000,000	₱12,736,393,044

See accompanying Notes to Parent Company Financial Statements.



SEMIRARA MINING CORPORATION
PARENT COMPANY STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	₱5,261,773,551	₱5,467,325,035
Adjustments for:		
Depreciation and amortization (Notes 9 and 11)	2,102,668,139	2,115,457,519
Finance costs (Note 22)	122,607,385	86,504,843
Provision for impairment loss (Note 11)	47,150,717	-
Finance income (Note 23)	(13,115,103)	(79,447,325)
Gain on sale of equipment (Note 24)	(127,491,090)	(53,547,507)
Net unrealized foreign exchange loss (gain)	(219,531,841)	26,475,064
Dividend income (Note 8)	(1,500,000,000)	(1,200,000,000)
Operating income before changes in operating assets and liabilities	5,674,061,758	6,362,767,629
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Receivables	(184,069,109)	(397,263,083)
Inventories	(1,542,354,254)	(1,273,942,519)
Other current assets	(773,837,169)	12,814,292
Increase (decrease) in:		
Trade and other payables	125,846,233	70,964,565
Pension liability (Note 19)	6,868,633	(21,018,255)
Net cash generated from operations	3,306,516,092	4,754,322,629
Interest received	15,222,345	79,327,028
Interest paid	(117,386,442)	(88,335,085)
Income taxes paid	(1,851,949)	(11,093,763)
Net cash flows provided by operating activities	3,202,500,046	4,734,220,809
CASH FLOWS FROM INVESTING ACTIVITIES		
Dividend received (Note 8)	1,500,000,000	1,200,000,000
Proceeds from sale of equipment	127,491,090	53,547,507
Increase in other noncurrent assets	(8,469,366)	(24,582,613)
Additions to property, plant and equipment (Notes 9 and 31)	(1,845,624,722)	(2,046,069,130)
Additions to investments in subsidiaries (Note 8)	(2,540,616,045)	(772,700,560)
Acquisition of investment property (Note 10)	-	(83,981,100)
Decrease in investment property	83,981,100	-
Net cash flows used in investing activities	(2,683,237,943)	(1,673,785,896)
CASH FLOWS FROM FINANCING ACTIVITIES		
Availments of debt	2,511,152,640	4,520,041,521
Repayment of debt	(2,034,193,354)	(3,082,947,419)
Payment of dividends (Note 17)	(4,275,000,000)	(3,562,500,000)
Net cash flows used in financing activities	(3,798,040,714)	(2,125,405,898)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		
	(63,074,353)	7,652,842
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(3,341,852,964)	942,681,857
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR,	3,752,017,619	2,809,335,762
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	₱410,164,655	₱3,752,017,619

See accompanying Notes to Parent Company Financial Statements.



SEMIRARA MINING CORPORATION

NOTES TO PARENT COMPANY FINANCIAL STATEMENTS

1. Corporate Information

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

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

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).

2. Summary of Significant Accounting Policies

Basis of Preparation

The Parent Company financial statements have been prepared using the historical cost basis. The financial statements are prepared in Philippine Peso, which is the parent company's functional currency. All amounts are rounded off to the nearest peso, except where otherwise indicated.

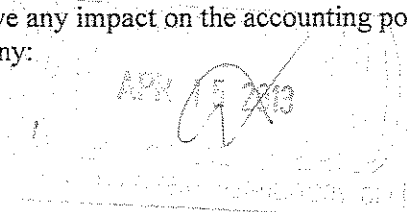
Statement of Compliance

The accompanying parent company financial statements have been prepared in accordance with Philippine Financial Reporting Standards (PFRS).

The Parent Company also prepares and issues consolidated financial statements presented in compliance with PFRS which are available at the registered office address of the parent company.

Changes in Accounting Policies

The accounting policies adopted in the preparation of the parent company financial statements are consistent with those of the previous financial year except for the following new and amended 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 parent company:



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 Company 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 Company 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 parent company'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 only and have no impact on the parent company'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. 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 affect disclosures only and have no impact on the parent company'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 Parent Company 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 Parent Company has to apply the amendments retroactively to the earliest period presented.

The Parent Company reviewed its existing employee benefits and determined that the amended standard has significant impact on its accounting for retirement benefits. The Parent Company 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 asset/liability	₱30,700,330	₱7,793,627
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		₱511,623
Profit for the year		511,623
Attributable to the owners of the Parent Company		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.
- 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. This interpretation may have an impact on both financial position and performance of the parent company.

- 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 parent company’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 parent company’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 parent company.



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 and are applied retrospectively. Earlier application is permitted. Except as otherwise indicated, the Company 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 parent company 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 parent company'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 parent company'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 Parent Company 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 parent company's financial position or performance.



Cash and cash equivalents

Cash and cash equivalents in the statements of financial position comprise cash in banks and on hand and short-term deposits with an original maturity of three months or less, but excludes any restricted cash that is not available for use by the parent company and therefore is not considered highly liquid.

For the purpose of the parent statements of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

Financial Assets and Financial Liabilities

Date of recognition

The Parent Company recognizes a financial asset or a financial liability in the parent company's 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 and measurement 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 Parent Company's financial instruments are in 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 of 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 Parent Company recognizes the difference between the transaction price and fair value (a Day 1 difference) in the Parent Company's 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 parent company's statements of comprehensive income when the inputs become observable or when the instrument is derecognized. For each transaction, the Parent Company determines the appropriate method of recognizing the 'Day 1' difference amount.

Financial asset

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 or financial assets at FVPL. These are included in current assets if maturity is within twelve (12) months from the reporting date otherwise; these are classified as noncurrent assets. This accounting policy relates to the "Cash and cash equivalents", "Receivables" 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 costs that are an integral part of the EIR. The amortization is included in "Finance income" in the parent company's statements of comprehensive income. The losses arising from impairment are recognized in the parent company's statements of comprehensive income as "Finance costs".

Financial liabilities

Other Financial Liabilities

Other financial liabilities pertain to issued financial instrument 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 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.

Gains and losses are recognized under the "Other income" accounts in the parent company's statements of comprehensive income when the liabilities are derecognized or impaired, as well as through the amortization process under the "Finance costs" account.

Impairment of Financial Assets

The Parent Company 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 parent company 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 Parent Company 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 assesses for impairment. Those characteristics are relevant to the estimation of future cash flows for group 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 parent company 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 parent company 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 under "Operating expenses" in the parent company's 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 or has been transferred to the parent company.



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 the parent company's 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 Parent Company 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 Parent Company 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 Parent Company has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risk and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the parent company'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 parent company could be required to repay.

Financial Liabilities

A financial liability is derecognized when the obligation under the liability is discharged or canceled 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 parent company's statements of comprehensive income.

Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the parent company's statements of financial position when there is a legally enforceable right to set off the recognized amounts and the parent company 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 parent company's statements of comprehensive income when consumed.

Exploration and Evaluation Costs

Once the legal right to explore has been acquired, exploration and evaluation expenditure is charged to parent company's statements of comprehensive income as incurred. These costs include materials and fuels 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 parent company's mining properties. The Parent Company estimates its mining reserves based on information compiled by appropriately qualified persons relating to the geological data on the size, depth and shape of the coal body, and requires 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 estimates may have an impact on the carrying value of 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. Property, plant and equipment are carried at cost less accumulated depreciation and any impairment in value.

The initial cost of property, plant and equipment comprises its purchase price, 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.

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 other direct costs. Equipment in transit includes the acquisition cost of 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 or over the remaining life of the mine, whichever is shorter, as follows:

	<u>Years</u>
Mining equipment	2 to 13
Power plant and buildings	10 to 21
Roads and bridges	17

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.

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

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. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the parent company's 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. The cost of computer software acquired in a business combination is measured initially at fair value as at the date of acquisition. Following initial recognition, computer software is carried at cost less any accumulated amortization on a straight line basis over their useful lives of two (2) years and any accumulated impairment losses.

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 parent company's statements of comprehensive income when the asset is derecognized.

Investment Property

Investment property is measured initially at cost, including transaction costs.

Investment property is derecognized when it has either been disposed of or the investment property is permanently withdrawn from use and no future benefit is expected from its disposal. Any gains or losses from derecognition of an investment property are recognized in the parent company's statements of comprehensive income in the year of derecognition.

