SEMIRARA MINING CORPORATION

SCHEDULE OF ALL EFFECTIVE STANDARDS AND INTERPRETATIONS UNDER PHILIPPINE FINANCIAL REPORTING STANDARDS

Philippine Securities and Exchange Commission (SEC) issued the amended Securities Regulation Code Rule SRC Rule 68 and 68.1 which consolidates the two separate rules and labeled in the amendment as “Part I” and “Part II”, respectively. It also prescribed the additional schedule requirements for large entities showing a list of all effective standards and interpretations under Philippine Financial Reporting Standards (PFRS).

Below is the list of all effective PFRS, Philippine Accounting Standards (PAS) and Philippine Interpretations of International Financial Reporting Interpretations Committee (IFRIC) as of December 31, 2013:

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2013		Adopted	Not Early 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	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2013		Adopted	Not Early Adopted	Not Applicable
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	✓		
	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	✓		
	Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures		✓	
PFRS 8	Operating Segments	✓		
PFRS 9	Financial Instruments		✓	
	Amendments to PFRS 9: Mandatory Effective Date of PFRS 9 and Transition Disclosures		✓	
PFRS 10	Consolidated Financial Statements	✓		
PFRS 11	Joint Arrangements			✓
PFRS 12	Disclosure of Interests in Other Entities	✓		
PFRS 13	Fair Value Measurement	✓		
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	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2013		Adopted	Not Early Adopted	Not Applicable
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			✓
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	✓		
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			✓
PAS 29	Financial Reporting in Hyperinflationary Economies			✓
PAS 31	Interests in Joint Ventures			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2013		Adopted	Not Early Adopted	Not Applicable
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	✓		
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities		✓	
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	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2013		Adopted	Not Early Adopted	Not Applicable
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments			✓
IFRIC 4	Determining Whether an Arrangement Contains a Lease	✓		
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds	✓		
IFRIC 6	Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment			✓
IFRIC 7	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies			✓
IFRIC 8	Scope of PFRS 2			✓
IFRIC 9	Reassessment of Embedded Derivatives	✓		
	Amendments to Philippine Interpretation IFRIC–9 and PAS 39: Embedded Derivatives	✓		
IFRIC 10	Interim Financial Reporting and Impairment	✓		
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			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2013		Adopted	Not Early Adopted	Not Applicable
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	✓		

Standards tagged as “Not applicable” have been adopted by the Parent Company but have no significant covered transactions for the year ended December 31, 2013.

Standards tagged as “Not adopted’ are standards issued but not yet effective as of December 31, 2013. The Parent Company will adopt the Standards and Interpretations when these become effective.

SEMIRARA MINING CORPORATION

SCHEDULE OF RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION

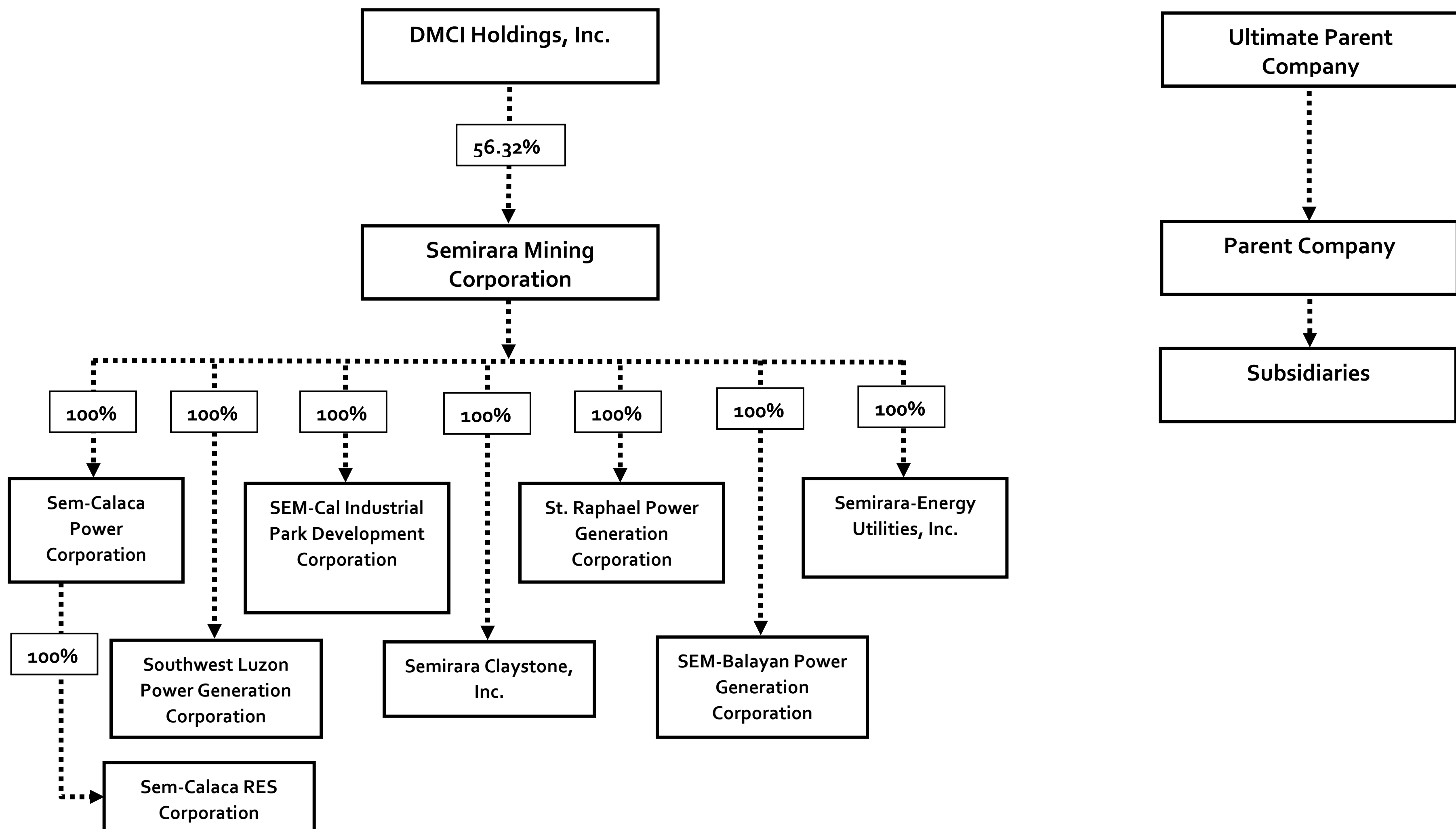
FOR THE YEAR ENDED DECEMBER 31, 2013

Unappropriated Retained Earnings, beginning		₱5,987,078,165
Adjustments (PAS 19R – transition adjustment)		3,024,550
Unappropriated retained earnings, as adjusted to available for dividend distribution, beginning as at December 31, 2013		5,990,102,715
Net income actually earned/realized during the period:		
Net income during the period closed to retained earnings	₱5,324,652,517	
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)	209,888,548	
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	–	
Deferred tax asset that reduced the amount of income tax expense	131,717,141	
Add: Non-actual losses		
Depreciation on revaluation increment (after tax)	–	
Adjustment due to deviation from PFRS/GAAP-loss	–	
Loss on fair value adjustment of investment property (after tax)	–	
Net income actually earned during the period	4,983,046,828	
Add (Less):		
Dividend declarations during the period	(4,275,000,000)	
Appropriations of retained earnings during the period	(1,600,000,000)	
Reversals of appropriations	–	
Effects of prior period adjustments	–	
Treasury shares	–	(891,953,172)
TOTAL RETAINED EARNINGS, END AVAILABLE FOR DIVIDEND DECLARATION		**₱5,098,149,543**

SEMIRARA MINING CORPORATION AND SUBSIDIARIES

MAP OF THE RELATIONSHIPS OF THE COMPANIES WITHIN THE GROUP

DECEMBER 31, 2013



SEMIRARA MINING CORPORATION AND SUBSIDIARIES

SCHEDULE OF FINANCIAL SOUNDNESS INDICATORS

FOR THE YEAR ENDED DECEMBER 31, 2013 and 2012

Financial Soundness Indicators

Below are the financial ratios that are relevant to the Group for the year ended December 31, 2013 and 2012:

Financial ratios		2013	2012
Current ratio	Current assets / Current liabilities	**1.48:1**	0.96:1
Quick ratio	Current assets less inventories / Current liabilities	**1.02:1**	0.50:1
Solvency ratio	Net income plus depreciation / Total liabilities	**0.47:1**	0.49:1
Debt to equity ratio	Interest-bearing loans / Total equity	**0.87:1**	0.73:1
Asset-to-equity ratio	Total assets / Total equity	**2.22:1**	2.14:1
Inventory turnover	Cost of sales / Average inventory	**2.74:1**	2.86:1
Accounts receivable turnover ratio	Net credit sales / Average accounts receivable	**7.18:1**	7.11:1
Interest rate coverage	EBIT* / Interest expense	**19.42:1**	15.73:1
Return on assets	Net income / Average total assets	**0.19:1**	0.18:1
Return on equity	Net income / Average total equity	**0.41:1**	0.40:1
Gross Margin ratio	Gross profit / Sales	**0.48:1**	0.39:1

Financial ratios		**2013**	2012
Net profit margin ratio	Net income / Sales	**0.28:1**	0.26:1

**Earnings before interest and taxes (EBIT)*

Semirara Mining Corporation and Subsidiaries

Consolidated Financial Statements
December 31, 2013 and 2012
and Years Ended December 31, 2013, 2012 and 2011

and

Independent Auditors' Report

SGV
Building a better
working world

A member firm of Ernst & Young Global Limited

SGV
Building a better working world

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

Tel: (632) 891 0307
Fax: (632) 819 0872
ey.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

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, 2013 and 2012, 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, 2013, 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.

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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, 2013 and 2012, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2013 in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.

Cyril Jasmin B. Valencia
Partner
CPA Certificate No. 90787
SEC Accreditation No. 1229-A (Group A),
May 31, 2012, valid until May 30, 2015
Tax Identification No. 162-410-623
BIR Accreditation No. 08-001998-74-2012,
April 11, 2012, valid until April 10, 2015
PTR No. 4225226, January 2, 2014, Makati City

March 19, 2014

SEMIRARA MINING CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

		December 31	January 1
	2013	2012 As restated (see Note 2)	2012 As restated (see Note 2)
ASSETS			
Current Assets			
Cash and cash equivalents (Notes 4, 29 and 30)	**₱4,819,307,265**	₱534,390,774	₱5,005,240,275
Receivables (Notes 5, 18, 29 and 30)	**4,031,651,937**	3,581,843,715	3,215,781,247
Inventories (Notes 6 and 8)	**4,629,560,568**	5,659,589,353	4,592,835,539
Other current assets (Notes 7 and 31)	**1,319,685,738**	1,935,930,078	1,310,428,666
Total Current Assets	**14,800,205,508**	11,711,753,920	14,124,285,727
Noncurrent Assets			
Property, plant and equipment (Note 8)	**27,286,155,824**	22,724,754,817	20,737,333,275
Investment in sinking fund (Notes 9, 13, 29 and 30)	**517,603,224**	508,041,189	490,789,157
Exploration and evaluation asset (Note 10)	**348,152,638**	–	–
Deferred tax assets (Notes 25 and 33)	**139,957,352**	10,748,143	19,747,094
Other noncurrent assets (Notes 11, 29, 30 and 31)	**1,635,316,348**	1,240,033,021	257,380,474
Total Noncurrent Assets	**29,927,185,386**	24,483,577,170	21,505,250,000
	₱44,727,390,894	₱36,195,331,090	₱35,629,535,727
LIABILITIES AND EQUITY			
Current Liabilities			
Trade and other payables (Notes 14, 18, 29 and 30)	**₱6,184,656,544**	₱6,813,145,215	₱7,299,028,784
Short-term loans (Notes 12, 29 and 30)	**1,655,079,934**	175,646,271	1,010,692,002
Current portion of long-term debt (Notes 13, 29 and 30)	**2,151,158,019**	5,182,961,376	2,992,660,795
Total Current Liabilities	**9,990,894,497**	12,171,752,862	11,302,381,581
Noncurrent Liabilities			
Long-term debt - net of current portion (Notes 13, 29 and 30)	**13,657,488,332**	6,996,312,300	9,469,150,099
Deferred tax liabilities (Note 25)	–	–	565,480
Provision for decommissioning and site rehabilitation (Note 15)	**196,504,051**	62,448,101	47,582,228
Pension liabilities (Note 19)	**31,645,362**	36,547,475	6,772,120
Other noncurrent liabilities (Notes 11 and 18)	**723,346,948**	57,938,954	–
Total Noncurrent Liabilities	**14,608,984,693**	7,153,246,830	9,524,069,927
Total Liabilities	**24,599,879,190**	19,324,999,692	20,826,451,508
Equity			
Capital stock (Notes 16 and 29)	**356,250,000**	356,250,000	356,250,000
Additional paid-in capital (Notes 16 and 29)	**6,675,527,411**	6,675,527,411	6,675,527,411
Remeasurement gains (losses) on pension plan (Notes 2, 19 and 29)	**(5,876,670)**	(18,465,694)	(2,072,866)
Retained earnings (Notes 17 and 29)			
Unappropriated	**10,801,610,963**	9,157,019,681	7,073,379,674
Appropriated	**2,300,000,000**	700,000,000	700,000,000
Total Equity	**20,127,511,704**	16,870,331,398	14,803,084,219
	₱44,727,390,894	₱36,195,331,090	₱35,629,535,727

See accompanying Notes to Consolidated Financial Statements.