Transfers are made to investment property when there is a change in use, evidenced by the end of owner occupation, commencement of an operating lease to another party or completion of construction or development. Transfers are made from investment property when there is a change in use, evidenced by commencement of owner occupation or commencement of development with a view to sale. Transfers between investment property, owner-occupied property and inventories do not change the carrying amount of the property transferred and they do not change carrying amount of the cost of that property for measurement or disclosure purposes.



Investments in Subsidiaries

This account includes investments and stock subscription in a subsidiary.

The Parent Company's investments in its subsidiaries are accounted for using the cost method of accounting. The investments are carried in the parent company's statements of financial position at cost less any impairment in value. On acquisition of the investment, the excess of the cost of investment over the investor's share in the net fair value of the investee's identifiable assets, liabilities and contingent liabilities is included in the carrying amount of the investment and not amortized.

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 Parent Company recognizes income from the investment when its right to receive the dividend is established.

Impairment of Nonfinancial Assets

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

Investment property, 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. Impairment losses of continuing operations are recognized in the parent company's 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 parent company's 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 parent company's 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.

Investments in subsidiaries

The Parent Company determines at each reporting date whether there is any objective evidence that the investments in subsidiaries are impaired. If this is the case, the Parent Company calculates the amount of impairment as being the difference between the fair value and the carrying value of the investee company and recognizes the difference in the parent company's statements of comprehensive income.

Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company 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 Company assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Company 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.

Dividend income

Revenue is recognized when the parent company's right to receive the payment is established.

Other income

Other income is recognized when earned.

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).

Cost of sales

Cost of coal

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

Operating expenses

Operating expenses are expenses that arise in the course of the ordinary operations of the parent company. 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 parent company's statements of comprehensive income as incurred.



Pension Expense

The Parent Company has a noncontributory defined benefit retirement plan.

The retirement cost of the parent company is determined using the projected unit credit (PUC) 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 parent company 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 PUC 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 excess 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 parent company's 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 parent company 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 exceptions. Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits from excess minimum corporate income tax (MCIT) over regular corporate income tax (RCIT) and unused net operating loss carry over (NOLCO), to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry forward 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 profit will be available to allow all or part of the deferred tax assets to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rate that are 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 substantively enacted at the reporting date.

Provisions

Provisions are recognized only when the parent company 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 Parent Company 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 parent company's 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 parent company's statements of comprehensive income.

Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the



asset. A reassessment is made after inception of the lease only if one of the following applies:

- a. there is a change in contractual terms, other than a renewal or extension of the arrangement;
- b. a renewal option is exercised or extension 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 the 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 renewal or extension period for scenario (b).

Parent Company as a lessee

Finance leases, which transfer to the Company 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 parent company's 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 Company 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 parent company's 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 Translations

The Parent Company 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 ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency closing rate at the reporting date. All differences are taken to the parent company's statements of comprehensive income.

Equity

The Parent Company records common stocks at par value and amount of the 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 parent company less dividends declared, if any. Dividends on common stocks are recognized as a liability and deducted from equity when declared. Dividends for the year that are approved after the reporting date are dealt with as an event after reporting date. Retained earnings may also include effect of changes in accounting policy as may be required by the standard's transitional provisions.



Treasury Shares

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

Operating Segments

The Parent Company'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. Financial information on business segments is presented in Note 32.

Contingencies

Contingent liabilities are not recognized in the parent company 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 parent company financial statements but disclosed when an inflow of economic benefits is probable.

Events After Reporting Date

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

3. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the parent company financial statements in compliance with PFRS requires the parent company to make judgments and estimates that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingent assets and contingent liabilities. The judgments, estimates and assumptions used in the accompanying parent company financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the parent company financial statements. Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effects of any change in estimates are reflected in the parent company financial statements as they become reasonably determinable. Actual results could differ from such estimates.

Judgments

In the process of applying the parent company'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 parent company financial statements:

a. Determining functional currency

The Parent Company, 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 parent company primarily operates.

b. Distinction between investment properties and owner occupied properties

The Parent Company determines whether a property qualifies as an investment property. In making its judgment, the Parent Company 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 Parent Company considers each property separately in making its judgment.

c. Operating lease commitments - the Parent Company as lessee

The Parent Company has entered into various contracts of lease for space, mining and transportation equipment. The Parent Company has determined that all significant risks and benefits of ownership on these properties will be retained by the lessor. In determining the significant risks and benefits of ownership, the parent company considered, among others, the significance of the lease term as compared with the EUL of the related asset.

d. Contingencies

The Parent Company 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 external legal counsel handling the parent company's defense in these matters and is based upon an analysis of potential results. The Parent Company currently believes that these proceedings will not 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 Parent Company'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 Parent Company's 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.

b. Estimating allowance for doubtful accounts

The Parent Company 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 Parent Company 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 parent company 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 Note 5.

c. *Estimating stock pile inventory quantities*

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

The amount of coal inventory is disclosed in Note 6.

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

The Parent Company estimates its allowance for inventory write-down in spare parts and supplies based on periodic specific identification. The Parent Company 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 parent company made different judgments or utilized different estimates. An increase in the allowance for inventory write-down would increase the parent company's recorded operating expenses and decrease its current assets.

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

e. *Estimating provision for decommissioning and site rehabilitation costs*

The Parent Company is legally required to fulfill certain obligations under its Department of Environment and Natural Resources issued Environmental Compliance Certificate when it abandons depleted mine pits. Significant estimates and assumptions are made in determining the provision for mine rehabilitation as there are numerous factors that will affect the ultimate liability payable. 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 recorded finance costs and noncurrent liabilities. The provision at reporting date represents management's best estimate of the present value of the future rehabilitation costs required. Assumptions used to compute the decommissioning and site rehabilitation costs are reviewed and updated annually.

The estimated provision for decommissioning and site rehabilitation is disclosed in Note 15.

f. *Estimating useful lives of property, plant and equipment and computer software*

The Parent Company 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 Parent Company reviews annually the EUL of property, plant and equipment and



computer software cost based on factors that include asset utilization, internal technical evaluation, 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.

As of December 31, 2012 and 2011, the carrying value for property, plant and equipment amounted to ₱3.39 billion and ₱3.64 billion, respectively.

g. Estimating impairment for nonfinancial assets

The Parent Company assesses impairment on assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the parent company 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 parent company estimates the recoverable amount as the higher of the net selling price 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 parent company is required to make estimates and assumptions that can materially affect the financial statements. There has been no existing indicator of impairment as of December 31, 2012 and 2011.

The net book values of the investments in subsidiaries, property, plant and equipment, investment property and software cost are disclosed in Notes 8, 9, 10 and 11, respectively.

h. Assessing recoverability of deferred tax assets

The Parent Company 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 parent company 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 parent company to realize the net deferred tax assets recorded at the reporting date could be impacted.

In 2012 and 2011, the Parent Company has various deductible temporary differences from which no deferred tax assets have been recognized as they do not foresee taxable earnings due to their Income Tax Holiday (ITH) (see Note 25).

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 parent company'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 Parent Company 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 Parent Company's present value of defined benefit obligation and unrecognized actuarial losses are disclosed in Note 19.

The Parent Company also estimates other employee benefits obligation, and expense, including cost of paid leaves based on historical leave availments of employees, subject to the parent company's policy. These estimates may vary depending on the future changes in salaries and actual experiences during the year.

j. Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the Parent Company's statements of financial position cannot be derived from active markets, they are determined using internal valuation techniques using generally accepted market valuation models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimates are used in establishing fair values. These estimates may include considerations of liquidity, volatility, and correlation. See Note 28 for the related balances.

4. Cash and Cash Equivalents

This account consists of:

	2012	2011
Cash in banks and on hand	₱405,331,189	₱614,036,983
Cash equivalents	4,833,466	3,137,980,636
	₱410,164,655	₱3,752,017,619

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 parent company, and earn interest ranging from 1.25% to 4.50% and 1.80% to 3.70% in 2012 and 2011, respectively.

In 2012 and 2011, total interest income earned on cash and cash equivalents amounted to ₱13.12 million and ₱79.28 million, respectively (see Note 23).

5. Receivables

	2012	2011
Trade:		
Local sales	₱944,561,537	₱1,284,512,441
Export sales	620,710,340	108,413,708
Related parties (Note 18)	510,993,229	508,618,587
Others	28,053,837	28,776,544
	2,104,318,943	1,930,321,280
Less allowance for doubtful accounts	5,815,359	15,367,488
	₱2,098,503,584	₱1,914,953,792



Trade receivables are noninterest-bearing and generally have 30-45 days' credit terms.