SEMIRARA MINING CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31		
	2013	2012 As restated (see Note 2)	2011 As restated (see Note 2)
REVENUE (Note 33)			
Coal	**₱12,573,569,245**	₱14,450,155,334	₱16,201,880,411
Power	**14,757,590,738**	9,700,092,214	9,611,704,378
	27,331,159,983	24,150,247,548	25,813,584,789
COST OF SALES (Notes 18, 20 and 33)			
Coal	**8,664,871,498**	9,825,154,753	11,101,153,958
Power	**5,445,624,630**	4,818,786,103	5,559,465,504
	14,110,496,128	14,643,940,856	16,660,619,462
GROSS PROFIT	**13,220,663,855**	9,506,306,692	9,152,965,327
OPERATING EXPENSES (Notes 21 and 33)	**(5,264,517,633)**	(3,398,375,301)	(2,856,258,209)
INCOME FROM OPERATIONS	**7,956,146,222**	6,107,931,391	6,296,707,118
OTHER INCOME (CHARGES)			
Finance income (Notes 23 and 33)	**26,804,566**	82,144,317	134,876,681
Finance costs (Notes 22 and 33)	**(381,229,343)**	(501,280,033)	(483,287,781)
Foreign exchange gains (losses) - net (Note 33)	**(481,177,225)**	391,000,330	(38,318,119)
Other income (Notes 24 and 33)	**281,208,758**	318,448,268	99,905,297
	(554,393,244)	290,312,882	(286,823,922)
INCOME BEFORE INCOME TAX	**7,401,752,978**	6,398,244,273	6,009,883,196
PROVISION FOR (BENEFIT FROM) INCOME TAX (Notes 25 and 33)	**(117,838,304)**	39,604,266	(21,894,514)
NET INCOME	**7,519,591,282**	6,358,640,007	6,031,777,710
OTHER COMPREHENSIVE INCOME			
Items not to be reclassified to profit or loss in subsequent periods			
Remeasurement gains (losses) on pension plan (Notes 2 and 19)	**17,984,320**	(23,418,326)	(2,961,237)
Income tax effect	**(5,395,296)**	7,025,498	888,371
TOTAL COMPREHENSIVE INCOME	**₱7,532,180,306**	₱6,342,247,179	₱6,029,704,844
Basic/Diluted Earnings per Share (Note 26)	**₱21.11**	₱17.85	₱16.93

See accompanying Notes to Consolidated Financial Statements.

SEMIRARA MINING CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Capital Stock (Note 16)	Additional Paid-in Capital (Note 16)	Unappropriated Retained Earnings (Note 17)	Appropriated Retained Earnings (Note 17)	Remeasurement Gains (Losses) on Pension Plan (Note 2)	Total
			For the Year Ended December 31, 2013			
Balances as of December 31, 2012, as previously stated	**₱356,250,000**	**₱6,675,527,411**	**₱9,160,044,218**	**₱700,000,000**	**₱–**	**₱16,891,821,629**
Effect of the adoption of Revised PAS 19 (Note 2)	–	–	**(3,024,537)**	–	**(18,465,694)**	**(21,490,231)**
Balances as of December 31, 2012, as restated	**356,250,000**	**6,675,527,411**	**9,157,019,681**	**700,000,000**	**(18,465,694)**	**16,870,331,398**
Comprehensive income						
Net income	–	–	**7,519,591,282**	–	–	**7,519,591,282**
Other comprehensive income	–	–	–	–	**12,589,024**	**12,589,024**
Total comprehensive income	–	–	**7,519,591,282**	–	**12,589,024**	**7,532,180,306**
Appropriation	–	–	**(1,600,000,000)**	**1,600,000,000**	–	–
Dividends declared	–	–	**(4,275,000,000)**	–	–	**(4,275,000,000)**
Balances as of December 31, 2013	**₱356,250,000**	**₱6,675,527,411**	**₱10,801,610,963**	**₱2,300,000,000**	**(₱5,876,670)**	**₱20,127,511,704**
			For the Year Ended December 31, 2012			
Balances as of January 1, 2012, as previously stated	₱356,250,000	₱6,675,527,411	₱7,076,762,346	₱700,000,000	₱–	₱14,808,539,757
Effect of the adoption of Revised PAS 19 (Note 2)	–	–	(3,382,672)	–	(₱2,072,866)	(5,455,538)
Balances as of January 1, 2012, as restated	356,250,000	6,675,527,411	7,073,379,674	700,000,000	(₱2,072,866)	14,803,084,219
Comprehensive income						
Net income, as previously stated	–	–	6,358,281,872	–	–	6,358,281,872
Effect of the adoption of Revised PAS 19 (Note 2)	–	–	358,135	–	–	358,135
Net income, as restated	–	–	6,358,640,007	–	–	6,358,640,007
Other comprehensive income, as previously stated	–	–		–	–	–

(Forward)

	Capital Stock (Note 16)	Additional Paid-in Capital (Note 16)	Unappropriated Retained Earnings (Note 17)	Appropriated Retained Earnings (Note 17)	Remeasurement Gains (Losses) on Pension Plan (Note 2)	Total
Effect of the adoption of Revised PAS 19 (Note 2)	₱–	₱–	₱–	₱–	(₱16,392,828)	(₱16,392,828)
Other comprehensive income, as restated	–	–	–	–	(16,392,828)	(16,392,828)
Total comprehensive income, as restated	–	–	6,358,640,007	–	(16,392,828)	6,342,247,179
Dividends declared	–	–	(4,275,000,000)	–	–	(4,275,000,000)
Balances as of December 31, 2012, as restated	₱356,250,000	₱6,675,527,411	₱9,157,019,681	₱700,000,000	(₱18,465,694)	₱16,870,331,398
			For the Year Ended December 31, 2011			
Balances as of January 1, 2011, as previously stated	₱356,250,000	₱6,675,527,411	₱4,608,125,771	₱700,000,000	₱–	₱12,339,903,182
Effect of the adoption of Revised PAS 19 (Note 2)	–	–	(4,023,807)	–	–	(4,023,807)
Balances as of January 1, 2011, as restated	356,250,000	6,675,527,411	4,604,101,964	700,000,000	–	12,335,879,375
Comprehensive income						
Net income, as previously stated	–	–	6,031,136,575	–	–	6,031,136,575
Effect of the adoption of Revised PAS 19 (Note 2)	–	–	641,135	–	–	641,135
Net income, as restated	–	–	6,031,777,710	–	–	6,031,777,710
Other comprehensive income, as previously stated	–	–		–	–	–
Effect of the adoption of Revised PAS 19 (Note 2)	–	–	–	–	(2,072,866)	(2,072,866)
Other comprehensive income, as restated	–	–	–	–	(2,072,866)	(2,072,866)
Total comprehensive income, as restated	–	–	6,031,777,710	–	(2,072,866)	6,029,704,844
Dividends declared	–	–	(3,562,500,000)	–	–	(3,562,500,000)
Balances as of December 31, 2011, as restated	₱356,250,000	₱6,675,527,411	₱7,073,379,674	₱700,000,000	(₱2,072,866)	₱14,803,084,219

See accompanying Notes to Consolidated Financial Statements.

SEMIRARA MINING CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2013	2012 As restated (see Note 2)	2011 As restated (see Note 2)
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱7,401,752,978**	₱6,398,244,273	₱6,009,883,196
Adjustments for:			
Depreciation and amortization (Notes 8, 11, 20 and 21)	**4,023,253,263**	3,053,462,879	2,909,610,888
Loss on disposal and writedown of property, plant and equipment (Notes 8 and 21)	**449,910,879**	341,146,346	–
Provision for (reversal of) allowance for doubtful accounts (Notes 5, 21 and 24)	**443,650,080**	(9,552,129)	(2,887,831)
Finance costs (Note 22)	**381,229,343**	501,280,033	483,287,781
Net unrealized foreign exchange losses (gains)	**309,119,279**	(222,718,411)	37,939,453
Pension expense (Note 19)	**19,939,843**	8,286,117	6,530,366
Gain on sale of equipment (Notes 8 and 24)	**(135,073)**	(127,491,090)	(53,547,507)
Finance income (Note 23)	**(26,804,566)**	(82,144,317)	(134,876,681)
Provision for (reversal of) impairment losses (Notes 11, 21 and 24)	**(61,549,364)**	47,150,717	–
Operating income before changes in operating assets and liabilities	**12,940,366,662**	9,907,664,418	9,255,939,665
Changes in operating assets and liabilities:			
Decrease (increase) in:			
Receivables	**(894,499,145)**	(1,153,130,701)	(70,265,227)
Inventories	**980,607,503**	(1,060,401,947)	(3,704,727,490)
Other current assets	**604,555,167**	(706,604,467)	(697,662,177)
Increase (decrease) in trade and other payables	**(635,524,320)**	345,413,475	2,206,216,109
Cash generated from operations	**12,995,505,867**	7,332,940,778	6,989,500,880
Contributions to pension plan (Note 19)	**–**	–	(28,464,526)
Benefits paid (Note 19)	**(6,857,636)**	(1,929,088)	–
Interest received	**26,801,810**	76,576,301	134,757,554
Interest paid	**(355,711,778)**	(468,137,685)	(457,767,190)
Income taxes paid	**(5,074,275)**	(5,248,207)	(23,036,319)
Net cash provided by operating activities	**12,654,663,988**	6,934,202,099	6,614,990,399
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to property, plant and equipment (including borrowing cost) (Notes 8 and 32)	**(8,897,742,645)**	(5,369,645,794)	(2,454,376,480)
Additions to computer software (Note 11)	**(4,936,722)**	(1,052,066)	(4,712,460)
Additions to investment in sinking fund (Note 9)	**(10,812,036)**	(17,252,032)	(180,559,599)
Decrease (increase) in other noncurrent assets (Note 11)	**(332,430,801)**	(1,033,157,655)	54,422,078
Proceeds from sale of equipment (Note 8)	**135,073**	127,491,109	56,175,636
Additions to exploration and evaluation asset (Note 10)	**(298,731,356)**	–	–
Increase in other noncurrent liabilities (Note 11)	**665,407,994**	57,938,954	–
Acquisition of a subsidiary - net of cash acquired (Note 2)	**1,250,000**	–	–
Net cash used in investing activities	**(8,877,860,493)**	(6,235,677,484)	(2,529,050,825)

(Forward)

	Years Ended December 31		
	2013	2012 As restated (see Note 2)	2011 As restated (see Note 2)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from loans	**₱15,522,112,961**	₱4,466,523,614	₱4,895,811,758
Payments of:			
Dividends (Note 17)	**(4,275,000,000)**	(4,275,000,000)	(3,562,500,000)
Loans	**(10,748,643,259)**	(5,297,823,378)	(4,234,947,419)
Net cash (used in) provided by financing activities	**498,469,702**	(5,106,299,764)	(2,901,635,661)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**9,643,294**	(63,074,352)	7,652,845
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**4,284,916,491**	(4,470,849,501)	1,191,956,758
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**534,390,774**	5,005,240,275	3,813,283,517
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	**₱4,819,307,265**	₱534,390,774	₱5,005,240,275

See accompanying Notes to Consolidated Financial Statements.

1. Corporate Information

Semirara Mining Corporation (the Parent Company) is a corporation incorporated in the Philippines on February 26, 1980. The Parent Company's registered and principal office address is at 2nd Floor, DMCI Plaza Building, 2281 Pasong Tamo Extension, 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 and its subsidiaries will be collectively referred herein as "the Group".

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

The Parent Company's shares of stock are listed and are currently traded at the Philippine Stock Exchange (PSE).

The consolidated financial statements as of December 31, 2013 and 2012 and for each of the three years in the period ended December 31, 2013 were endorsed for approval by the Audit Committee on March 3, 2014 and were authorized for issue by the Executive Committee of the Board of Directors (BOD) on March 19, 2014.

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 when otherwise indicated.

The consolidated financial statements provide comparative information in respect of the previous period. In addition, the Group presents an additional statement of financial position at the beginning of the earliest period presented when there is a retrospective application of an accounting policy, a retrospective restatement, or a reclassification of items in financial statements. An additional statement of financial position as at January 1, 2012 is presented in these consolidated financial statements due to retrospective application of Philippine Accounting Standards (PAS) 19, *Employee Benefits* (Revised 2011).

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 of December 31, 2013 and 2012, and for each of the three years in the period ended December 31, 2013.

The consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances. All significant intercompany balances and transactions, including income, expenses and dividends, are eliminated in full. Profits and losses resulting from intercompany transactions that are recognized in assets are eliminated in full.

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:
- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:
- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statements of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Non-controlling interests (NCI) pertain to the equity in a subsidiary not attributable, directly or indirectly to the Parent Company. NCI represent the portion of profit or loss and net assets in subsidiaries not owned by the Group and are presented separately in consolidated statement of comprehensive income, consolidated statement of changes in equity and within equity in the consolidated statement of financial position, separately from equity holders' of the Parent Company.

Any equity instruments issued by a subsidiary that are not owned by the Parent Company are non-controlling interests including preferred shares and options under share-based transactions.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:
- Derecognizes the assets (including goodwill) and liabilities of the subsidiary
- Derecognizes the carrying amount of any non-controlling interests
- Derecognizes the cumulative translation differences recorded in equity
- Recognizes the fair value of the consideration received
- Recognizes the fair value of any investment retained
- Recognizes any surplus or deficit in profit or loss
- Reclassifies the Parent Company's share of components previously recognized in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities

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

	Effective Percentages of Ownership		
	2013	2012	2011
Sem-Calaca Power Corporation (SCPC)	**100.00%**	100.00%	100.00%
Southwest Luzon Power Generation Corporation (SLPGC)	**100.00**	100.00	100.00
SEM-Cal Industrial Park Developers, Inc. (SIPDI)	**100.00**	100.00	100.00
Semirara Claystone, Inc. (SCI)	**100.00**	100.00	–
Semirara Energy Utilities, Inc. (SEUI)	**100.00**	–	–
St. Raphael Power Generation Corporation (SRPGC)	**100.00**	–	–
SEM-Balayan Power Generation Corporation (SBPGC)	**100.00**	–	–
Sem-Calaca RES Corporation (SCRC)*	**100.00**	–	–

**Wholly owned subsidiary of SCPC*

Except for SCPC, the Parent Company's subsidiaries have not yet started commercial operations as of December 31, 2013.

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 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.

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.

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, indentor, commission merchant, factors or agents, upon consignment of all goods, wares, merchandise or products natural or artificial.

SEUI
On February 18, 2013, SEUI was incorporated to perform Qualified Third Party (QTP) functions pursuant to Section 59 of Republic Act 9136, otherwise known as the "Electric Power Industry Reform Act of 2001 ("EPIRA") and its Implementing Rules & Regulations". DOE-Circular No. 2004-06-006 of the Department of Energy defines QTP as an alternative service provider authorized to serve remote and unviable areas pursuant to Section 59 of the EPIRA Law. The new company intends to act as the QTP over Barangays of Semirara, Tinogboc and Alegria, all located at Semirara Island, Caluya, Antique.

SRPGC
On September 10, 2013, SRPGC was incorporated to acquire, construct, erect, assemble, rehabilitate, expand, commission, operate and maintain power-generating plants and related facilities for the generation of electricity, including facilities to purchase, manufacture, develop or process fuel for the generation of such electricity; to sell electricity to any person or entity through electricity markets, by trading, or by contract; to administer, conserve and manage the electricity generated by power-generating plants, owned by SRPGC or by a third party, to invest in or acquire corporations or entities engaged in any of the foregoing activities.

SBPGC
On September 9, 2013, SBPGC was incorporated to acquire, construct, erect, assemble, rehabilitate, expand, commission, operate and maintain power-generating plants and related facilities for the generation of electricity, including facilities to purchase, manufacture, develop or process fuel for the generation of such electricity, to sell electricity to any person or entity through electricity markets, by trading, or by contract, to administer, conserve and manage the electricity generated by power-generating plants, owned by SBPGC or by a third party, to invest in or acquire corporations or entities engaged in any of the foregoing activities.

SCRC
SCRC is a stock corporation registered with SEC on September 14, 2009, primarily to sell electricity to any person or entity through electricity markets, by trading, or by contract, to administer, conserve and manage the electricity generated by power-generating plants, owned by its affiliates or by a third party, to invest in or acquire corporations or entities engaged in any of the foregoing activities.

Prior to 2013, DMCI-HI owns 100% of common shares of SCRC. However, on March 15, 2013, DMCI-HI assigned all of its 1.25 million shares in SCRC at ₱1.00 par value or in the total amount of ₱1.25 million , making it as a wholly owned subsidiary of SCPC.

On September 25, 2013, SCPC infused additional 6.75 million shares totaling ₱8.00 million as of December 31, 2013.

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

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree. If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit 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 acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units or groups of cash generating units, that are expected to benefit from

the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or group of units.
Each unit or group of units to which the goodwill is allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with PFRS 8, *Operating Segment.*

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

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

Acquisitions of non-controlling interests are accounted for as transactions with owners in their capacity as owners and therefore no goodwill or profit or loss is recognized as a result.

Adjustments to noncontrolling interests arising from transactions that do not involve the loss of control are based on a proportionate amount of the net assets of the subsidiary.

<u>Changes in Accounting Policies</u>
The accounting policies adopted are consistent with those of the previous financial year except for the following new and amended PFRS, PAS and Philippine Interpretations of International Financial Reporting Interpretations Committee (IFRIC) which became effective on January 1, 2013. Adoption of these changes in PFRS constitutes an additional statement of financial position at the beginning of the earliest period due to retrospective application of such amendments. Except as otherwise indicated, the adoption of these new accounting standards and amendments have no material impact on the Group's financial statements.

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

- 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.

- PFRS 10, *Consolidated Financial Statements*
  PFRS 10 replaced the portion of PAS 27, *Consolidated and Separate Financial Statements*, that addressed the accounting for consolidated financial statements. It also included the issues raised in SIC 12, *Consolidation - Special Purpose Entities*. PFRS 10 established a single control model that applied to all entities including special purpose entities. The changes introduced by PFRS 10 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. A reassessment of control was performed by the Parent Company on all its interest in other entities and has determined that there are no additional entities that need to be consolidated or entities to be deconsolidated.

- PFRS 11, *Joint Arrangements*
  PFRS 11 replaced PAS 31, *Interests in Joint Ventures*, and SIC 13, *Jointly Controlled Entities - Non-Monetary Contributions by Venturers*. PFRS 11 removed 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 new standard is effective for periods beginning on or after January 1, 2013 and has no impact on the Group's financial position or performance.

- PFRS 12, *Disclosure of Interests in Other Entities*
  PFRS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. The requirements in PFRS 12 are more comprehensive than the previously existing disclosure requirements for subsidiaries (for example, where a subsidiary is controlled with less than a majority of voting rights). The new standard is effective for periods beginning on or after January 1, 2013 and has 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. PFRS 13 defines fair value as an exit price. PFRS 13 also requires additional disclosures.

  As a result of the guidance in PFRS 13, the Group re-assessed its policies for measuring fair values. Additional disclosures, where required, are provided in Note 30. The new standard is effective for periods beginning on or after January 1, 2013.

- PAS 1, *Presentation of Financial Statements - Presentation of Items of Other Comprehensive Income or OCI* (Amendments)
  The amendments to PAS 1 introduced a grouping of items presented in OCI. Items that will 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 amendments are effective for periods beginning on or after July 1, 2012.

- PAS 19, *Employee Benefits* (Revised)
  On January 1, 2013, the Group adopted the Revised PAS 19.

  For defined benefit plans, the Revised PAS 19 requires all actuarial gains and losses to be recognized in OCI and unvested past service costs previously recognized over the average vesting period to be recognized immediately in profit or loss when incurred.

  Prior to adoption of the Revised PAS 19, the Group recognized actuarial gains and losses as income or expense when the net cumulative unrecognized gains and losses for each individual plan at the end of the previous period exceeded 10% of the higher of the defined benefit liability and the fair value of the plan assets and recognized unvested past service costs as an expense on a straight-line basis over the average vesting period until the benefits become vested. Upon adoption of the Revised PAS 19, the Group changed its accounting policy to recognize all actuarial gains and losses in OCI and all past service costs in profit or loss in the period they occur.

  The Revised PAS 19 replaced the interest cost and expected return on plan assets with the concept of net interest on defined benefit liability or asset which is calculated by multiplying the net balance sheet defined benefit liability or asset by the discount rate used to measure the employee benefit liability, each as at the beginning of the annual period.

  The Revised PAS 19 also amended the definition of short-term employee benefits and requires employee benefits to be classified as short-term based on expected timing of settlement rather than the employee's entitlement to the benefits. In addition, the Revised PAS 19 modifies the timing of recognition for termination benefits. The modification requires the termination benefits to be recognized at the earlier of when the offer cannot be withdrawn or when the related restructuring costs are recognized.

  Changes to definition of short-term employee benefits and timing of recognition for termination benefits do not have any impact to the Group's financial position and financial performance.

  The changes in accounting policies have been applied retrospectively. The effects of the adoption in the consolidated financial statements are as follows:

	As at December 31, 2013	As at December 31, 2012 (As restated)	As at January 1, 2012 (As restated)
Increase (decrease) in:			
Consolidated Statements of Financial Position			
Net defined benefit liability	₱12,716,015	₱30,700,336	₱7,793,626
Deferred tax assets	(3,814,808)	(9,210,105)	(2,338,088)
Remeasurement losses on pension plan	(5,876,670)	(18,465,694)	(2,072,866)
Retained earnings	(3,024,537)	(3,024,537)	(3,382,672)

	2013	2012 (As restated)	2011 (As restated)
Consolidated Statements of Comprehensive Income			
General and administrative expenses	₱–	(₱511,604)	(₱915,907)
Income before income tax	–	511,604	915,907
Provision for income tax	–	153,481	274,772
Net income for the year	–	358,123	641,135
Other comprehensive income			
Remeasurement losses (gains) of defined benefit obligation (Note 19)	(17,984,320)	23,418,326	2,961,237
Income tax effects	5,395,296	(7,025,498)	(888,371)
Other comprehensive income for the year, net of tax	12,589,024	(16,392,828)	(2,072,866)
Total comprehensive income for the year	₱12,589,024	(₱16,034,705)	(₱1,431,731)

The adoption did not have an impact on statement of cash flows.

- PAS 27, *Separate Financial Statements* (as revised in 2011)
As a consequence of the issuance of the new PFRS 10 and PFRS 12, 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 did not have a significant impact on the separate financial statements of the entities in the Group. The revised standard is effective for 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 revised standard is effective for 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. Management has assessed the impact of the interpretation on its coal mining activities both for the open pit mining and the one under exploration and evaluation. Management has concluded that its existing accounting policy is consistent with the requirements of the new interpretation and therefore the adoption did not impact both the financial position and performance of the Group.

- PFRS 1, *First-time Adoption of International Financial Reporting Standards - Government Loans* (Amendments)
The amendments to PFRS 1 require first-time adopters to apply the requirements of PAS 20, *Accounting for Government Grants and Disclosure of Government Assistance,* prospectively to government loans existing at the date of transition to PFRS. However, entities may choose to apply the requirements of PAS 39, *Financial Instruments*: *Recognition and Measurement*, and PAS 20 to government loans retrospectively if the information needed to do so had been obtained at the time of initially accounting for those loans. These amendments are not relevant to the Group and effective for the periods beginning on or after January 1, 2013.

Annual Improvements to PFRSs (2009-2011 cycle)
The *Annual Improvements to PFRSs* (2009-2011 cycle) contain non-urgent but necessary amendments to PFRSs. The Group adopted these amendments for the current year. These amendments are not relevant to the Group and effective for the periods beginning on or after January 1, 2013.

- 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*
  These 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. As a result, the Group has not included comparative information in respect of the opening statement of financial position as at January 1, 2012. 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 does 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 amendment does not have any significant impact on the Group's 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 affects disclosures only and has no impact on the Group's financial position or performance.

New Standards and Interpretations Issued but not yet Effective

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

- PAS 36, *Impairment of Assets - Recoverable Amount Disclosures for Non-Financial Assets* (Amendments)
  These amendments remove the unintended consequences of PFRS 13 on the disclosures required under PAS 36. In addition, these amendments require disclosure of the recoverable amounts for the assets or cash-generating units (CGUs) for which impairment loss has been recognized or reversed during the period. These amendments are effective retrospectively for annual periods beginning on or after January 1, 2014 with earlier application permitted, provided PFRS 13 is also applied. The amendments affect disclosures only and have no impact on the Group's financial position or performance.

- Investment Entities (Amendments to PFRS 10, PFRS 12 and PAS 27)
  These amendments are effective for annual periods beginning on or after January 1, 2014. They provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under PFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss (FVPL). The Group does not expect that this amendment would have significant financial impact in the future financial statements.

- Philippine Interpretation IFRIC 21, *Levies* (IFRIC 21)
  IFRIC 21 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. IFRIC 21 is effective for annual periods beginning on or after January 1, 2014. The Group does not expect that IFRIC 21 will have significant financial impact in future financial statements.

- PAS 39, *Financial Instruments: Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting* (Amendments)
  These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments are effective for annual periods beginning on or after January 1, 2014. The Group does not expect that this amendment would have significant financial impact in the future financial statements.

- 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.

- PAS 19, *Employee Benefits - Defined Benefit Plans: Employee Contributions* (Amendments)
  The amendments apply to contributions from employees or third parties to defined benefit plans. Contributions that are set out in the formal terms of the plan shall be accounted for as

reductions to current service costs if they are linked to service or as part of the remeasurements of the net defined benefit asset or liability if they are not linked to service. Contributions that are discretionary shall be accounted for as reductions of current service cost upon payment of these contributions to the plans. The amendments to PAS 19 are to be retrospectively applied for annual periods beginning on or after July 1, 2014.

Annual Improvements to PFRSs (2010-2012 cycle)
The *Annual Improvements to PFRSs* (2010-2012 cycle) contain non-urgent but necessary amendments to the following standards:

- PFRS 2, *Share-based Payment - Definition of Vesting Condition*
  The amendment revised the definitions of vesting condition and market condition and added the definitions of performance condition and service condition to clarify various issues. This amendment shall be prospectively applied to share-based payment transactions for which the grant date is on or after July 1, 2014. This amendment does not apply to the Group as it has no share-based payments.

- PFRS 3, *Business Combinations - Accounting for Contingent Consideration in a Business Combination*
  The amendment clarifies that a contingent consideration that meets the definition of a financial instrument should be classified as a financial liability or as equity in accordance with PAS 32. Contingent consideration that is not classified as equity is subsequently measured at fair value through profit or loss whether or not it falls within the scope of PFRS 9 (or PAS 39, if PFRS 9 is not yet adopted). The amendment shall be prospectively applied to business combinations for which the acquisition date is on or after July 1, 2014. The Group shall consider this amendment for future business combinations.

- PFRS 8, *Operating Segments - Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets*
  The amendments require entities to disclose the judgment made by management in aggregating two or more operating segments. This disclosure should include a brief description of the operating segments that have been aggregated in this way and the economic indicators that have been assessed in determining that the aggregated operating segments share similar economic characteristics. The amendments also clarify that an entity shall provide reconciliations of the total of the reportable segments' assets to the entity's assets if such amounts are regularly provided to the chief operating decision maker. These amendments are effective for annual periods beginning on or after July 1, 2014 and are applied retrospectively. The amendments have no impact on the Group's financial position or performance.

- PFRS 13, *Fair Value Measurement - Short-term Receivables and Payables*
  The amendment clarifies that short-term receivables and payables with no stated interest rates can be held at invoice amounts when the effect of discounting is immaterial.

- PAS 16, *Property, Plant and Equipment - Revaluation Method - Proportionate Restatement of Accumulated Depreciation*
  The amendment clarifies that, upon revaluation of an item of property, plant and equipment, the carrying amount of the asset shall be adjusted to the revalued amount, and the asset shall be treated in one of the following ways:
  a. The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. The accumulated depreciation at the date of

revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account any accumulated impairment losses.

b. The accumulated depreciation is eliminated against the gross carrying amount of the asset.

The amendment is effective for annual periods beginning on or after July 1, 2014. The amendment shall apply to all revaluations recognized in annual periods beginning on or after the date of initial application of this amendment and in the immediately preceding annual period. The amendment has no impact on the Group's financial position or performance.

- PAS 24, *Related Party Disclosures - Key Management Personnel*
  The amendments clarify that an entity is a related party of the reporting entity if the said entity, or any member of a group for which it is a part of, provides key management personnel services to the reporting entity or to the parent company of the reporting entity. The amendments also clarify that a reporting entity that obtains management personnel services from another entity (also referred to as management entity) is not required to disclose the compensation paid or payable by the management entity to its employees or directors. The reporting entity is required to disclose the amounts incurred for the key management personnel services provided by a separate management entity. The amendments are effective for annual periods beginning on or after July 1, 2014 and are applied retrospectively. The amendments affect disclosures only and have no impact on the Group's financial position or performance.

- PAS 38, *Intangible Assets - Revaluation Method - Proportionate Restatement of Accumulated Amortization*
  The amendments clarify that, upon revaluation of an intangible asset, the carrying amount of the asset shall be adjusted to the revalued amount, and the asset shall be treated in one of the following ways:
  a. The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. The accumulated amortization at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account any accumulated impairment losses.
  b. The accumulated amortization is eliminated against the gross carrying amount of the asset.

  The amendments also clarify that the amount of the adjustment of the accumulated amortization should form part of the increase or decrease in the carrying amount accounted for in accordance with the standard.

  The amendments are effective for annual periods beginning on or after July 1, 2014. The amendments shall apply to all revaluations recognized in annual periods beginning on or after the date of initial application of this amendment and in the immediately preceding annual period. The amendments have no impact on the Group's financial position or performance.