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

Related parties

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

Others include advances to officers and employees. These are generally noninterest-bearing and are collectible over a period of one year.

Movements in the allowance for doubtful accounts of receivables were as follows:

	2012		
	Trade - Local Sales	Other Receivables	Total
At January 1	P-	P15,367,488	P15,367,488
Provision (Note 21)	-	-	-
Reversals (Note 24)	-	(9,552,129)	(9,552,129)
At December 31	P-	P5,815,359	P5,815,359
Individual impairment	P-	P5,815,359	P5,815,359
Gross amounts of individually impaired receivables	P-	P5,815,359	P5,815,359

	2011		
	Trade - Local Sales	Other Receivables	Total
At January 1	P7,892,343	P10,362,976	P18,255,319
Provision (Note 21)	-	5,004,512	5,004,512
Reversals (Note 24)	(7,892,343)	-	(7,892,343)
At December 31	P-	P15,367,488	P15,367,488
Individual impairment	P-	P15,367,488	P15,367,488
Gross amounts of individually impaired receivables	P-	P15,367,488	P15,367,488

The reversals of allowance for doubtful accounts amounting to P9.55 million in 2012 pertains to other receivables collected in 2012.

In 2011, the Parent Company recorded a provision for doubtful accounts amounting to P5.00 million for other receivables which may no longer be recovered. Reversals of allowance for doubtful accounts amounting P7.89 million pertains to receivables from local coal sales collected in 2011.

6. Inventories

	2012	2011
Coal inventory at cost	P2,254,456,431	P2,000,216,380
Spare parts and supplies at NRV	2,290,107,330	1,001,993,127
	P4,544,563,761	P3,002,209,507



Spare parts and supplies with original cost of ₱580.93 million as of December 31, 2012 and 2011 were provided with allowance for inventory obsolescence amounting to ₱53.29 million.

Coal inventory are stated at cost, which is lower than NRV. In 2012 and 2011, the cost of coal inventories recognized as expense in the parent company's statements of comprehensive income amounted to ₱12.33 billion and ₱14.01 billion, respectively (see Note 20).

Coal inventory at cost includes depreciation expense amounting to ₱380 million and ₱296 million in 2012 and 2011, respectively.

7. Other Current Assets

	2012	2011
Advances to suppliers	₱1,230,260,138	₱523,696,661
Creditable withholding tax	400,119,622	334,902,480
Others	11,680,520	11,731,213
	₱1,642,060,280	₱870,330,354

Advances to suppliers

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

Creditable withholding tax

Creditable withholding tax is attributable to taxes withheld by third parties arising from the coal sales and that will be applied to future taxes payable.

Others

Others include prepayments on insurance and taxes.

8. Investments in Subsidiaries

	Ownership	2012	2011
SCPC	100%	₱8,000,000,000	₱8,000,000,000
SLPGC	100%	3,308,316,605	770,200,560
SIPDI	100%	2,500,000	2,500,000
SCI	100%	2,500,000	-
		₱11,313,316,605	₱8,772,700,560

SCPC

On July 8, 2009, Power Sector Assets and Liabilities Management Corporation (PSALM) selected DMCI-HI as the winning bidder for the sale of the 2X300 megawatt (MW) Batangas Coal-Fired Power Plant (the Power Plant) located in San Rafael, Calaca, Batangas.

The acquisition of the Power Plant is both a defensive and an opportunistic investment for the parent company. It is a defensive investment because the acquisition of the Power Plant will protect the parent company's coal supply contract with the Power Plant. The investment is opportunistic because as a stand-alone investment, it is expected to provide a fair return on investment.



On December 1, 2009, the Parent Company was authorized by the Board of Directors (BOD) to advance an amount of ₱7,158.70 million for the purchase of the Power Plant of PSALM through its wholly owned subsidiary in order to meet SCPC's financial obligation under Asset Purchase Agreement (APA) and Land Lease Agreement. In 2010, additional advances made by the parent company amounted to ₱840.05 million. 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 31, 2009. The agreed purchase price amounted to \$368.87 million.

On April 26, 2012 and April 20, 2011, SCPC declared cash dividend of ₱0.19 and ₱0.15 per share, respectively, to stockholders of record as of these dates to which the parent company received dividend income of ₱1.50 billion in 2012 and ₱1.20 billion in 2011.

SLPGC

On June 21, 2011, the BOD authorized to invest in a 2X150-MW circulating fluidized bed power plant in Calaca, Batangas, through the incorporation of a wholly-owned subsidiary. On August 31, 2011, the Parent Company incorporated said wholly-owned subsidiary under the name of "Southwest Luzon Power Generation Corporation".

SLPGC is 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 Republic Act No. 9136, otherwise known as Electric Power Industry Reform Act of 2001 (the 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.

SLPGC has an authorized capital stock of ₱10,000.00 million divided into 10,000.00 million shares with a par value of ₱1.00 per share. As of December 31, 2011, ₱3.00 billion of the authorized capital stock has been subscribed and ₱750.00 million has been paid for by the parent company. The Parent Company has paid the remaining ₱2.25 billion of the subscribed shares on January 5, 2012.

On August 26, 2011, upon incorporation of SLPGC, the Parent Company paid for the organizational costs amounting to ₱20.20 million. This was accounted as additional investment by the Parent Company to SLPGC.

As of December 31, 2012, SLPGC has not yet started its actual commercial operation.

SIPDI

On March 7, 2011, the BOD approves the recommendation to engage in or be duly authorized to operate, maintain and develop a special economic zone in Balayan and Calaca, Batangas.

On April 24, 2011, the Parent Company incorporated a new wholly-owned subsidiary under the name of "Sem-Cal Industrial Park Developers, Inc". The primary purpose of which is 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 Republic Act (R.A.) No. 7916, as amended by R.A. No. 8748, otherwise known as the Special Economic Zone Act of 1995.

SIPDI has authorized capital stock of ₱10.00 million and is divided into 10.00 million shares with a par value of ₱1.00 per share, to which the parent company has subscribed and paid ₱2.50 million of said capital stock.

As of December 31, 2012, SIPDI has not yet started its actual commercial operation.

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.

SCI has authorized capital stock of ₱10.00 million and is divided into 10.00 million shares with a par value of ₱1.00 per share, to which the parent company has subscribed and paid ₱2.50 million of said capital stock.

As of December 31, 2012, SCI has not yet started its actual commercial operation.

9. Property, Plant and Equipment

	2012				Total
	Mining Equipment	Power Plant and Buildings	Roads and Bridges	Equipment in Transit and Construction in Progress	
At Cost					
At January 1	₱14,644,146,631	₱1,678,181,695	₱365,683,504	₱614,883,102	₱17,302,894,932
Additions	1,146,650,321	133,889	-	698,840,512	1,845,624,722
Transfers	353,553,067	3,642,209	-	(357,195,276)	-
Disposals	(1,219,504,375)	-	-	-	(1,219,504,375)
At December 31	14,924,845,644	1,681,957,793	365,683,504	956,528,338	17,929,015,279
Accumulated Depreciation					
At January 1	11,960,844,951	1,421,570,270	282,381,779	-	13,664,797,000
Depreciation (Note 20)	1,989,904,387	99,694,402	8,662,092	-	2,098,260,881
Disposals	(1,219,504,375)	-	-	-	(1,219,504,375)
At December 31	12,731,244,963	1,521,264,672	291,043,871	-	14,543,553,506
Net Book Value	₱2,193,600,681	₱160,693,121	₱74,639,633	₱956,528,338	₱3,385,461,773
	2011				
	Mining Equipment	Power Plant and Buildings	Roads and Bridges	Equipment in Transit and Construction in Progress	Total
At Cost					
At January 1	₱13,347,041,037	₱1,599,442,466	₱279,062,950	₱730,882,156	₱15,956,428,609
Additions	1,182,123,016	36,042,076	636,237	827,267,801	2,046,069,130
Transfers	814,585,385	42,697,153	85,984,317	(943,266,855)	-
Disposals	(699,602,807)	-	-	-	(699,602,807)
At December 31	14,644,146,631	1,678,181,695	365,683,504	614,883,102	17,302,894,932

(Forward)



	Mining Equipment	Power Plant and Buildings	Roads and Bridges	Equipment in Transit and Construction in Progress	Total
Accumulated Depreciation					
At January 1	₱10,677,504,484	₱1,297,700,209	₱279,062,950	₱-	₱12,254,267,643
Depreciation (Note 20)	1,982,943,275	123,870,060	3,318,829	-	2,110,132,164
Disposals	(699,602,807)	-	-	-	(699,602,807)
At December 31	11,960,844,952	1,421,570,269	282,381,779	-	13,664,797,000
Net Book Value	₱2,683,301,679	₱256,611,426	₱83,301,725	₱614,883,102	₱3,638,097,932

Equipment in transit and construction in progress accounts mostly pertain to 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, the Parent Company sold various equipments at a gain amounting to ₱127.49 million and ₱53.55 million, respectively (see Note 24).