Annual Improvements to PFRSs (2011-2013 cycle)
The *Annual Improvements to PFRSs* (2011-2013 cycle) contain non-urgent but necessary amendments to the following standards:

- PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards - Meaning of 'Effective PFRSs'*
  The amendment clarifies that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but that permits early application, provided either standard

is applied consistently throughout the periods presented in the entity's first PFRS financial statements. This amendment is not applicable to the Group as it is not a first-time adopter of PFRS.

- PFRS 3, *Business Combinations - Scope Exceptions for Joint Arrangements*
The amendment clarifies that PFRS 3 does not apply to the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself. The amendment is effective for annual periods beginning on or after July 1, 2014 and is applied prospectively.

- PFRS 13, *Fair Value Measurement - Portfolio Exception*
The amendment clarifies that the portfolio exception in PFRS 13 can be applied to financial assets, financial liabilities and other contracts. The amendment is effective for annual periods beginning on or after July 1, 2014 and is applied prospectively. The amendment has no significant impact on the Group's financial position or performance.

- PAS 40, *Investment Property*
The amendment clarifies the interrelationship between PFRS 3 and PAS 40 when classifying property as investment property or owner-occupied property. The amendment stated that judgment is needed when determining whether the acquisition of investment property is the acquisition of an asset or a group of assets or a business combination within the scope of PFRS 3. This judgment is based on the guidance of PFRS 3. This amendment is effective for annual periods beginning on or after July 1, 2014 and is applied prospectively. The amendment has no significant impact on the Group's financial position or performance.

- PFRS 9, *Financial Instruments*
PFRS 9, as issued, reflects the first and third phases of the project to replace PAS 39 and applies to the classification and measurement of financial assets and liabilities and hedge accounting, respectively. Work on the second phase, which relate to impairment of financial instruments, and the limited amendments to the classification and measurement model is still ongoing, with a view to replace 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 other comprehensive income (OCI) or profit or loss. Equity financial assets held for trading must be measured at fair value through profit or loss. For liabilities designated as at FVPL using the fair value option, 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 relating to the entity's own 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 to PFRS 9, including the embedded derivative bifurcation 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.

On hedge accounting, PFRS 9 replaces the rules-based hedge accounting model of PAS 39 with a more principles-based approach. Changes include replacing the rules-based hedge effectiveness test with an objectives-based test that focuses on the economic relationship between the hedged item and the hedging instrument, and the effect of credit risk on that economic relationship; allowing risk components to be designated as the hedged item, not only for financial items, but also for non-financial items, provided that the risk component is separately identifiable and reliably measurable; and allowing the time value of an option, the forward element of a forward contract and any foreign currency basis spread to be excluded from the designation of a financial instrument as the hedging instrument and accounted for as costs of hedging. PFRS 9 also requires more extensive disclosures for hedge accounting.

PFRS 9 currently has no mandatory effective date. PFRS 9 may be applied before the completion of the limited amendments to the classification and measurement model and impairment methodology. The Group will not adopt the standard before the completion of the limited amendments and the second phase of the project.

In compliance with SEC Memorandum Circular No. 3, Series of 2012, the Group has conducted a study on the impact of an early adoption of PFRS 9. After careful consideration of the results on the impact evaluation, the Group has decided not to early adopt PFRS 9 for its 2013 annual financial reporting. Therefore, these consolidated financial statements do not reflect the impact of the said standard.

- Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate*
  This interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The SEC and the 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.

<u>Financial Assets and Financial Liabilities</u>
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.

As of December 31, 2013 and 2012, 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.

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.

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 statement of financial position accounts "Cash and cash equivalents", "Receivables", "Investment in sinking fund" and "Environmental Guarantee Fund" under other noncurrent assets.

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

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

Other financial liabilities include trade and other payables, short-term loans and long-term debt. All loans and borrowings are initially recognized at the fair value of the consideration received less directly attributable transaction costs.

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

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

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

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

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

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

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

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred) discounted

at the financial assets' original EIR (i.e., the EIR computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR.

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

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

Derecognition of Financial Instruments

Financial assets

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

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

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

Financial liabilities

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

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

Offsetting of Financial Instruments

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

Fair Value Measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

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

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

Inventories

Inventories are valued at the lower of cost and net realizable value (NRV). NRV is the estimated selling price in the ordinary course of business, less estimated costs necessary to make the sale for coal inventory or replacement cost for spare parts and supplies. Cost is determined using the weighted average production cost method for coal inventory and the moving average method for spare parts and supplies.

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

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

Exploration and Evaluation Asset

Exploration and evaluation activity involves the search for mineral resources, the determination of technical feasibility and the assessment of commercial viability of an identified resource.

Exploration and evaluation activity includes:

- Researching and analyzing historical exploration data
- Gathering exploration data through geophysical studies
- Exploratory drilling and sampling
- Determining and examining the volume and grade of the resource
- Surveying transportation and infrastructure requirements
- Conducting market and finance studies

License costs paid in connection with a right to explore in an existing exploration area are capitalized and amortized over the term of the permit.

Once the legal right to explore has been acquired, exploration and evaluation expenditure is charged to profit or loss as incurred, unless the Group's management concludes that a future economic benefit is more likely than not to be realized. These costs include materials and fuel used, surveying costs, drilling costs and payments made to contractors.

In evaluating whether the expenditures meet the criteria to be capitalized, several different sources of information are used. The information that is used to determine the probability of future benefits depends on the extent of exploration and evaluation that has been performed.

Expenditure is transferred from 'Exploration and evaluation assets' to 'Mine properties' which is a subcategory of 'Property, plant and equipment' once the work completed to date supports the future development of the property and such development receives appropriate approvals.

After transfer of the exploration and evaluation assets, all subsequent expenditure on the construction, installation or completion of infrastructure facilities is capitalized in 'Mine properties'. Development expenditure is net of proceeds from the sale of ore extracted during the development phase.

Stripping Costs

As part of its mining operations, the Group incurs stripping (waste removal) costs both during the development phase and production phase of its operations. Stripping costs incurred in the development phase of a mine, before the production phase commences (development stripping), are capitalized as part of the cost of mine properties and subsequently amortized over its useful life using units of production method. The capitalization of development stripping costs ceases when the mine/component is commissioned and ready for use as intended by management.

Stripping activities undertaken during the production phase of a surface mine (production stripping) are accounted for as set out below. After the commencement of production further development of the mine may require a phase of unusually high stripping that is similar in nature to development phase stripping. The costs of such stripping are accounted for in the same way as development stripping (as outlined above).

Stripping costs incurred during the production phase are generally considered to create two benefits, being either the production of inventory or improved access to the coal body to be mined in the future. Where the benefits are realized in the form of inventory produced in the period, the production stripping costs are accounted for as part of the cost of producing those inventories. Where the benefits are realized in the form of improved access to ore to be mined in the future, the costs are recognized as a noncurrent asset, referred to as a stripping activity asset, if the following criteria are met:

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

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

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

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

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

The stripping activity asset is subsequently depreciated using the units of production method over the life of the identified component of the coal body that became more accessible as a result of the stripping activity. Economically recoverable reserves, which comprise proven and probable

reserves, are used to determine the expected useful life of the identified component of the coal body. The stripping activity asset is then carried at cost less depreciation and any impairment losses.

Mining Reserves

Mining reserves are estimates of the amount of coal that can be economically and legally extracted from the Group's mining properties. The Group estimates its mining reserves and mineral resources based on information compiled by appropriately qualified persons relating to the geological data on the size, depth and shape of the coal body, and require complex geological judgments to interpret the data. The estimation of recoverable reserves is based upon factors such as estimates of foreign exchange rates, commodity prices, future capital requirements, and production costs along with geological assumptions and judgments made in estimating the size and grade of the coal body. Changes in the reserve or resource estimates may impact the carrying value of exploration and evaluation 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 except land are carried at cost less accumulated depreciation and any impairment in value.

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

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

Mine properties consists of stripping activity asset and expenditures transferred from 'Exploration and evaluation assets' once the work completed supports the future development of the property. Mine properties are depreciated or amortized on a unit-of-production basis over the economically recoverable reserves of the mine concerned.

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

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

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

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

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

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

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

Computer Software

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

Amortization of computer software is recognized under the "Cost of sales" in the consolidated statement of comprehensive income.

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

Impairment of Nonfinancial Assets

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

Property, plant and equipment and computer software

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

Impairment losses of continuing operations are recognized in the consolidated 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 statement of comprehensive income unless the asset is carried at revalued amount, in which case, the reversal is treated as a revaluation increase. After such reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Inventories
NRV tests are performed at least annually and represent the estimated sales price based on prevailing price at 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.

Intangible Assets
Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Internally generated intangibles, excluding capitalized development costs, are not capitalized and the related expenditure is reflected in the consolidated statements of comprehensive income in the period in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

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

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

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

Research and development costs
Research costs are expensed as incurred. Development expenditures on an individual project are recognized as an intangible asset when the Group can demonstrate:
- The technical feasibility of completing the intangible asset so that the asset will be available for use or sale
- Its intention to complete and its ability to use or sell the asset
- How the asset will generate future economic benefits
- The availability of resources to complete the asset
- The ability to measure reliably the expenditure during development
- The ability to use the intangible asset generated

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

The Group has assessed the useful life of the development costs based on the expected usage of the asset. The useful life of capitalized development costs is twenty (20) years.

Current and Noncurrent Classification
The Group presents assets and liabilities in consolidated statement of financial position based on current/noncurrent classification. An asset is current when it is either:
- Expected to be realized or intended to be sold or consumed in normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realized within 12 months after reporting date; or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after reporting date.

All other assets are classified as noncurrent.

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

The Group classifies all other liabilities as noncurrent.

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

Revenue Recognition
Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the

consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that it is acting as principal in all of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognized:

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

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

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

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

Other income
Other income is recognized when earned.

<u>Cost of Sales</u>
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.

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

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

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

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

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

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

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

Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the creditors of the Group, nor can they be paid directly to the Group. Fair value of plan assets is based on market price information. When no market

price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related liabilities). If the fair value of the plan assets is higher than the present value of the defined benefit liability, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

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

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

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

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

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 reporting date.

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

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

Deferred tax assets are not recognized when they arise from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of transaction, affects neither the accounting income nor taxable income or loss. Deferred tax liabilities are not provided

on nontaxable temporary differences associated with investments in domestic subsidiaries, associates and interests in joint ventures.

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

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

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

Provisions

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

Provision for decommissioning and site rehabilitation

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

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

Leases

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

a. There is a change in contractual terms, other than a renewal or extension of the arrangement;

b. A renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;
c. There is a change in the determination of whether fulfillment is dependent on a specified asset; or
d. There is a substantial change to the asset.

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

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

Foreign Currency Transactions and Translation
The Group’s financial statements are presented in Philippine peso, which is also the functional currency. Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency closing rate at reporting date. All differences are taken to the consolidated statement of comprehensive income.

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

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

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 Segments
The Group’s operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit

that offers different products and serves different markets. The Group generally accounts for intersegment revenues and expenses at agreed transfer prices. Income and expenses from discontinued operations are reported separate from normal income and expenses down to the level of income after taxes. Financial information on operating segments is presented in Note 33 to the consolidated financial statements.

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

3. Significant Accounting Judgments, Estimates and Assumptions

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

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

a. *Determining functional currency*
The Group, based on the relevant economic substance of the underlying circumstances, has determined its functional currency to be the Philippine Peso. It is the currency of the economic environment in which the Group primarily operates.

b. *Operating lease commitments - the Group as lessee*
The Group has entered into various contract of lease for space, and mining and transportation equipment. The Group has determined that all significant risks and benefits of ownership on these properties will be retained by the lessor. In determining significant risks and benefits of ownership, the Group considered the substance of the transaction rather than the form of the contract (See Note 31).

c. *Exploration and evaluation expenditure*
The application of the Group's accounting policy for exploration and evaluation expenditure requires judgment to determine whether future economic benefits are likely, from either future exploitation or sale, or whether activities have not reached a stage that permits a reasonable assessment of the existence of reserves.

d. *Stripping costs*
The Group incurs waste removal costs (stripping costs) during the development and production phases of its surface mining operations. During the production phase, stripping costs (production stripping costs) can be incurred both in relation to the production of inventory in that period and the creation of improved access and mining flexibility in relation to ore to be mined in the future. The former are included as part of the costs of inventory, while the latter are capitalized as a stripping activity asset, where certain criteria are met. Significant judgment is required to distinguish between development stripping and production stripping and to distinguish between the production stripping that relates to the extraction of inventory and what relates to the creation of a stripping activity asset.

Once the Group has identified its production stripping for each surface mining operation, it identifies the separate components of the coal bodies for each of its mining operations. An identifiable component is a specific volume of the coal body that is made more accessible by the stripping activity. Significant judgment is required to identify and define these components, and also to determine the expected volumes of waste to be stripped and coal body to be mined in each of these components. These assessments are undertaken for each individual mining operation based on the information available in the mine plan. The mine plans and, therefore, the identification of components, will vary between mines for a number of reasons. These include, but are not limited to, the type of commodity, the geological characteristics of the coal body, the geographical location and/or financial considerations.

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

Furthermore, judgments and estimates are also used to apply the units of production method in determining the depreciable lives of the stripping activity asset.

e. *Contingencies*
The Group is currently involved in various legal proceedings. The estimate of the probable costs for the resolution of these claims has been developed in consultation with outside counsel handling the Group's defense in these matters and is based upon an analysis of potential results. The Group currently does not believe that these proceedings will have a material adverse effect on its financial position. It is possible, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the strategies relating to these proceedings (see Note 28).

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

a. *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 33.

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

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

The above assessment resulted to an additional allowance of ₱443.65 million in 2013 and reversal of ₱9.56 million in 2012.

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

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

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

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

Capitalized development costs are disclosed in Note 11.

f. *Estimating decommissioning and site rehabilitation costs*
The Group is legally required to fulfill certain obligations under its Department of Environment and Natural Resources (DENR) issued Environmental Compliance Certificate when it abandons depleted mine pits and under Section 8 of the Land Lease Agreement upon its termination or cancellation. Significant estimates and assumptions are made in determining the provision for decommissioning and site rehabilitation as there are numerous factors that will affect the ultimate liability. These factors include estimates of the extent and costs of rehabilitation activities, technological changes, regulatory changes, cost increases, and changes in discount rates. Those uncertainties may result in future actual expenditure differing from the amounts currently provided. An increase in decommissioning and site rehabilitation costs would increase the 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 15.

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

In 2013, management has determined that components of Unit 2 of its power plant will have to be dismantled and repaired in the first quarter of 2014. These components have original useful lives of 2-15 years in the books. Because of the planned activity, management has accelerated the depreciation of these components and recognized an additional depreciation of ₱1.11 billion in 2013.

The carrying values of the property, plant and equipment and computer software are disclosed in Notes 8 and 11, respectively.

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

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

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

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

The carrying values of the property, plant and equipment, computer software and input VAT withheld are disclosed in Notes 8 and 11, respectively.

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

In 2013 and 2012, the Group has various deductible temporary differences from which no deferred tax assets have been recognized as these are expected to be reversed within the period of the operating activities (see Note 25).

j. *Estimating pension and other employee benefits*
The cost of defined benefit pension plan and the present value of the pension liabilities are determined using actuarial valuations. The actuarial valuation involves making various assumptions. These assumptions are described in Note 19 and include among others, the determination of the discount rates and future salary increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, defined benefit liabilities are highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

In determining the appropriate discount rate, management considers the interest rates of government bonds that are denominated in the currency in which the benefits will be paid, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. Future salary increases are based on expected future inflation rates and other relevant factors.

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

4. Cash and Cash Equivalents

This account consists of:

	2013	2012
Cash on hand and in banks	**₱3,302,824,538**	₱520,098,757
Cash equivalents	**1,516,482,727**	14,292,017
	₱4,819,307,265	₱534,390,774

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 1.00% to 4.63% in 2013 and 2012, respectively.

In 2013, 2012 and 2011, total interest income earned from cash and cash equivalents amounted to ₱13.77 million, ₱63.70 million and ₱123.35 million, respectively (see Note 23).

5. Receivables

This account consists of:

	2013	2012
Trade receivables - outside parties	**₱4,393,716,197**	₱3,447,400,981
Trade receivables - related parties (Note 18)	**75,553,612**	90,003,952
Others	**65,371,369**	103,777,943
	4,534,641,178	3,641,182,876
Less allowance for doubtful accounts	**502,989,241**	59,339,161
	₱4,031,651,937	₱3,581,843,715

Trade receivables - outside parties
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.

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.

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

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

Movements in the allowance for doubtful accounts are as follows:

	2013		
	Trade receivables - outside parties	**Other Receivables**	**Total**
At January 1	**₱53,523,802**	**₱5,815,359**	**₱59,339,161**
Provision (Note 21)	**443,650,080**	**–**	**443,650,080**
At December 31	**₱497,173,882**	**₱5,815,359**	**₱502,989,241**
Individual impairment	**₱497,173,882**	**₱5,815,359**	**₱502,989,241**
Gross amounts of individually impaired receivables	**₱497,173,882**	**₱5,815,359**	**₱502,989,241**

Provision for doubtful accounts is included in the "Operating Expenses" in the consolidated statements of comprehensive income (see Note 21).

	2012		
	Trade receivables - outside parties	Other Receivables	Total
At January 1	₱53,523,802	₱15,367,488	₱68,891,290
Reversals (Note 24)	–	(9,552,129)	(9,552,129)
At December 31	₱53,523,802	₱5,815,359	₱59,339,161
Individual impairment	₱53,523,802	₱5,815,359	₱59,339,161
Gross amounts of individually impaired receivables	₱53,523,802	₱5,815,359	₱59,339,161

In 2012, the Group directly wrote-off trade receivables amounting to ₱59.36 million and recorded this as part of provision for doubtful accounts (see Note 21).

6. Inventories

This account consists of:

	2013	2012
Coal pile inventory at cost	**₱1,938,051,785**	₱2,404,009,092
Spare parts and supplies at NRV	**2,691,508,783**	3,255,580,261
	₱4,629,560,568	₱5,659,589,353

During 2013, the Group provided allowance for inventory obsolescence for nonmoving spare parts and supplies amounting to ₱4.12 million. None was recorded in 2012. As of December 31, 2013 and 2012, allowance for inventory obsolescence amounted to ₱57.41 million and ₱53.27 million, respectively. Provision for inventory obsolescence is recorded under "Materials and supplies" of cost of coal sales (see Note 20).

Coal pile inventory are stated at cost, which is lower than NRV. The cost of coal inventories recognized as cost of goods sold in the consolidated statements of comprehensive income amounted to ₱8.66 billion, ₱9.83 billion and ₱11.10 billion for each of the three years for the period ended December 31, 2013, 2012 and 2011, respectively (see Note 20).

Spare parts and supplies transferred to Construction in Progress under "Property, plant and equipment" in the consolidated statements of financial position amounted to nil and ₱0.22 billion in 2013 and 2012, respectively (see Note 8). Coal pile inventory at cost included capitalized depreciation of ₱0.12 billion and ₱0.19 billion in 2013 and 2012, respectively (see Note 8).

7. Other Current Assets

This account consists of:

	2013	2012
Advances to suppliers	**₱743,277,544**	₱1,378,306,258
Creditable withholding tax	**505,361,225**	495,459,369
Prepaid rent (Notes 11 and 31)	**4,544,839**	4,510,890
Others	**66,502,130**	57,653,561
	₱1,319,685,738	₱1,935,930,078

Advances to suppliers
Advances to suppliers account represent payments made in advance for the construction in progress and 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 pertains to the amount withheld by the Group's customers from their income payment. This will be claimed as tax credit and will be used against future income tax payable.

Others
Others include prepayments on insurance and taxes.

8. Property, Plant and Equipment

The rollforward of this account follow:

	2013						
	Land	**Mining, Tools and Other Equipment**	**Power Plant and Buildings**	**Roads and Bridges**	**Equipment in Transit and Construction in Progress**	**Mine Properties** (Note 15)	**Total**
At Cost							
At January 1	**₱376,605,100**	**₱15,029,849,283**	**₱18,285,364,211**	**₱365,683,504**	**₱5,758,633,831**	**₱–**	**₱39,816,135,929**
Additions	**206,369**	**1,107,543,469**	**166,401,954**	**–**	**7,623,590,853**	**133,188,944**	**9,030,931,589**
Transfers from Construction in Progress	**–**	**–**	**2,110,514,583**	**461,676,221**	**(2,572,190,804)**	**–**	**–**
Writedown (Note 21)	**–**	**–**	**(564,276,576)**	**–**	**–**	**–**	**(564,276,576)**
Disposals (Note 21)	**–**	**(333,349,414)**	**–**	**–**	**–**	**–**	**(333,349,414)**
At December 31	**376,811,469**	**15,804,043,338**	**19,998,004,172**	**827,359,725**	**10,810,033,880**	**133,188,944**	**47,949,441,528**

(Forward)

	2013						
	Land	**Mining, Tools and Other Equipment**	**Power Plant and Buildings**	**Roads and Bridges**	**Equipment in Transit and Construction in Progress**	**Mine Properties** (Note 15)	**Total**
Accumulated Depreciation							
At January 1	**₱–**	**₱12,780,776,247**	**₱4,019,560,994**	**₱291,043,871**	**₱–**	**₱–**	**₱17,091,381,112**
Depreciation (Notes 20 and 21)	**–**	**1,800,290,010**	**2,210,667,602**	**8,662,091**	**–**	**–**	**4,019,619,703**
Writedown (Note 21)	**–**	**–**	**(120,927,655)**	**–**	**–**	**–**	**(120,927,655)**
Disposals (Note 21)	**–**	**(326,787,456)**	**–**	**–**	**–**	**–**	**(326,787,456)**
At December 31	**–**	**14,254,278,801**	**6,109,300,941**	**299,705,962**	**–**	**–**	**20,663,285,704**
Net Book Value	**₱376,811,469**	**₱1,549,764,537**	**₱13,888,703,231**	**₱527,653,763**	**₱10,810,033,880**	**₱133,188,944**	**₱27,286,155,824**

	2012						
	Land	Mining, Tools and Other Equipment	Power Plant and Buildings	Roads and Bridges	Equipment in Transit and Construction in Progress	Mine Properties	Total
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 from Construction in Progress	–	353,719,808	237,538,046	–	(591,257,854)	–	–
Transfers from inventory (Note 32)	–	–	–	–	223,519,372	–	223,519,372
Writedown (Note 21)	–	–	(420,699,160)	–	–	–	(420,699,160)
Disposals (Note 21)	–	(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 20 and 21)	–	2,092,772,215	947,621,314	8,662,092	–	–	3,049,055,621
Writedown (Note 21)	–	–	(79,552,814)	–	–	–	(79,552,814)
Disposals (Note 21)	–	(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

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, 2013 and 2012. In 2013 and 2012, construction in progress includes capitalized rehabilitation costs for Units 1 and 2 of SCPC's power plant and construction of SLPGC's 2 x 150 megawatt (MW) coal-fired thermal power plant. The rehabilitation of Unit 1 of SCPC power plant was completed in January 2013 and the rehabilitation of Unit 2 of SCPC power plant is expected to be completed in the first quarter of 2014.

The capitalized borrowing cost included in the construction in progress account amounted to ₱101.38 million and ₱11.01 million on December 31, 2013 and 2012, respectively. The average capitalization rate is 3.36% and 3.50% in 2013 and 2012 (see Note 13).

Mine properties pertain to the expected decommissioning and site rehabilitation costs of Panian minesite and dismantling of mining machineries and conveyor belts at the end of its life (see Note 15).

In 2013, 2012 and 2011, the Group sold various equipment at a gain amounting to ₱0.14 million, ₱127.49 million and ₱53.55 million, respectively (see Note 24).

The Group incurred a loss from property, plant and equipment writedown due to the replacement of generation units and retirement of mining equipment amounting to ₱0.45 billion and ₱0.34 billion in 2013 and 2012, respectively (see Note 21).

The cost of fully depreciated assets that are still in use amounted to ₱11.30 billion and ₱7.59 billion as of December 31, 2013 and 2012, respectively.

As security for timely payment, discharge, observance and performance of the loan provisions, SCPC creates, establishes, and constitutes in favor of the Security Trustee, for the benefit of all secured parties, a first ranking real estate and chattel mortgage on present and future real assets and chattels owned by SCPC with carrying values of ₱14.72 billion and ₱16.46 billion as of December 31, 2013 and 2012, respectively.

The construction of SLPGC's coal-fired power plant commenced in the early part of 2012. As of December 31, 2013, the Group expects to spend ₱17.70 billion to complete the power plant in the early part of 2015.

Depreciation and amortization follow:

	2013	2012	2011
Included under:			
Inventories	**₱121,831,125**	₱188,777,615	₱398,219,957
Cost of coal sales (Note 20):			
Depreciation and amortization	**1,114,654,804**	1,322,458,941	1,299,404,980
Hauling and shiploading costs	**114,636,458**	120,679,537	208,060,216
Cost of power sales (Note 20):			
Cost of coal			
Depreciation and amortization	**470,558,388**	413,387,676	300,677,228
Hauling and shiploading costs	**23,554,054**	34,267,091	50,302,452
Depreciation	**1,015,838,969**	928,981,130	776,589,421
Operating expenses (Notes 3 and 21)	**1,162,179,465**	44,910,889	38,230,893
	₱4,023,253,263	₱3,053,462,879	₱3,071,485,147
Depreciation and amortization of:			
Property, plant and equipment	**₱4,019,619,703**	₱3,049,055,621	₱3,066,159,791
Computer software (Note 11)	**3,633,560**	4,407,258	5,325,356
	₱4,023,253,263	₱3,053,462,879	₱3,071,485,147

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 13). 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 ₱517.60 million and ₱508.04 million as of December 31, 2013 and 2012, respectively.

Interest from sinking fund amounted to ₱12.17 million, ₱17.21 million and ₱5.53 million in 2013, 2012 and 2011, respectively (see Note 23).

10. **Exploration and Evaluation Asset**

In 2013, the Parent Company incurred costs related to exploratory drilling and activities in Bobog minesite amounting to ₱348.15 million.

11. **Other Noncurrent Assets and Other Noncurrent Liabilities**

Other Noncurrent Assets

	2013	2012
Input VAT	**₱974,897,425**	₱180,511,524
Advances to contractors (Note 18)	**354,321,064**	826,341,454
Five percent (5%) input value-added tax (VAT) withheld - net of allowance for impairment losses of ₱25.98 million in 2013 and ₱87.52 million in 2012	**164,526,094**	102,976,730
Prepaid rent (Note 31)	**94,450,487**	98,930,629
Capitalized development costs	**37,962,843**	–
Computer software - net	**3,680,929**	2,377,767
Environmental guarantee fund	**1,500,000**	1,500,000
Others	**8,522,345**	31,905,807
	1,639,861,187	1,244,543,911
Less current portion of prepaid rent (Note 7)	**4,544,839**	4,510,890
	₱1,635,316,348	₱1,240,033,021

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. Input VAT is applied against Output VAT. The balance is recoverable in future periods.

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

Five percent (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 dated 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.

In 2012, 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 (see Note 21).

On January 30, 2013, the Supreme Court denied the BIR Commissioner's Petition for Review. Subsequently, the latter filed a Motion for Reconsideration with the Supreme Court.
On June 19, 2013, the Supreme Court denied such petition of Motion for Consideration with finality. On September 18, 2013, Entry of Judgment was issued by the Supreme Court in GR No. 203621. On January 21, 2014, a "Notice of Resolution" was received from the Court of Tax Appeals citing that "It is appearing that the Resolution of the Supreme Court dated January 30, 2013 has already become final and executory and Entry of Judgment was already issued by the Supreme Court on September 19, 2013, herein the Parent Company is entitled as a matter of right to a writ of execution. It, therefore, becomes the ministerial duty of CTA to issue a writ of execution".

Because of the above developments, management reassessed the timeline of collection to be in 5 years (instead of 15 years). A re-estimation of the realizable value was made by the management using discounted cash flows with the assumption of collection in 5 years and discount rate of 2.91%. This resulted to a reversal of ₱61.55 million provision for impairment loss reflected as "Other income" in the consolidated statements of comprehensive income (see Note 24.)

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

	2013	2012
At January 1	**₱87,525,052**	₱40,374,335
Provision (Note 21)	–	47,150,717
Reversal (Note 24)	**(61,549,364)**	–
At December 31	**₱25,975,688**	₱87,525,052

Capitalized development costs
In 2013, SCI has capitalized development expenditures amounting to ₱37.96 million. Development costs for goods, commodities, wares and merchandise including potter earthenware, stoneware, bricks, tiles, roofs and other merchandise produce from clay are recognized as an intangible asset.