The cost of fully depreciated assets that are still in use amounted to ₱5.83 billion and ₱5.01 billion as of December 31, 2012 and 2011, respectively.

Depreciation and amortization included in the Parent Company's statements of comprehensive income follow:

	2012	2011
Included under:		
Inventories	₱379,606,494	₱295,955,110
Cost of sales (Note 20):		
Depreciation and amortization	1,667,927,815	1,657,871,433
Hauling and shiploading costs	327,991,661	265,457,724
Operating expenses (Note 21):		
Transportation and travel	23,097,279	20,666,945
	₱2,398,623,249	₱2,239,951,212
	2012	2011
Depreciation and amortization of:		
Property, plant and equipment	₱2,393,463,617	₱2,234,328,805
Software costs (Note 11)	5,159,632	5,622,407
	₱2,398,623,249	₱2,239,951,212

10. Investment Property

On May 5, 2011, the PSALM granted SCPC's request to assign the option to buy the 82,740 square meter lot covered by Transfer Certificate of Title (TCT) No. 115804 located in San Rafael, Calaca, Batangas to the Parent Company.

On June 1, 2011, the Parent Company exercised its option to purchase the option asset and subsequently entered into a Deed of Absolute Sale with PSALM for a total consideration of ₱82.74 million. A related documentary stamp tax was paid by the parent company amounting to ₱1.24 million. The selling price of ₱1,000.00 per square meter is based on the market value stated in the real property tax declaration of the land effective for year 2011. While the fair value of the



investment property was not determined as of December 31, 2011, the Parent Company's management believes that there were no conditions present from the date of purchase that would significantly change or reduce the fair value of investment property.

11. Other Noncurrent Assets

	2012	2011
Software cost - net	₱2,377,767	₱5,732,959
Environmental guarantee fund	1,500,000	1,500,000
5% input 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
Others	8,507,000	1,089,700
	₱115,361,497	₱158,450,106

5% input value-added tax (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 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	₱40,373,534	₱40,374,335
Provision	47,150,717	-
At December 31	₱87,524,251	₱40,374,335



Software cost

Movements in the 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 9)	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

The environmental guarantee fund amounting to ₱1.50 million represents the funds designated to cover all costs attendant to the operation of the Multi-partite Monitoring Team of the parent company's environmental unit.

Others

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

12. Trade and Other Payables

	2012	2011
Trade:		
Payable to suppliers and contractors	₱3,243,553,424	₱3,583,724,410
Related parties (Note 18)	474,455,526	110,970,285
Payable to Department of Energy (DOE) and local government units (LGU) (Note 26)	1,007,849,325	905,008,728
Accrued expenses and other payables	89,592,253	93,510,557
	₱4,815,450,528	₱4,693,213,980

Trade payables to suppliers and contractors include liabilities amounting to ₱301.95 million (US\$7.36 million) 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 equipments 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).



Details of the accrued expenses and other payables account follow:

	2012	2011
Withholding and other taxes	₱36,658,043	₱33,057,728
Real property tax	12,745,030	18,828,610
Rental (Note 18)	14,564,799	15,264,799
Salaries and wages	9,522,318	10,785,543
Interest	7,051,185	9,366,159
Professional fees	7,355,200	6,000,000
Others	1,695,678	207,718
	₱89,592,253	₱93,510,557

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

Others

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

13. 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 Parent Company is accountable for these trustee assets or the assets sales proceeds. The carrying amount of these assets as of December 31, 2012 and 2011 amounted to ₱138.47 million and ₱623.46 million, respectively.

These are payable within one year.

The interest expense recognized under "Finance Cost" amounted to ₱30.14 million and ₱16.77 million in 2012 and 2011, respectively (see Note 22).

14. Long-term Debt

	2012	2011
Bank loans	₱4,775,083,552	₱4,096,238,117
Less current portion of bank loans	3,668,712,959	1,461,965,924
	₱1,106,370,593	₱2,634,272,193



Bank Loans

Details of the bank loans follow:

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= ₱140.29		Various maturities in 2012 & 2013	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 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
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 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				

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

	2012	2011
(In Thousands)		
Due in:		
2012	P=	₱1,461,966
2013	3,668,713	2,634,272
2014	1,106,370	-
	₱4,775,083	₱4,096,238



15. Provision for Decommissioning and Site Rehabilitation

	2012	2011
At January 1	P43,894,479	P11,883,508
Additions	-	31,091,791
Accretion of interest (Note 22)	8,801,731	919,180
At December 31	P52,696,210	P43,894,479

Discount rates used by the Parent Company 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 P80.00 million, with a carrying value of P31.09 million in 2011.

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

16. Capital Stock

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

	Shares	Amount
Common stock - P1 par value		
Authorized	1,000,000,000	P1,000,000,000
Issued and outstanding		
Balances 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 P0.01 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 P36.00 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	P1/share		
Add (deduct):				
Additional issuance	19,657,388	P1/share	July 2, 2004	

(Forward)



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 ₱74.00 per share. The Rights Shares was issued from the Parent Company's authorized but unissued capital stock. Each eligible stockholder was entitled to subscribe to one Rights Share for every five Common Shares held as of the Record Date at an Offer Price of ₱74.00 per Rights Share. Net proceeds from the 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.

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 and 2008. On April 8, 2010, the Parent Company reissued all of its treasury shares to Dacon at ₱67.00 per share or a total of ₱1.29 billion. The excess of the proceeds over the total cost of the treasury is included under additional paid-in capital in the amount of ₱764.36 million.

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

17. Retained Earnings

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.



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.

On March 18, 2008, the BOD authorized an additional ₱500.00 million appropriation for capital expenditures and expansion and likewise, on November 11, 2008, the BOD approved the reversal of the appropriated retained earnings in the amount ₱800.00 million.

On April 4, 2005, the BOD authorized the restriction in the amount of ₱1.00 billion out of the parent company's retained earnings for future capital expenditures and investment diversification program of the parent company.

18. Related Party Transactions

The Company in its regular conduct of business has entered into transactions with related parties. Related 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:

Wholly Owned Subsidiaries

The following table summarizes the transactions with wholly owned subsidiaries as of December 31, 2012 and 2011:

Company	Category	(In Millions)					
		Amount		Outstanding Balance		Terms	Conditions
		2012	2011	2012	2011		
SCPC	Sales	₱3,176.47	₱4,303.27	₱316.36	₱541.81	30 days; non-interest bearing	Unsecured
	Customers' Deposit	(62.77)	-	(62.77)	-	30 days; non-interest bearing	Unsecured
	Trade receivable from related parties	-	439.85	438.13	437.60	Non-interest bearing	Unsecured
SLPGC	Advances to related parties	-	0.09	0.09	0.09	Non-interest bearing	Unsecured
SIPDI	Advances to related parties	-	0.02	0.02	0.02	Non-interest bearing	Unsecured
SCI	Advances to related parties	0.02	-	0.02	-	Non-interest bearing	Unsecured

- a. SCPC has entered into purchase commitment with the parent company for the supply of coal. The contract agreement provides that the parent company shall supply SCPC the minimum volume of 1.11 million MT +/- 10% up to the maximum quantity of 2.10 million MT. The contract will end in December 31, 2021. The coal sales and other related party expenses



incurred and receivable from SCPC are both included in receivables under "Trade receivable from local sales" in the parent company's statements of financial position (see Note 5).

Customers' deposit is lodged in trade and other payables under "Payable to suppliers and contractors" in the parent company's statements of financial position (see Note 12).

The Parent Company also received advances from SCPC which are included in trade and other payables under "Trade payable to related parties" in the parent company's statements of financial position. The said advances are to be applied in the future coal deliveries of the parent company.

- b. On February 4, 2012, SLPGC entered into a ₱11.50 billion Omnibus Agreement with BDO, BPI, and China Banking Corporation 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.
- c. SIPDI, a wholly owned subsidiary which was incorporated on April 27, 2011, has advanced the amount of ₱0.02 million to the parent company for the payment of its organizational costs. The amount is included in Receivables under "Trade receivable from related parties" in the parent company's statements of financial position (see Note 5).
- d. SCI, a new-wholly owned subsidiary which was incorporated on November 29, 2012, has advanced the amount of ₱0.02 million to the parent company for the payment of its organizational costs. The amount is included in receivables under "Trade receivable from related parties" in the parent company's statements of financial position (see Note 5).

Entities under common control and co-subidiaries

The following table summarizes the transactions with other related parties as of December 31, 2012 and 2011:

		(In Millions)					
		Amount		Outstanding Balance			
Company	Category	2012	2011	2012	2011	Terms	Conditions
DMC-CERI	Outside Services	(₱55.63)	(₱52.90)	(₱1.03)	(₱0.96)	30 days; non-interest bearing	Unsecured
	Hauling and shiploading costs	(370.43)	(498.42)	(51.89)	(52.61)	30 days; non-interest bearing	Unsecured
M&S Company, Inc.	Purchases	(30.34)	(52.83)	(10.73)	3.82	30 days; non-interest bearing	Unsecured
DMCI-PC	Due to related parties	(7.12)	(129.08)	72.73	66.04	1 yr.; non-interest bearing	Unsecured, no impairment
Dacon Corporation	Office and other expenses	(0.17)	(0.32)	(0.49)	(0.32)	30 days; non-interest bearing	Unsecured
DMCI	Outside services	(154.10)	(69.26)	(513.15)	(50.74)	30 days; non-interest bearing	Unsecured

(Forward)



(In Millions)							
Company	Category	Amount		Outstanding Balance		Terms	Conditions
		2012	2011	2012	2011		
DMCI-UPDI	Office rentals	(₱7.51)	(₱6.49)	(₱1.78)	(₱5.07)	30 days; non-interest bearing	Unsecured
Royal Star Aviation, Inc.	Due to related parties	(2.63)	(2.75)	(0.45)	(0.45)	30 days; non-interest bearing	Unsecured
Asia Industries, Inc.	Rentals	(0.38)	(0.29)	(0.03)	-	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 parent company's statements of comprehensive income (see Note 20).

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 cost of sales under "Hauling and shiploading costs" in the parent company's statements of comprehensive income (see Note 20).

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 cost of sales under "Direct labor" in the parent company's statements of comprehensive income (see Note 20).

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

All outstanding balances of DMC-CERI are included in trade and other payables under "Trade payable to related parties" in the parent company's statements of financial position (see Note 12).

- 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 in the parent company's statements of financial position.
- c. DMCI-PC assigned some of its employees through an agreement with the parent company to render services on the specific projects of the said affiliates. All outstanding balances of DMCI-PC are included in trade and other payables under "Trade payable to related parties" in the parent company's statements of financial position.



- d. Dacon, the principal shareholder of DMCI-HI, 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 operating expenses under "Office and other expenses" in the parent company's statements of comprehensive income (see Note 21).
- e. D.M. Consunji, Inc. (DMCI) had transactions with the parent company representing rentals of office, building and equipments and other transactions such as transfer of equipment, hauling and retrofitting services. The related expenses are included in cost of sales under "Outside services" in the parent company's statements of comprehensive income (see Note 20).

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 parent company's statements of comprehensive income (see Note 20).

All outstanding balances of DMCI are lodged in trade and other payables under "Trade payable to related parties" in the parent company's statements of financial position (see Note 12).

- f. DMC Urban Property Developers, Inc. had transactions with the parent company representing long-term lease on office space and other transactions rendered to the parent company necessary for the coal operations. Office rental expenses are included in cost of sales under "Outside services" in the parent company's statements of comprehensive income (see Note 20). Outstanding balance of DMC-UPDI is lodged in trade and other payables under "Trade payable to related parties" in the parent company's statements of financial position (see Note 12).
- g. 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 cost of sales under "Production overhead" in the parent company's statements of comprehensive income (see Note 20). Outstanding balance of Royal Star Aviation, Inc. is lodged in trade and other payables under "Trade payable to related parties" in the parent company's statements of financial position (see Note 12).
- h. Asia Industries Inc. had transactions with the parent company for the rental of parking space to which related expenses are included in operating expenses under "Office and other expenses" in the parent company's statements of comprehensive income (see Note 21). Outstanding balance of Asia Industries, Inc. is lodged in trade and other payables under "Trade payable to related parties" in the parent company's statements of financial position (see Note 12).

Terms and conditions of transactions with related parties

There have been no guarantees or collaterals provided or received for any related party receivables or payables. These accounts are noninterest-bearing and are generally unsecured. Impairment assessment is undertaken each financial year through a review of the financial position of the related party and the market in which the related party operates. As of December 31, 2012 and 2011, there were no impairment losses recognized on related party receivables.



Compensation of key management personnel of the parent company by benefit type follows:

	2012	2011
Short-term employee benefits	P97,820,396	P93,866,643
Post employee benefits	3,434,897	2,346,104
	P101,255,293	P96,212,747

There are no agreements between the Parent Company 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 parent company's pension plan.

19. Pension Plan

The Parent Company 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
Discount rate	4.69%	6.75%
Salary increase rate	3.00%	3.00%
Expected rate of return on plan assets	6.00%	6.00%

The following table summarizes the components of pension expense in the Parent Company's statements of comprehensive income:

	2012	2011
Current service cost	P7,778,179	P5,597,830
Interest cost on benefit obligation	4,371,758	4,405,686
Expected return on plan assets	(3,434,506)	(2,572,704)
Actuarial loss recognized	82,309	15,459
	P8,797,740	P7,446,271

The above pension expense is included in operating expenses under "Personnel costs" in the parent company's statements of comprehensive income (see Note 21).

The pension (asset) liability recognized in the Parent Company's statements of financial position follows:

	2012	2011
Present value of defined benefit obligation	P100,699,245	P64,766,789
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)
	P5,847,126	(P1,021,507)



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 from book reserve	(1,929,107)	-
	₱100,699,245	₱64,766,789

Movements in the fair value of plan assets follow:

	2012	2011
Balance at beginning of year	₱57,994,669	₱28,646,138
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 from plan assets	(1,505,790)	-
Balance at end of year	₱64,151,789	₱57,994,669
Actual return	₱7,662,910	₱884,005

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 Parent Company does not expect any contribution into 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	₱100,699,245	₱64,766,789	₱54,391,181	₱40,981,694	₱39,107,208
Fair value of plan assets	64,151,789	57,994,669	28,646,138	28,423,387	25,008,190
Deficit (surplus)	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	(₱7,793,627)	(₱5,748,295)
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
	(₱30,700,330)	(₱7,793,627)



The 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	P57,333,617	P61,664,364	P4,330,747
Investments in equity securities	1,500,000	1,537,500	37,500
	P58,833,617	P63,201,864	P4,368,247
	2011		
	Carrying Value	Fair Value	Unrealized Gains
Investments in debt securities	P54,819,562	P55,173,510	P353,948
Investments in equity securities	1,500,000	1,567,500	67,500
	P56,319,562	P56,741,010	P421,448

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

The Parent Company has no other transactions with the fund.

20. Cost of Sales

Cost of coal sales consists of:

	2012	2011
Materials and supplies (Note 18)	P3,916,171,654	P5,200,486,125
Fuel and lubricants	3,819,038,822	4,109,942,012
Depreciation and amortization	1,667,927,815	1,657,871,433
Outside services (Note 18)	1,212,822,300	1,062,882,519
Direct labor	564,867,803	529,585,984
Production overhead (Note 18)	469,824,212	451,582,422
Cost of coal	11,650,652,606	13,012,350,495
Hauling and shiploading costs (Note 18)	678,811,366	994,555,168
	P12,329,463,972	P14,006,905,663



21. Operating Expenses

	2012	2011
Government share (Note 26)	P1,557,950,322	P1,479,972,809
Personnel costs	179,235,216	188,046,363
Professional fees	66,163,589	25,270,333
Provision for impairment losses	47,150,717	-
Transportation and travel	39,479,236	33,456,481
Entertainment, amusement and recreation	14,660,918	12,153,137
Taxes and licenses	6,177,019	33,720,318
Provision for doubtful accounts	-	5,004,513
Office and other expenses	90,100,692	78,705,545
	P2,000,917,709	P1,856,329,499

Office and other expenses include rental, utilities, repairs and other administrative expenses.