Prepaid rent
Prepaid rent under other noncurrent assets pertain to the long-term portion of rent of SCPC to PSALM on December 2, 2009 for the 25 years lease of land. Long-term portion of the prepaid rent amounted to ₱89.91 million and ₱94.42 million in 2013 and 2012, respectively (see Note 31).

Computer software - net
Movements in computer software account follow:

	2013	2012
At Cost		
At January 1	**₱24,847,737**	₱23,795,671
Additions	**4,936,722**	1,052,066
At December 31	**29,784,459**	24,847,737
Accumulated Amortization		
At January 1	**22,469,970**	18,062,712
Amortization (Note 20)	**3,633,560**	4,407,258
At December 31	**26,103,530**	22,469,970
Net Book Value	**₱3,680,929**	₱2,377,767

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.

Other Noncurrent Liabilities

Other noncurrent liabilities pertain to the retention contract payment that is being withheld from the contractors as guaranty for any claims against them. As of December 31, 2013 and 2012, retention payable amounted to ₱723.35 million and ₱57.94 million, respectively.

12. Short-term Loans

Short-term loans represent various unsecured promissory notes from local banks with interest rates ranging from 1.17% to 3.00% and 1.04% to 1.18% in 2013 and 2012, respectively, and are payable within one year.

The carrying amount of these short-term loans as of December 31, 2013 and 2012 amounted to ₱1.66 billion and ₱0.18 billion, respectively.

The interest expense on these short-term loans recognized under "Finance Cost" amounted to ₱101.83 million, ₱30.14 million and ₱30.48 million in 2013, 2012 and 2011, respectively (see Note 22).

13. **Long-term Debt**

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

	2013	2012
Mortgage payable	**₱11,017,948,783**	₱7,404,190,124
Bank loans	**4,790,697,568**	4,775,083,552
	15,808,646,351	12,179,273,676
Less current portion of:		
Mortgage payable	**1,519,639,144**	1,514,248,417
Bank loans	**631,518,875**	3,668,712,959
	2,151,158,019	5,182,961,376
	₱13,657,488,332	₱6,996,312,300

Mortgage Payable

SLPGC

On February 4, 2012, SLPGC entered into an ₱11.50 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 are used for the engineering, procurement and construction of 2 x 150 MW coal-fired thermal power plant.

Breakdown of the syndicated loan is as follows:

BDO	₱6,000,000,000
BPI	3,000,000,000
CBC	2,500,000,000
	₱11,500,000,000

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 ₱550.00 million. While in April and November of 2013, second and third drawdowns were made which amounted to ₱2.89 billion and ₱2.26 billion, respectively. As of December 31, 2013 and 2012, amortization of debt issuance cost recognized as part of “Property, plant and equipment” account in the consolidated statements of financial position amounted to ₱2.33 million and ₱0.24 million, respectively.

Rollforward of debt issuance cost follows:

	2013	2012
At January 1	**₱2,505,839**	₱–
Additions	**25,757,187**	2,750,000
Amortization	**(2,326,784)**	(244,161)
At December 31	**₱25,936,242**	₱2,505,839

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, 2013 and 2012.

Provision in the loan indicates that the borrower shall pay to the lenders, a commitment fee equivalent to one-half (1/2%) per annum of any portion of a scheduled drawdown amount that remains undrawn after the lapse of the relevant scheduled drawdown month. As of December 31, 2013 and 2012, SLPGC has paid commitment fee amounting to ₱6.99 million and ₱2.30 million, respectively and these were recognized under the "Finance costs" account in the consolidated statements of comprehensive income.

The amount of undrawn borrowing facilities that maybe available in the future amounts to ₱5.80 billion.

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. The loan was fully drawn by SCPC on the same date.

Mortgage payable by SCPC was 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 and future real assets. Further, 67% of issued and outstanding shares in SCPC owned by the Parent Company were also pledged on this loan.

Breakdown of the syndicated loan is as follows:

BDO Unibank	₱6,000,000,000
BPI	2,000,000,000
PNB	1,600,000,000
	₱9,600,000,000

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.

Rollforward of the deferred finance cost follows:

	2013	2012
At January 1	**₱55,304,037**	₱82,427,224
Amortization	**(21,751,583)**	(27,123,187)
At December 31	**₱33,552,454**	₱55,304,037

Amortization of debt finance cost recognized under "Finance cost" account in the consolidated statements of comprehensive income amounted to ₱21.75 million, ₱27.12 million and ₱22.42 million for the years 2013, 2012 and 2011, respectively (see Note 22).

As of December 31, 2013, there is no more available borrowing facility that can be drawn.

Local Bank Loans

Parent Company

Loan Type	Dates of Availment	Outstanding Balance 2013	2012	Maturity	Interest Rate	Payment Terms	Covenants/Collaterals
		(In Millions)					
Loan 1	Various availments in 2010, 2011 and 2013	**₱341.68**	₱947.54	Various maturities in 2012, 2013 and 2015	Floating rate payable quarterly and in arrears, to be repriced every 90 days	Interest payable quarterly and in arrears, subject to quarterly setting and principal repayable in bullet at the end of three (3) years from drawdown date	Proceeds of the loans were restricted for the purchase of mining equipment; Unsecured loan
Loan 2	July 2011	–	230.40	July 2013	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 loan
Loan 3	Various availments in 2010, 2011 and 2013	**2,743.31**	2,556.86	Various maturities in 2012, 2013 2014 and 2016	Floating rate to be repriced every 90 days	Interest payable in 90 days; not deducted from proceeds of loans and principal repayable in maturity.	Proceeds of the loan will be used to finance capital expenditures and general corporate purposes Financial Covenants: Current Ratio not less than 1:1 and Debt-Equity Ratio not to exceed 2:1; compliant

(Forward)

Loan Type	Dates of Availment	Outstanding Balance 2013	2012	Maturity	Interest Rate	Payment Terms	Covenants/Collaterals
		(In Millions)					
Loan 4	Various availments in 2011 and 2013	**1,553.83**	1,040.28	Various maturities in 2013, 2014, 2015 and 2016	Floating rate, aggregate of the margin (1.20%) and LIBOR, to be repriced every 90 to 180 days	Interest payable in arrears for the relevant interest period and principal repayable in semi-annual installments commencing on the 12th month after the date of the Agreement until date of final maturity.	Proceeds of the loan were restricted for capital expenditure requirements and refinancing of existing debts Financial Covenants: Current Ratio not less than 1:1, Debt-Equity Ratio not exceeding 2:1, Debt-EBITDA Ratio not exceeding 3:1, compliant
Loan 5	October 2013	**₱151.88**	₱–	September 24, 2015	Floating rate	Interest and principal are payable on the date of maturity	Unsecured loans Current Ratio at least 1.0x; Debt-Equity Ratio at least 2.0x; compliant
		₱4,790.70	₱4,775.08				

Interest expenses on long-term debt recognized under "Finance Cost" amounted to in the consolidated statements of comprehensive income ₱256.78 million, ₱434.42 million and ₱428.64 million in 2013, 2012 and 2011, respectively (see Note 22).

As of December 31, 2013, there is no more available borrowing facility that can be drawn.

The maturities of long-term debt at nominal values as of December 31, 2013 follow:

	2013	2012
	(In Thousands)	
Due in:		
2013	**₱–**	₱5,182,555
2014	**2,146,129**	2,625,603
2015	**3,149,752**	1,545,013
2016	**5,111,266**	1,611,596
2017	**1,608,188**	848,459
2018	**841,652**	81,238
2019	**842,398**	81,299
2020	**843,144**	81,359
2021	**843,891**	81,420
2022	**422,226**	40,732
	₱15,808,646	₱12,179,274

14. **Trade and Other Payables**

This account consists of:

	2013	2012
Trade:		
Payable to suppliers and contractors	**₱3,256,554,439**	₱4,417,579,065
Related parties (Note 18)	**878,822,345**	709,496,525
Payable to DOE and local government units (LGU) (Note 27)	**877,947,530**	1,007,849,324
Output VAT Payable	**738,950,745**	489,766,685
Accrued expenses and other payables	**432,381,485**	188,453,616
	₱6,184,656,544	₱6,813,145,215

Trade payable to suppliers and contractors
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$7.75 million) and ₱468.08 million (US$10.68 million) as of December 31, 2013 and 2012, 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- to 60-day credit terms.

Payable to DOE and LGU
Payable to DOE and LGU represent the share of DOE and LGU in the gross revenue of the Parent Company's coal production computed in accordance with the Coal Operating Contract (COC) between the Parent Company, DOE and LGU dated July 11, 1977 and as amended on January 16, 1981 (see Note 27).

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

Accrued expenses and other payables
Details of the accrued expenses and other payables account follow:

	2013	2012
Withholding and other taxes	**₱93,592,713**	₱57,750,472
Shipping cost	**89,536,340**	–
Interest	**63,514,926**	47,372,794
Financial benefit payable	**43,588,841**	13,590,642
Salaries and wages	**31,682,830**	11,641,106
Rental (Note 18)	**27,933,675**	15,259,799
Professional fees	**3,279,972**	8,538,640
Real property tax	**–**	12,745,030
Others	**79,252,188**	21,555,133
	₱432,381,485	₱188,453,616

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.

15. Provision for Decommissioning and Site Rehabilitation

	2013	2012
At January 1	**₱62,448,101**	₱47,582,228
Additions (Note 8)	**133,188,944**	5,265,925
Accretion of interest (Note 22)	**867,006**	9,599,948
At December 31	**₱196,504,051**	₱62,448,101

Discount rates used by the Group to compute for the present value of liability for decommissioning and site rehabilitation cost are from 5.79% to 8.77% in 2012 and 3.63% to 4.63% in 2013.

Additions pertain to the effects of changes in estimates as to the extent and costs of rehabilitation activities, cost increases and changes in discount rates based on relative prevailing market rates.

16. Capital Stock

The details of the Parent Company's capital stock as of December 31, 2013 and 2012 are as follows:

	Shares	Amount
Capital 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, 2013, 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 shares from capital restructuring	(1,625,852,920)			
Share dividends	225,000,000	₱1/share	July 2, 2004	
Public offering additional issuance	46,875,000	₱36/share	February 4, 2005	
December 31, 2010	296,875,000			632
Add: Share rights offering	59,375,000	₱74/share	June 10, 2010	7

(Forward)

	Number of shares registered	Issue/offer price	Date of approval	Number of holders as of year - end
December 31, 2011	356,250,000			639
Add: Movement	–			24
December 31, 2012	356,250,000			663
Add: Movement	–			–
December 31, 2013	356,250,000			663

Share Rights Offering

On June 10, 2010, the Parent Company offered for subscription 59.38 million Rights Shares to eligible existing common shareholders at the Offer Price of ₱74.00 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 ₱74.00 per Rights Share. Net proceeds from the share 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 share rights offering on June 10, 2010.

Shares Held in Treasury

The number of shares held in treasury is 19.30 million 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 ₱67.00 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 the Parent Company's 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

Retained earnings amounting to ₱13.10 billion and ₱9.86 billion as of December 31, 2013 and 2012, respectively, include the accumulated equity in undistributed net earnings of subsidiaries. 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, 2013 amounted to ₱5.10 billion.

Cash Dividends

On April 30, 2013, 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 17, 2013. The said cash dividends were paid on May 29, 2013.

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.

Appropriations
On August 8, 2013, the BOD approved the appropriation of ₱1.60 billion from the unappropriated retained earnings as of December 31, 2012, as additional capital expenditure and investment in power expansion projects of the Parent Company. This appropriation is intended for the ongoing construction of 2 X 150 MW coal-fired power plant in Calaca, Batangas owned by SLPGC (a wholly subsidiary of the Parent Company). The project is expected to be completed on the first quarter of 2015.

On March 12, 2013, the BOD 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.

18. 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:

	2013			
	Amount/ Volume	**Receivable (Payable)**	**Terms**	**Conditions**
Trade receivables (see Note 5)				
Entities under common control				
a.) Transfer of materials and reimbursement of shared expenses	**₱2,218,766**	**₱66,138,357**	**non-interest bearing, due and demandable**	**Unsecured, no impairment**
b.) Reimbursements of shared expenses	**30,000**	**8,717,043**	**non-interest bearing, due and demandable**	**Unsecured, no impairment**
c.) Reimbursements of expenses	**698,212**	**698,212**	**non-interest bearing, due and demandable**	**Unsecured, no impairment**
	₱2,946,978	**₱75,553,612**		
Advances to contractors - noncurrent (see Note 11)				
Entities under common control				
d.) Construction and outside services	**₱485,323,247**	**₱354,321,064**	**non-interest bearing, recoupment**	**Unsecured, no impairment**
	₱485,323,247	**₱354,321,064**		

(Forward)

	2013			
	Amount/ Volume	**Receivable (Payable)**	**Terms**	**Conditions**
Trade payables (see Note 14)				
Entities under common control				
d.) Construction and other outside services	**₱4,081,677,695**	**(₱852,473,055)**	**30 days, non-interest bearing**	**Unsecured**
e.) Mine exploration and hauling services	**554,092,099**	**(20,138,858)**	**30 days, non-interest bearing**	**Unsecured**
f.) Purchases of office supplies and refreshments	**5,659,359**	**(2,726,026)**	**30 days, non-interest bearing**	**Unsecured**
g.) Office, parking and warehouse rental expenses	**7,380,000**	**(1,944,397)**	**30 days, non-interest bearing**	**Unsecured**
h.) Aviation services	**6,890,000**	**(1,540,009)**	**30 days, non-interest bearing**	**Unsecured**
	₱4,655,699,153	**(₱878,822,345)**		
Other noncurrent liabilities (see Note 11)				
Entities under common control				
d.) Retention payable	**₱2,979,130,602**	**(₱487,676,475)**	**non-interest bearing**	**Unsecured**
	₱2,979,130,602	**(₱487,676,475)**		

	2012			
	Amount/ Volume	Receivable (Payable)	Terms	Conditions
Trade receivables (see Note 5)				
Entities under common control				
a.) Transfer of materials and reimbursement of shared expenses	₱8,130,000	₱81,240,459	non-interest bearing, due and demandable	Unsecured, no impairment
b.) Reimbursements of shared expenses	190,000	8,763,493	non-interest bearing, due and demandable	Unsecured, no impairment
c.) Reimbursements of expenses	–	–	non-interest bearing, due and demandable	Unsecured, no impairment
	₱8,320,000	₱90,003,952		
Advances to contractors - noncurrent (see Note 11)				
Entities under common control				
d.) Construction and outside services	₱913,249,885	₱826,341,454	non-interest bearing, recoupment	Unsecured, no impairment
	₱913,249,885	₱826,341,454		
Trade payables (see Note 14)				
Entities under common control				
d.) Construction and other outside services	₱4,549,776,595	(₱653,025,154)	30 days, non-interest bearing	Unsecured
e.) Mine exploration and hauling services	361,132,979	(41,205,122)	30 days, non-interest bearing	Unsecured
f.) Purchases of office supplies and refreshments	3,268,946	(13,036,733)	30 days, non-interest bearing	Unsecured
g.) Office, parking and warehouse rental expenses	7,510,000	(1,778,402)	30 days, non-interest bearing	Unsecured
h.) Aviation services	2,630,000	(451,114)	30 days, non-interest bearing	Unsecured
	₱4,924,318,520	(₱709,496,525)		
Other noncurrent liabilities (see Note 11)				
Entities under common control				
d.) Retention payable	₱2,544,550,350	(₱57,938,954)	non-interest bearing	Unsecured
	₱2,544,550,350	(₱57,938,954)		

a. Due from DMCI Power Corporation (DMCI-PC) pertains to materials issuances, contracted services and various services provided by the Parent Company. All outstanding balances from DMCI-PC are included in receivables under "Trade receivable - related parties" in the consolidated statements of financial position.