22. Finance Costs

	2012	2011
Interest on:		
Bank loans	P83,670,023	P68,813,727
Acceptances and letters of credits	30,135,631	16,771,936
Accretion of cost of decommissioning and site rehabilitation	8,801,731	919,180
	P122,607,385	P86,504,843

23. Finance Income

	2012	2011
Interest on:		
Cash equivalents	P8,787,322	P77,730,513
Cash in banks	4,327,782	1,547,956
Accretion on security deposits (Note 30)	-	168,856
	P13,115,104	P79,447,325

The security deposits have been refunded by the Parent Company in 2011.

24. Other Income

	2012	2011
Gain on sale of equipment	P127,491,090	P53,547,507
Recoveries from insurance claims	41,545,855	35,179,622
Reversal of allowance for doubtful accounts	9,552,129	7,892,343
Miscellaneous	8,595,524	3,285,825
	P187,184,598	P99,905,297



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 to 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.

Recoveries from insurance claims

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

Miscellaneous

Miscellaneous income is derived 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.

25. Income Taxes

The provision for income tax consists of:

	2012	2011
Final	₱1,851,949	₱11,093,763
Deferred	(565,480)	(27,521,825)
	₱1,286,469	(₱16,428,062)

The reconciliation of the provision for income tax computed at the statutory income tax rate to the provision for income tax shown in the parent company's statements of comprehensive income follows:

	2012	2011
Statutory income tax rate	30.00%	30.00%
Adjustments for:		
Changes in unrecognized deferred tax liabilities	(1.09)	0.28
Nondeductible expense	0.06	0.32
Tax-exempt income	(28.91)	(30.67)
Interest income subjected to final tax at a lower rate - net of nondeductible interest expense	(0.04)	(0.23)
Effective income tax rate	0.02%	(0.30%)

The significant components of deferred tax liabilities represented the deferred tax effects of the following:

	2012	2011
Deferred tax liabilities on:		
Incremental cost of property, plant and equipment	₱-	₱565,481
Deferred income tax liabilities	₱-	₱565,481



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

	2012	2011
Allowance for impairment loss	P87,525,052	P40,374,335
Allowance for inventory write down	53,286,925	53,286,925
Provision for decommissioning and site rehabilitation	51,738,030	39,788,796
Pension costs	29,738,312	20,309,561
Allowance for doubtful accounts	5,815,359	15,367,488
Unrealized foreign exchange loss	-	26,475,064
	P228,103,678	P195,602,169

Board of Investments (BOI) Incentives

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

- 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 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 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, the 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 P1.47 billion and P1.35 billion in 2012 and 2011, respectively.



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 thereby: (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 and ₱1.48 billion for the years ended December 31, 2012 and 2011, respectively (see Note 21). The liabilities, amounting to ₱1.01 billion and ₱0.91 billion are included under the "Trade and other payables" account in the parent company's statements of financial position (see Note 12).

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

The Parent Company has various contingent liabilities arising in the ordinary conduct of business which are either pending decision by the courts or being contested. The information usually required by PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, is not disclosed on the grounds that it can be expected to prejudice the outcome of pending assessments.



28. Financial Risk Management Objectives and Policies

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

The Parent Company'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 parent company's operations.

The main risks arising from the Parent Company'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 parent company's statements of comprehensive income item is the effect of the assumed changes in respective market risks. This is based on the financial assets and financial liabilities held as of 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 Parent Company can charge for its coal is directly and indirectly related to the price of coal in the world coal market. In addition, as the Parent Company 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 parent company'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 parent company 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 parent company's profits or losses.

To mitigate this risk, the Parent Company 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 export). Also, in order to mitigate any negative impact resulting from price changes, it is the parent company'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 rates).

Below are the details of the Parent Company's coal sales to the domestic market and to the export market:

	2012	2011
Domestic market	55.83%	62.73%
Export market	44.17	37.27
<i>as a percentage of total coal sales volume</i>		

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 parent company 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
Change in coal prices		
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
Change in coal prices		
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 Parent Company's exposure to the risk of changes in market interest rates relates primarily to the Parent Company's long-term obligations with floating interest rates. The Parent Company's policy is to manage its interest cost using a mix of fixed and variable rate debts. The Parent Company'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 Parent Company's financial instruments that are exposed to cash flow (floating rate instrument) and fair value (fixed rate instrument) interest rate risks and are presented by maturity profile.



2012

	Interest	2012				Carrying Value
		Within 1 year	1-2 years	2-3 years (In Thousands)	3-4 years	
Cash and cash equivalents	1.25% to 4.50%	₱396,378	₱-	₱-	₱-	₱396,378
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
		₱3,668,713	₱1,106,370	₱-	₱-	₱4,775,083

2011

	Interest	2011				Carrying Value
		Within 1 year	1-2 years	2-3 years (In Thousands)	3-4 years	
Cash equivalents	1.80% to 3.70%	₱3,137,981	₱-	₱-	₱-	₱3,137,981
Foreign long-term debt at floating rate						
\$3.20 million loan (USD)	1.16% payable in arrears, to be repriced every 90 days	₱140,288	₱-	₱-	₱-	₱140,288
\$29.96 million loan (USD)	1.14 - 1.18% 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)	1.00 - 1.02% p.a. for 92 days, to be repriced every 30 to 180 days	442,382	246,064	-	-	688,446
\$23.45 million loan (USD)	1.00% - 1.28% p.a. to be repriced every 3 months	240,239	788,014	-	-	1,028,253
\$21.11 million loan (USD)	1.03% - 1.11% p.a. for the first 90 days, to be repriced every 3-4 months.	-	925,663	-	-	925,663
		₱1,461,966	₱2,634,272	₱-	₱-	₱4,096,238



The following table demonstrates the sensitivity of the Parent Company'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	(P47,751)	(P40,962)
-100	47,751	40,962

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

There was no other 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 Parent Company's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans. The Parent Company'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 sufficiently funded through cash collections. A significant part of the Parent Company's financial assets that are held to meet the cash outflows include cash and cash equivalents and receivables. Although receivables are contractually collectible on a short-term basis, the Parent Company expects continuous cash inflows through continuous production and sale of coal. In addition, although the Parent Company's short-term investments 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 Parent Company 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 Parent Company 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 Parent Company's financial assets and financial 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 bank and cash equivalents						
Receivables:						
Trade:						
Local sales						
Export sales	944,561,537	-	-	-	-	944,561,537
Related parties	620,710,340	-	-	-	-	620,710,340
Others*	510,993,229	-	-	-	-	510,993,229
Environmental guarantee fund	15,199,762	-	-	-	-	15,199,762
	-	-	-	-	-	-
			1,500,000	-	-	1,500,000
			1,500,000	-	-	1,500,000
Liabilities:						
Trade and other payables						
Trade:						
Payable to suppliers and contractors	3,243,553,424	-	-	-	-	3,243,553,424
Related parties	474,455,526	-	-	-	-	474,455,526
Accrued expenses and other payables**	40,189,180	-	-	-	-	40,189,180
Short-term loans	138,474,613	-	-	-	-	138,474,613
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
	7,174,576,163	428,201,894	1,123,439,850	-	-	8,726,217,907
	(P4,686,733,413)	(P428,201,894)	(P1,123,439,850)			(P6,236,875,157)

*excludes advances for liquidation.

**excludes statutory liabilities



	2011					Total
	Less than 6 months	6-12 months	1-2 years	2-3 years	More than 3 years	
Assets:						
Cash in bank and cash equivalents						
Receivables:						
Trade:						
Local sales	₱3,736,661,403	₱-	₱-	₱-	₱-	₱3,736,661,403
Export sales	1,276,254,396	8,258,045	-	-	-	1,284,512,441
Related parties	108,413,708	-	-	-	-	108,413,708
Others*	436,811,950	71,806,637	-	-	-	508,618,587
Environmental guarantee fund	5,719,100	1,969,091	-	-	-	7,688,191
	5,563,860,557	82,033,773	-	-	-	1,500,000
						1,500,000
Liabilities:						
Trade and other payables						
Trade:						
Payable to suppliers and contractors	3,572,928,188	10,796,222	-	-	-	3,583,724,410
Related parties	110,647,501	322,784	-	-	-	110,970,285
Accrued expenses and other payables**	41,624,219	-	-	-	-	41,624,219
Short-term loans	623,457,376	-	-	-	-	623,457,376
Long term debt at floating rate						
\$3.2 million loan (USD) with interest payable in arrears, to be repriced every 90 days	810,163	140,778,239	-	-	-	141,588,402
\$29.96 million loan (USD) with interest payable semi-annually in arrears, to be repriced every 6 months	7,627,682	649,523,897	675,015,756	-	-	1,332,167,335
\$15.70 million loan (USD) with interest payable in arrears, to be repriced every 30 to 180 days	3,461,409	447,368,880	246,064,056	-	-	696,894,345
\$23.45 million loan (USD) with interest payable in arrears, to be repriced every 3 months	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
	4,371,075,040	1,500,421,380	2,644,512,145	-	-	8,516,008,565
	₱1,192,785,517	(₱1,418,387,607)	(₱2,644,512,145)	₱-	₱1,500,000	(₱2,868,614,235)

*excludes advances for liquidation.

**excludes statutory liabilities



Foreign Currency Risk

Majority of revenues are generated in Peso, however, substantially all of capital expenditures are in US\$.

The Parent Company manages this risk by matching receipts and payments in the same currency and monitoring. Approximately, 27.74% and 38.98% of the Parent Company's sales in 2012 and 2011, respectively, were denominated in US\$ whereas approximately 50.38% and 48.08% of the debts as of December 31, 2012 and 2011, respectively, were denominated in US\$.

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

	December 31, 2012		December 31, 2011	
	U.S. Dollar	Peso Equivalent	U.S. Dollar	Peso Equivalent
Assets				
Cash and cash equivalents	\$93,414	₱3,834,663	\$27,852,006	₱1,221,031,946
Trade receivables	23,010,025	944,561,537	2,472,940	108,413,708
Liabilities				
Trade payables	(7,355,720)	(301,952,322)	(1,023,013)	(44,848,885)
Short-term loans	(3,373,316)	(138,474,613)	(14,221,199)	(623,457,376)
Long-term debt (including current portion)	(116,323,594)	(4,775,083,552)	(93,436,088)	(4,096,238,117)
Net foreign currency denominated liabilities	(\$103,949,191)	(₱4,267,114,287)	(\$78,355,354)	(₱3,435,098,724)

The spot exchange rates used were ₱41.05 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 Parent Company'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 foreign exchange rate for every two units of Philippine Peso	Increase (decrease) in profit before tax	
	2012	2011
₱2	(₱207,898,382)	(₱156,710,708)
(₱2)	207,898,382	156,710,708

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

The Parent Company recognized ₱387.83 million foreign exchange gain and ₱26.01 million foreign exchange loss for the year ended December 31, 2012 and 2011, respectively, arising from the translation of the Parent Company's cash and cash equivalents, trade receivables, trade payables, short-term loans and long-term debt.

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Parent Company manages and controls credit risk by doing business with recognized, creditworthy third parties, thus, there is no requirement for collateral. It is the Parent Company's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. The Parent Company 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 to the parent company's approval, hence, mitigating the risk on collection. In addition, receivable balances are monitored on an ongoing basis with the result that the parent company's exposure to bad debts is not significant. The Parent Company 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 Parent Company'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 Parent Company, which comprise cash and cash equivalents, receivables and environmental guarantee 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 Parent Company does not hold any collateral or other credit enhancement that will mitigate credit risk exposure. The Parent Company 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:		
Local sales	63.92%	71.33%
Related parties	34.58	28.24
Others	1.50	0.43
Total	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 and cash equivalents	₱396,377,882	₱-	₱-	₱-	₱396,377,882
Receivables:					
Trade:					
Local sales	448,975,526	229,925,118	-	265,660,893	944,561,537
Export sales	620,710,340	-	-	-	620,710,340
Related parties	438,153,662	72,839,567	-	-	510,993,229
Others	15,199,762	-	-	5,815,359	21,015,121
Environmental guarantee fund	1,500,000	-	-	-	1,500,000
Total	₱1,920,917,172	₱302,764,685	₱-	₱271,476,252	₱2,495,158,109

	2011				Total
	Neither Past Due nor Impaired		Substandard Grade	Past due and/or Individually Impaired	
	Grade A	Grade B			
Cash and cash equivalents	₱3,736,661,403	₱-	₱-	₱-	₱3,736,661,403
Receivables:					
Trade:					
Local sales	1,150,662,526	114,944,740	-	18,905,175	1,284,512,441
Export sales	108,413,708	-	-	-	108,413,708
Related parties	436,811,950	71,806,637	-	-	508,618,587
Others	5,719,100	1,392,214	-	15,944,364	23,055,678
Environmental guarantee fund	1,500,000	-	-	-	1,500,000
Total	₱5,439,768,687	₱188,143,591	₱-	₱34,849,539	₱5,662,761,817



Cash 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 parent company'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 accounts are considered to be of high credit rating value and are secured with coal supply agreements. 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 the parent company's collection efforts and update their payments accordingly. The Parent Company determines financial assets as impaired when probability of recoverability is remote evidenced by the counterparty's financial difficulty.

Substandard grade are accounts which have probability of impairment based on historical trend or customer's current unfavorable operating conditions. Accounts under this group show possible future loss to the parent company as a result of default in payment of the counterparty despite of the regular follow-up actions and extended payment terms.

In the parent company's assessment, there are no financial assets that will fall under this category due to the following reasons:

- Local sales - transactions were entered with reputable and creditworthy companies.
- Export sales - covered by irrevocable letter of credit at sight from a reputable bank acceptable to the parent company.

As of December 31, 2012 and 2011, the aging analysis of the Parent Company's receivables presented per class is as follows:

	2012			
	Past Due but not Impaired		Impaired Financial Assets	Total
	<45 days	45-135 days		
Receivables				
Trade - local sales	₱229,925,118	₱35,735,775	₱-	₱265,660,893
Others	-	-	5,815,359	5,815,359
Total	₱229,925,118	₱35,735,775	₱5,815,359	₱271,476,252

	2011			
	Past Due but not Impaired		Impaired Financial Assets	Total
	<45 days	45-135 days		
Receivables				
Trade - local sales	₱10,647,130	₱8,258,045	₱-	₱18,905,175
Others	-	4,694,080	11,250,284	15,944,364
Total	₱10,647,130	₱12,952,125	₱11,250,284	₱34,849,539



Capital Management

The primary objective of the Parent Company'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 Parent Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Parent Company may adjust the dividend payment to shareholders or issue new shares.

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

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

	2012	2011
Interest-bearing loans	₱4,775,083,552	₱4,096,238,117
Total equity	13,721,880,126	12,736,393,044
Debt-to-Equity ratio	34.80%	32.16%

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

The following table shows the component of the parent company'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	5,990,102,715	5,004,615,633
Retained earnings - appropriated	700,000,000	700,000,000
	₱13,721,880,126	₱12,736,393,044

29. Fair Values

Fair Value Information

Cash and cash equivalents, receivables, environmental guarantee 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 Parent Company 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 Parent Company does not have financial instruments measured at fair value.

30. Lease Commitments

On various dates in 2009 and 2008, the Parent Company entered into Equipment Rental Agreement (the Agreement) with Banco de Oro Rental, Inc. (the lessor) for the rental of various 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 Parent Company to pay security deposits which shall be held by the lessor as security for the faithful and timely performance by the parent company of all its obligations. Upon termination of the Agreement, the lessor shall return to the parent company the security deposit after deducting any unpaid rental and/or other amounts due to lessor. The equipments are, at all times be and remain the sole and exclusive equipment of the lessor, and no title shall pass to the parent company.

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

31. Notes to Cash Flow Statements

In 2012, the Parent Company transferred land to SLPGC in exchange of shares of the latter amounting to ₱83.98 million included under "Investments in subsidiaries" account in the parent company's statements of financial position.

32. Segment Information

The Parent Company is engaged in surface open cut mining of thermal coal and is managed by the Chief Operating Decision Maker (CODM) as a single business unit. The CODM monitors the operating results of the Parent Company for the purpose of making decisions about resource allocation and performance assessment. The Parent Company performance is evaluated based on revenue and net income before tax which are measured similarly as profit or loss in the Parent Company financial statements.



Geographic Information

The financial information about the operations of the Parent Company as of December 31, 2012 and 2011 reviewed by the management follows:

	2012	2011
Export coal sales	₱7,010,021,039	₱7,160,712,695
Local coal sales	10,616,609,156	12,903,011,176
Revenue	₱17,626,630,195	₱20,063,723,871
Income before income tax	₱5,261,773,551	₱5,467,325,035

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

The following information presents the operating assets and liabilities of the Parent Company as of December 31, 2012 and 2011.