   SCPC engaged DMCI-PC for the management, operation and maintenance of the power plant. The agreement was entered into in 2011 and is effective for a period of 10 years from January 1, 2011 and maybe renewed for another 10 years.

b. Due from DMCI Mining Corporation (DMCI-MC) pertains to the contracted services incurred by DMCI-MC during the year, which are initially paid by the Parent Company. All outstanding balance from DMCI-MC is included in receivables under "Trade receivable - related parties" in the consolidated statements of financial position.

c. Due from DMCI Masbate Power Corporation (DMCI-MPC) pertains to the security contracted services incurred during the year, which are initially paid by the Parent Company. The outstanding balance from DMCI-MPC is included in receivables under "Trade receivable - related parties" in the consolidated statements of financial position.

d. Dacon Corporation, a shareholder of DMCI-HI, provided maintenance of the Parent Company's accounting system, Navision, to which related expenses are included in operating expenses under "Office expenses" in the consolidated statements of comprehensive income (see Note 21).

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

   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 consolidated statements of comprehensive income (see Note 20).

   The Parent Company engaged the services of DMCI for the construction of its 1 x 15 MW Power Plant located at Semirara Island, to which the related cost are capitalized as part of property, plant and equipment in the consolidated statements of financial position. 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 consolidated statements of comprehensive income (see Note 20). All outstanding balances to DMCI are lodged in trade and other payables under "Trade payable - related parties" in the consolidated statements of financial position.

   SCPC engaged DMCI in the ongoing rehabilitation of the power plant. Cost of construction services provided by DMCI is capitalized as part of property, plant and equipment "Equipment in transit and construction in progress" account and outstanding balance are included in the "Trade payable - related parties" account.

   SCPC also engaged DMCI for transfer of equipment and hauling services. The said rentals are included in the operating expenses of the consolidated statements of comprehensive income.

SLPGC engaged DMCI in the construction of the 2 x 150 MW coal-fired power plant. Advance payments for construction and retention payable are recorded under “Advances to contractors” and “Other noncurrent liabilities”, respectively. Outstanding balances to DMCI are included under “Trade payable - related parties” account.

e. 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 consolidated statements of comprehensive income (see Note 20).

   DMC-CERI also provides 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 consolidated statements of comprehensive income (see Note 20).

   Furthermore, DMC-CERI provides the Parent Company labor services relating to coal operations including those services rendered by consultants. Expenses incurred for said services are included in cost of sales under “Direct labor” in the consolidated 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 to DMC-CERI are included in trade and other payables under “Trade payable - related parties” in the consolidated statements of financial position.

f. Prominent Fruits, Inc. supplies various office supplies and refreshments to the Parent Company. The outstanding balance to Prominent Fruits, Inc. is lodged in trade and other payables under “Trade payable - related parties” in the consolidated statements of financial position.

   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 - related parties” in the consolidated statements of financial position.

g. 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 expenses” in the consolidated statements of comprehensive income (see Note 21). The outstanding balance to Asia Industries, Inc. is lodged in trade and other payables under “Trade payable - related parties” in the consolidated statements of financial position.

   DMC Urban Property Developers, Inc. (DMC-UPDI) 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 consolidated statements of comprehensive income

(see Note 20). The outstanding balance to DMC-UPDI is lodged in trade and other payables under "Trade payable - related parties" in the consolidated statements of financial position.

h. Royal Star Aviation Inc. transports the Parent Company's visitors and employees from Manila to Semirara Island and vice versa and bills the related party for the utilization costs of the aircrafts. The related expenses are included in cost of sales under "Production overhead" in the consolidated statements of comprehensive income (see Note 20). The outstanding balance to Royal Star Aviation, Inc. is lodged in trade and other payables under "Trade payable - related parties" in the consolidated 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. As of December 31, 2013 and 2012, there were no impairment losses recognized on related party balances.

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

	2013	2012	2011
Short-term employee benefits	**₱127,093,393**	₱108,719,349	₱93,866,643
Post-employment benefits	**4,018,829**	3,434,897	2,346,104
	₱131,112,222	₱112,154,246	₱96,212,747

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.

19. 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, 2013.

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

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

Under the existing regulatory framework, Republic Act 7641 requires a provision for retirement pay to qualified private sector employees in the absence of any retirement plan in the entity, provided however that the employee's retirement benefits under any collective bargaining and other agreements shall not be less than those provided under the law. The law does not require minimum funding of the plan.

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

There are no plan amendments, curtailments or settlements.

The cost of defined benefit pension plans and the present value of the pension liabilities are determined using actuarial valuations. The actuarial valuation involves making various assumptions. The principal assumptions used in determining pension and post-employment medical benefit liabilities for the defined benefit plans are shown below:

	2013	2012	2011
Discount rate	**4.26% - 5.07%**	4.69%	6.75%
Salary increase rate	**3.00%**	3.00%	3.00%

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

	2013	2012 (As restated)	2011 (As restated)
Current service cost	**₱18,225,767**	₱7,778,179	₱5,597,830
Interest expense related to the defined benefit liability	**4,722,795**	4,371,758	4,405,686
Interest income related to plan assets	**(3,008,719)**	(3,863,820)	(3,473,150)
	₱19,939,843	₱8,286,117	₱6,530,366

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

The following tables provide analyses of the movement in the net asset (liability) recognized on consolidated statements of financial position:

	December 31		January 1
	2013	2012 (As restated)	2012 (As restated)
Defined benefit liability at beginning of year	**₱100,699,245**	₱64,766,789	₱54,391,181
Current service cost	**18,225,767**	7,778,179	5,597,830
Interest expense	**4,722,795**	4,371,758	4,405,686
Remeasurement of defined benefit liability:			
Arising from changes in financial assumptions	**(1,300,506)**	3,592,053	2,711,835
Experience gains (losses)	**(11,453,532)**	23,625,344	(2,339,743)
Benefits paid	**(6,857,636)**	(3,434,878)	–
Defined benefit liability at end of year	**₱104,036,133**	₱100,699,245	₱64,766,789

	December 31		January 1
		2012	2012
	2013	(As restated)	(As restated)
Fair value of plan assets at beginning of year	**₱64,151,770**	₱57,994,669	₱28,646,138
Return on plan assets (excluding amounts included in interest income)	**5,230,282**	3,799,071	(2,589,145)
Interest income	**3,008,719**	3,863,820	3,473,150
Employer contributions	**–**	–	28,464,526
Benefits paid	**–**	(1,505,790)	–
Fair value of plan assets at end of year	**₱72,390,771**	₱64,151,770	₱57,994,669

	December 31		January 1
		2012	2012
	2013	(As restated)	(As restated)
Net pension liability at beginning of year	**₱36,547,475**	₱6,772,120	₱25,745,043
Net periodic pension cost	**19,939,843**	8,286,117	6,530,366
Amounts recognized in other comprehensive income	**(17,984,320)**	23,418,326	2,961,237
Employer contributions	**–**	–	(28,464,526)
Benefit payments	**(6,857,636)**	(1,929,088)	–
Net pension liability at end of year	**₱31,645,362**	₱36,547,475	₱6,772,120

The Group does not expect any contribution into the pension fund in 2014.

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

	December 31		January 1
		2012	2012
	2013	(As restated)	(As restated)
Cash and cash equivalents	**₱8,067,400**	₱880,539	₱1,297,706
Equity instruments			
Financial institutions	**–**	1,552,500	1,575,000
Debt instruments			
Government securities	**56,597,922**	52,542,707	46,218,086
Not rated debt securities	**6,664,858**	8,106,243	7,882,707
Interest receivable	**1,060,591**	1,069,781	1,021,170
Fair value of plan assets	**₱72,390,771**	₱64,151,770	₱57,994,669

Trust fee in 2013 and 2012 amounted to ₱35,878 and ₱32,220, respectively.

The composition of the fair value of the Fund includes:

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

Investments in debt securities - not rated - include investment in long-term debt notes and retail bonds

Cash and cash equivalents - include savings and time deposit with affiliated bank and special deposit account with Bangko Sentral ng Pilipinas

Investment in equity securities - includes investment in common and preferred shares traded in the Philippine Stock Exchange

Interest receivables - pertain to interest and dividends receivable on the investments in the fund

The management performs a study of how to match its existing assets versus the pension liabilities to be settled. The overall investment policy and strategy of the Group's defined benefit plans is guided by the objective of achieving an investment return which, together with contributions, ensures that there will be sufficient assets to pay pension benefits as they fall due while also mitigating the various risk of the plans. The Group's current strategic investment strategy consists of 88% of debt instruments, 11% cash and 1% others.

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit liability as of the end of reporting date, assuming if all other assumptions were held constant:

	Increase (Decrease)	Effect on Defined Benefit Liability
Discount rates	+0.5% to 1%	(₱2,711,720)
	-0.5% to 1%	3,182,044
Future salary increases	+1%	3,890,344
	-1%	(3,566,847)

Shown below is the maturity analysis of the undiscounted benefit payments:

	2013	2012
Less than 1 year	**₱26,914,286**	₱3,434,897
More than 1 year to 5 years	**19,898,958**	43,940,115
More than 5 years to 10 years	**62,951,470**	65,824,599
	₱109,764,714	₱113,199,611

The Group has no other transactions with the fund.

20. Cost of Sales

Cost of coal sales consists of:

	2013	2012	2011
Materials and supplies (Note 18)	**₱3,025,232,354**	₱3,120,735,226	₱4,121,638,177
Fuel and lubricants	**2,453,660,298**	3,043,331,610	3,257,328,929
Depreciation and amortization (Notes 8 and 11)	**1,114,654,804**	1,322,458,941	1,299,404,980
Outside services (Note 18)	**739,853,180**	966,478,901	842,386,090
Direct labor (Note 18)	**502,288,609**	450,134,214	419,722,649
Hauling and shiploading costs (Note 18)	**456,329,361**	547,620,380	802,772,100
Production overhead (Note 18)	**372,852,892**	374,395,481	357,901,033
	₱8,664,871,498	₱9,825,154,753	₱11,101,153,958

Cost of power sales consists of:

	2013	2012	2011
Coal	**₱3,761,855,398**	₱3,304,807,016	₱2,883,154,698
Depreciation (Note 8)	**1,015,838,969**	928,981,130	776,589,421
Bunker	**230,027,758**	238,254,696	234,071,851
Spot purchases	**229,196,883**	130,367,456	1,500,978,204
Diesel	**79,255,223**	115,632,253	113,440,407
Market fees	**54,891,500**	24,796,252	22,015,982
Lube	**42,361,584**	25,721,138	22,661,500
Imported coal	**22,785,241**	44,523,109	–
Coal handling expense	**3,868,304**	864,921	2,107,676
Others	**5,543,770**	4,838,132	4,445,765
	₱5,445,624,630	₱4,818,786,103	₱5,559,465,504

In 2013, 2012 and 2011, SCPC purchased power from the spot market in the amount of ₱0.23 billion, ₱0.13 billion and ₱1.50 billion, respectively.

The cost of depreciation that was charged to cost of coal and cost of power amounted to ₱1.11 billion and ₱1.02 billion, respectively, in 2013, ₱1.32 billion and ₱0.93 billion, respectively, in 2012, ₱1.30 billion and ₱0.78 billion, respectively, in 2011 (see Note 8).

The cost of coal on power sales consists of:

	2013	2012	2011
Materials and supplies (Note 18)	**₱1,240,351,874**	₱1,089,654,743	₱1,081,921,445
Fuel and lubricants	**1,151,390,027**	1,011,501,357	857,934,671
Depreciation and amortization (Notes 8 and 11)	**470,558,388**	413,387,676	300,677,228
Outside services (Note 18)	**350,983,612**	308,340,694	193,919,023
Hauling and shiploading costs	**244,635,094**	214,913,039	247,783,329
Direct labor (Note 18)	**165,560,645**	145,445,777	109,113,311
Production overhead (Note 18)	**138,375,758**	121,563,730	91,805,691
	₱3,761,855,398	₱3,304,807,016	₱2,883,154,698

21. **Operating Expenses**

	2013	2012 (As restated)	2011 (As restated)
Government share (Note 27)	**₱1,304,961,185**	₱1,557,950,322	₱1,479,972,809
Depreciation (Note 8)	**1,162,179,465**	44,910,889	38,230,893
Repairs and maintenance	**648,067,215**	148,671,287	52,485,703
Loss on disposal and writedown of property, plant and equipment (Note 8)	**449,910,879**	341,146,346	–
Provision for doubtful accounts (Note 5)	**443,650,080**	59,360,961	5,004,512
Operation and maintenance (Note 18)	**379,359,691**	437,180,259	500,743,201
Taxes and licenses	**230,472,304**	237,515,006	334,393,508
Personnel costs (Notes 18 and 19)	**204,402,527**	133,222,394	193,593,533
Office expenses (Note 18)	**104,302,257**	75,703,636	62,589,739
Insurance and bonds	**59,270,251**	56,282,680	61,394,404

(Forward)

	2013	2012 (As restated)	2011 (As restated)
Professional fees	**₱42,424,740**	₱46,893,228	₱29,987,831
Marketing	**40,214,509**	81,102,894	36,359,343
Entertainment, amusement and recreation	**23,676,815**	35,484,183	16,542,752
Transportation and travel	**21,248,174**	15,885,235	34,221,417
Provision for impairment losses (Note 11)	–	47,150,717	–
Others	**150,377,541**	79,915,264	10,738,564
	₱5,264,517,633	₱3,398,375,301	₱2,856,258,209

Others pertain to various expenses such as advertising and utilities.