	2012		
	Mining	Power Generation	Consolidated
Segment assets	₱12,280,096,650	₱-	₱12,280,096,650
Investments in subsidiaries	-	11,313,316,605	11,313,316,605
	₱12,280,096,650	₱11,313,316,605	₱23,593,413,255
Segment liabilities	₱5,012,468,477	₱-	₱5,012,468,477
Long-term debt	4,775,083,552	-	4,775,083,552
	₱9,787,552,029	₱-	₱9,787,552,029
Cash flows arising from:			
Operating activities	₱3,204,429,154	₱3,731,702,074	₱6,936,131,228
Investing activities	(2,685,167,050)	(4,567,013,459)	(7,252,180,509)
Financing activities	(3,798,040,713)	(293,685,151)	(4,091,725,864)
Other disclosures			
Capital expenditure	₱1,845,624,722	₱-	₱1,845,624,722

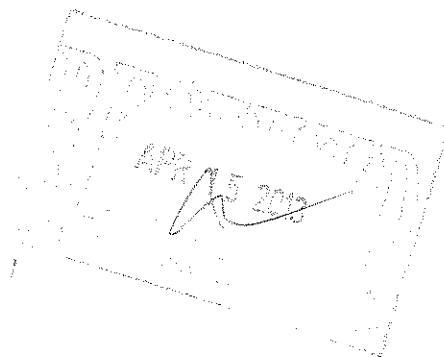
	2011		
	Mining	Power Generation	Consolidated
Segment assets	₱13,421,061,917	₱-	₱13,421,061,917
Investments in subsidiaries	-	8,772,700,560	8,772,700,560
	₱13,421,061,917	₱8,772,700,560	₱22,193,762,477
Segment liabilities	₱5,360,565,835	₱-	₱5,360,565,835
Long-term debt	4,096,238,117	-	4,096,238,117
	₱9,456,803,952	₱-	₱9,456,803,952
Cash flows arising from:			
Operating activities	4,762,685,335	1,918,600,452	6,681,285,787
Investing activities	(1,702,250,422)	(465,796,350)	(2,168,046,772)
Financing activities	(2,125,405,898)	(1,203,529,204)	(3,328,935,102)
Other disclosures			
Capital expenditure	₱2,046,069,130	₱-	₱2,046,069,130



1. Segment liabilities exclude deferred tax liabilities amounting to nil and ₱0.57 million in 2012 and 2011, respectively.
2. Capital expenditures consist of additions of property, plant and equipment including assets from the acquisition of business.
3. All non-current assets other than financial instruments are located in the Philippines.

33. Approval of Financial Statements

The Parent Company financial statements of Semirara Mining Corporation as of December 31, 2012 and 2011 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.





Sycip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines
Phone: (632) 891 0307
Fax: (632) 819 0872
www.sgv.com.ph

BOA/PRC Reg. No. 0001.
December 28, 2012, valid until December 31, 2015
SEC Accreditation No. 0012-FR-3 (Group A)
November 15, 2012, valid until November 16, 2015

INDEPENDENT AUDITORS' REPORT

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

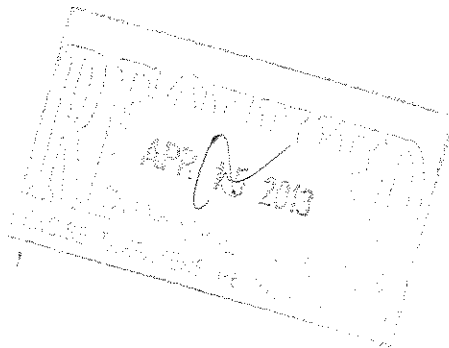
We have audited the financial statements of Semirara Mining Corporation (the Parent Company) as of and for the year ended December 31, 2012, on which we have rendered the attached report dated March 12, 2013.

In compliance with Securities Regulation Code Rule 68, we are stating that the Parent Company has a total number of sixty-three (63) stockholders owning one hundred (100) or more shares each.

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



INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY SCHEDULE

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

We have audited in accordance with Philippine Standards on Auditing, the parent company financial statements of Semirara Mining Corporation as of and for the years ended December 31, 2012 and 2011 and have issued our report thereon dated March 12, 2013. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of all effective standards and interpretations under PFRS as of December 31, 2012 is the responsibility of the Parent Company's management. This schedule is presented for the purpose of complying with Securities Regulation Code Rule 68, As Amended (2011) and is not part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly states, in all material respects, the information required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.



Davee M. Zuffiga
Partner
CPA Certificate No. 88990
SEC Accreditation No. 0665-AR-1 (Group A),
February 18, 2011, valid until February 17, 2014
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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

**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	✓		



PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2012		Adopted	Not Adopted	Not Applicable
PFRS 7	Financial Instruments: Disclosures	✓		
	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 Rights Issues	✓		



PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2012		Adopted	Not Adopted	Not Applicable
	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>	✓		
IFRIC 5	Rights to Interests arising from	✓		



PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2012		Adopted	Not Adopted	Not Applicable
	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			✓
	Amendment to SIC - 12: Scope of SIC 12			✓
SIC-13	Jointly Controlled Entities - Non-			✓



PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2012		Adopted	Not Adopted	Not Applicable
	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			✓



COVER SHEET

9 1 4 4 7

SEC Registration Number

S E M I R A R A M I N I N G C O R P O R A T I O N A N D S
U B S I D I A R I E S

(Company's Full Name)

2 2 8 1 D o n C h i n o R o c e s A v e n u e , M a k a
t i C i t y

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

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

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

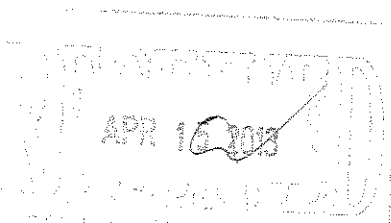
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Philippine Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements 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

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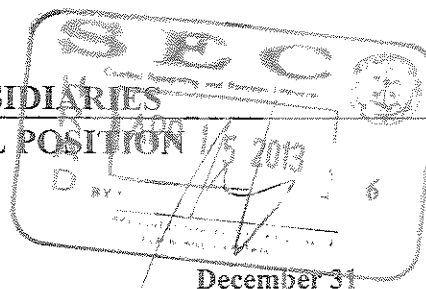
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March 12, 2013



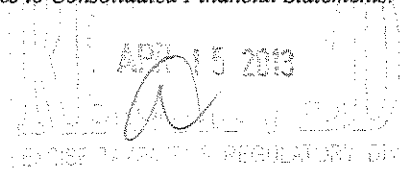
SEMIRARA MINING CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION



December 31

	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

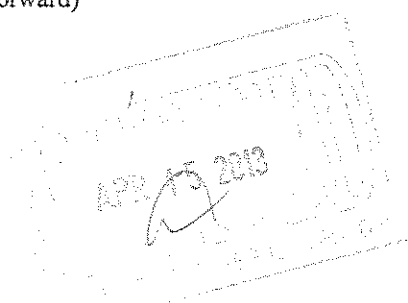
See accompanying Notes to Consolidated Financial Statements.



SEMIRARA MINING CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

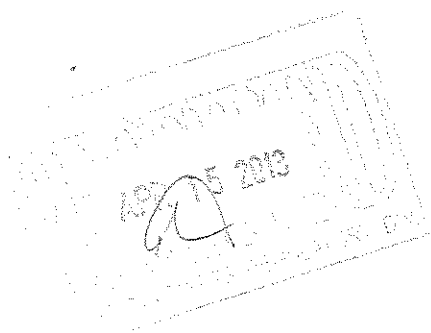
	Years Ended December 31		
	2012	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	₱6,397,732,670	₱6,008,967,290	₱3,917,546,726
Adjustments for:			
Depreciation and amortization (Notes 8, 10, 19 and 20)	3,053,462,879	2,909,610,888	2,566,427,137
Finance costs (Note 21)	501,280,034	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	P40,374,335	P40,374,335
Provision (Note 20)	47,150,717	-
At December 31	P87,525,052	P40,374,335

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	P23,795,671	P19,083,211
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	P2,377,767	P5,732,959

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 P0.18 billion and P1.01 billion, respectively.

These are payable within one year.

The interest expense recognized under "Finance Cost" amounted to P30.14 million, P30.48 million and P10.31 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% 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	P		
Cash in banks and cash equivalents	1.80% to 4.62%	₱4,989,794,059	P-	P-	P-	P-	₱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
	175,646,271	-	-	-	-	175,646,271
Short-term loans						
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		
	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