22. Finance Costs

	2013	2012	2011
Interest on:			
Long-term debt (Note 13)	**₱256,780,451**	₱434,421,267	₱428,635,398
Amortization of debt issuance cost (Note 13)	**21,751,583**	27,123,187	22,415,490
Short-term loans (Note 12)	**101,830,303**	30,135,631	30,478,806
Accretion of cost of decommissioning and site rehabilitation (Note 15)	**867,006**	9,599,948	1,758,087
	₱381,229,343	₱501,280,033	₱483,287,781

23. Finance Income

	2013	2012	2011
Interest on:			
Cash in banks (Note 4)	**₱7,103,842**	₱14,611,540	₱14,959,769
Cash equivalents and temporary investments (Note 4)	**6,667,777**	49,090,080	108,389,881
Investment in sinking fund (Note 9)	**12,173,043**	17,214,589	5,525,696
Accretion on security deposits (Note 31)	–	–	168,856
Others	**859,904**	1,228,108	5,832,479
	₱26,804,566	₱82,144,317	₱134,876,681

24. Other Income

	2013	2012	2011
Reversal of allowance for impairment losses (Note 11)	**₱61,549,364**	₱–	₱–
Recoveries from insurance claims	**10,632,170**	41,545,855	35,179,622
Gain on sale of equipment (Note 8)	**135,073**	127,491,090	53,547,507
Reversal of allowance for doubtful accounts (Note 5)	**–**	9,552,129	7,892,343
Miscellaneous	**208,892,151**	139,859,194	3,285,825
	₱281,208,758	₱318,448,268	₱99,905,297

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

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

25. Income Tax

The provision for income tax consists of:

	2013	2012 (As restated)	2011 (As restated)
Current	**₱11,708,917**	₱8,733,128	₱1,749,743
Final	**5,074,275**	15,412,170	21,011,803
Deferred	**(134,621,496)**	15,458,968	(44,656,060)
	(₱117,838,304)	₱39,604,266	(₱21,894,514)

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:

	2013	2012	2011
Statutory income tax rate	**30.00%**	30.00%	30.00%
Adjustments for:			
Nondeductible expense	**0.07**	0.03	0.16
Nondeductible interest expense	**0.03**	0.08	0.19
Movement in unrecognized deferred tax assets	**0.90**	0.52	0.26
Interest income already subjected to final tax at a lower rate - net of nondeductible interest expense	**(0.03)**	(0.14)	(0.29)
Tax-exempt income	**(33.81)**	(29.97)	(30.68)
Movement in unrecognized deferred tax liabilities	**1.25**	–	–
Derecognized deferred tax assets	–	0.10	–
Effective income tax rate	**(1.59%)**	0.62%	(0.36%)

The components of net deferred tax assets as of December 31, 2013 and 2012 follow:

	2013	2012
Unrealized foreign exchange loss	**₱91,779,812**	₱–
Allowance for inventory obsolescence	**17,222,137**	–
Pension liabilities	**10,943,912**	9,210,105
Allowance for doubtful accounts	**10,667,586**	–
Allowance for impairment losses	**7,792,706**	–
Provision for decommissioning and site rehabilitation	**1,518,675**	1,518,675
NOLCO	**32,524**	19,363
	₱139,957,352	₱10,748,143

In 2013 and 2012, 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 have not been recognized:

	2013	2012
Allowance for doubtful accounts	**₱467,430,619**	₱118,700,123
Allowance for impairment losses	–	87,525,052
Allowance for inventory obsolescence	–	53,286,925
Provision for decommissioning and site rehabilitation	–	51,738,030
NOLCO	**72,444,443**	23,920,970
Pension liability	–	29,738,312
Organizational costs	–	20,170
	₱539,875,062	₱364,929,582

The breakdown of the Group's NOLCO as of December 31, 2013 follows:

Year incurred	Amount	Utilized	Balance	Year of Expiration
2013	₱48,523,473	₱–	₱48,523,473	2016
2012	23,890,970	–	23,890,970	2015
2011	30,000	–	30,000	2014
	₱72,444,443	₱–	₱72,444,443	

The above NOLCO pertains to SLPGC.

Board of Investments (BOI) Incentives

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. The Parent Company's ITH of 6 years is expected to lapse in September 2014. The Parent Company has a pending application with BOI for another extension, the period of which is still to be determined.

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 ₱1.48 billion, ₱1.47 billion and ₱1.35 billion in 2013, 2012 and 2011, 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 incentive s 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.

On December 17, 2013, BOI approved SCPC's request for the extension for one (1) year of the ITH for the period January 1 to December 31, 2014.

SCPC availed of tax incentive in the form of ITH on its income under registered activities amounting to ₱5.02 billion and ₱2.53 billion in 2013 and 2012, respectively.

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

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

b. For the first five (5) years from date of registration, the enterprise shall be allowed an additional deduction from taxable income of 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; and

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

26. Basic/Diluted Earnings Per Share

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

	2013	2012 (As restated)	2011 (As restated)
Net income	**₱7,519,591,282**	₱6,358,640,007	₱6,031,777,710
Divided by the weighted average number of common shares outstanding	**356,250,000**	356,250,000	356,250,000
Basic/diluted earnings per share	**₱21.11**	₱17.85	₱16.93

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.

27. 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.

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

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

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 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 ₱1.30 billion, ₱1.56 billion and ₱1.48 billion in 2013, 2012 and 2011, respectively, included under "Operating expenses" in the consolidated statements of comprehensive income (see Note 21). The liabilities, amounting to ₱0.88 billion and ₱1.01 billion as of December 31, 2013 and 2012 are included under the "Trade and other payables" account in the consolidated statements of financial position (see Note 14).

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.

28. **Contingencies and Commitments**

a. 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 periods January to June 2010 beyond the 169,000 kW Manila Electric Company (MERALCO) allocation of SCPC, as provided under the Schedule W of the APA.

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

SCPC has likewise sought to recover interest on the withheld MERALCO payments collected by PSALM that is unpaid to SCPC as of due date, to be charged at the rate of 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 on February 23, 2011, without prejudice to the result of any further discussions between the parties for amicable settlement. The ERC set the next hearing for the presentation of witnesses on March 22 and 23, 2011.

In 2010, SCPC 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 denied by ERC in an order dated February 13, 2012 due to the lack of merit.

On April 24, 2012, SCPC and PSALM each filed their Compliance submitting the reconciled computations of the over-nominations and other MERALCO payments withheld by PSALM, as agreed upon by the parties, in the principal amount of ₱476 million.

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

On December 18, 2013, PSALM field its Comment to SCPC's Motion for Issuance of Writ of Execution essentially arguing that the Commission on Audit must first verify and confirm, through the proper proceeding, the claim against PSALM before PSALM can remit the Principal Amount pursuant to the ERC's judgment.

As of December 31, 2013, decision of Supreme Court regarding the case is still pending resolution.

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

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

PSALM subsequently filed a Motion for Reconsideration dated September 26, 2012 and seeking the reconsideration of the Decision dated September 4, 2012. SCPC filed its Opposition to PSALM's Motion for Reconsideration on November 5, 2012. Subsequently, the Court of Appeals issued a Resolution denying the Motion for Reconsideration filed by PSALM on November 27, 2012.

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

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

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

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

PSALM's Petition has not yet been resolved as of December 31, 2013.

b. Operating Lease Commitment - as a Lessee

As discussed in Notes 7 and 10, 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. In 2009, 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. 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 (dollar). Valuation basis for (i) to (iii) shall be based on the receipt of PSALM of the option to exercise notice.

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

On July 12, 2010, PSALM issued an Option Existence Notice and granted SCPC the "Option" to purchase parcels of land (Optioned Assets) that form part of the leased premises. SCPC availed of the "Option" and paid the Option Price amounting to US$0.32 million (₱14.72 million) exercisable within one year from the issuance of the Option Existence Notice (see Note 7).

On April 28, 2011, SCPC sent a letter to PSALM requesting for the assignment of the option to purchase a lot with an area of 82,740 sqm in favor of its Parent Company. On May 5, 2011, PSALM approved the assignment. On June 1, 2011, SCPC exercised the land lease option at a purchase price of ₱292.62 million and is included as part of "Property, plant and equipment" (see Note 8).

On October 12, 2011, SCPC reiterated its proposal to purchase the remainder of the Leased Premises not identified as Optioned Assets. One of the salient features of the proposal included the execution of Contract to Sell (CTS) between SCPC and PSALM.

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

On February 24, 2012, SCPC sent a letter to PSALM for its proposal to handle the titling of Calaca Land.

As of the December 31, 2013, PSALM is pending for any response in connection therewith.

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.

29. **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 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, 2013 and 2012.

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 and to the export market (as a percentage of total coal sales volume):

	2013	2012
Domestic market	**55.43%**	55.83%
Export market	**44.57**	44.17

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, 2013 and 2012 with all other variables held constant. The change in coal prices used in the simulation assumes fluctuation from the lowest and highest price based on 1-year historical price movements in 2013 and 2012.

	Effect on income before income tax	
Change in coal price	**2013**	2012
Based on ending coal inventory		
Increase by 42% in 2013 and 30% in 2012	**₱1,022,494,329**	₱1,053,008,837
Decrease by 42% in 2013 and 30% in 2012	**(1,022,494,329)**	(1,053,008,837)
Based on coal sales volume		
Increase by 42% in 2013 and 30% in 2012	**5,643,685,176**	4,335,046,600
Decrease by 42% in 2013 and 30% in 2012	**(5,643,685,176)**	(4,335,046,600)

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

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

	2013						
	Interest	**Within 1 year**	**1-2 years**	**2-3 years**	**3-4 years**	**More than 4 years**	**Carrying Value**
				(In Thousands)			
Cash in banks and cash equivalents	**1.00% to 4.63%**	**₱4,812,938**	**₱–**	**₱–**	**₱–**	**₱–**	**₱4,812,938**
Foreign long-term debt at floating rate							
$7.70 million loan (USD)	**Floating rate payable quarterly and in arrears, to be repriced every 90 days**	**₱–**	**₱341,683**	**₱–**	**₱–**	**₱–**	**₱341,683**
$61.79 million loan (USD)	**Floating rate to be repriced every 90 days**	**529,410**	**716,336**	**1,497,566**	**–**	**–**	**2,743,312**
$35.00 million loan (USD)	**Floating rate, aggregate of the margin (1.20%) and LIBOR, to be repriced every 90 to 180 days**	**102,109**	**208,657**	**1,243,060**	**–**	**–**	**1,553,826**
$3.42 million loan (USD)	**Floating rate**	**–**	**151,878**	**–**	**–**	**–**	**151,878**
Mortgage payable at floating rate	**PDST-F benchmark yield for three-month treasury securities + 1.00%**	**(5,029)**	**206,150**	**840,161**	**840,907**	**3,793,311**	**5,675,500**
	PDST-F benchmark yield for 3-month treasury securities +1.75%	**1,519,639**	**1,525,049**	**1,530,478**	**767,281**	**–**	**5,342,447**
		₱2,146,129	**₱3,149,753**	**₱5,111,265**	**₱1,608,188**	**₱3,793,311**	**₱15,808,646**

	Interest	2012 Within 1 year	1-2 years	2-3 years	3-4 years	More than 4 years	Carrying Value
				(In Thousands)			
Cash in banks and cash equivalents	1.25% to 4.62%	₱520,353,153	₱–	₱–	₱–	₱–	₱520,353,153
Foreign long-term debt at floating rate							
$23.08 million loan (USD)	1.32-1.95% p.a. payable semi-annually, to be repriced every 3 months	₱631,604	₱315,938	₱–	₱–	₱–	₱947,542
$5.62 million loan (USD)	1.80% p.a. for 92 days, to be repriced every 30 to 180 days	–	230,404	–	–	–	230,404
$62.29 million loan (USD)	1.16-1.61% p.a., to be repriced every 3 months	1,996,833	560,028	–	–	–	2,556,861
$25.34 million loan (USD)	1.03%-1.10% payable in 3-4 months, principal to be paid at maturity	1,040,276	–	–	–	–	1,040,276
Mortgage payable at floating rate	PDST-F benchmark yield for three-month treasury securities + 1.00%	–	–	20,230	81,118	446,147	547,495
	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	₱1,545,279	₱1,611,596	₱1,213,428	₱12,179,273

The following table demonstrates the sensitivity of the Group's income before tax to a reasonably possible change in interest rates on December 31, 2013 and 2012, with all variables held constant, through the impact on floating rate borrowings.

	Effect on Income Before Tax	
Basis points (in thousands)	**2013**	2012
+100	**(₱158,086)**	(₱121,793)
-100	**158,086**	121,793

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

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

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

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

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

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

The tables below summarize the maturity profile of the Group's financial assets and liabilities as of December 31, 2013 and 2012 based on undiscounted contractual payments:

	2013					
	Less than 6 months	**6-12months**	**1-2 years**	**2-3 years**	**More than 3 years**	**Total**
Assets						
Cash in banks and cash equivalents	**₱4,812,937,791**	**₱–**	**₱–**	**₱–**	**₱–**	**₱4,812,937,791**
Receivables:						
Trade receivables - outside parties	**3,788,916,339**		**7,440**	**30,240,190**	**77,378,346**	**3,896,542,315**
Trade receivables - related parties	**75,553,612**	–	–	–	–	**75,553,612**
Others*	**48,948,283**	–	–	–	–	**48,948,283**
Environmental guarantee fund	–	–	–	–	**1,500,000**	**1,500,000**
Investment in sinking fund	–	–	–	–	**517,603,224**	**517,603,224**
	8,726,356,025	–	**7,440**	**30,240,190**	**596,481,570**	**9,353,085,225**
Liabilities						
Trade and other payables:						
Trade:						
Payable to suppliers and contractors	**3,256,554,439**	**–**	**–**	**–**	**–**	**3,256,554,439**
Related parties	**878,822,345**	**–**	**–**	**–**	**–**	**878,822,345**
Accrued expenses and other payables**	**338,788,772**	**–**	**–**	**–**	**–**	**338,788,772**
Short-term loans	**1,655,079,934**	**–**	**–**	**–**	**–**	**1,655,079,934**
Long-term debt at floating rate						
$7.70 million loan (USD) with interest payable in arrears	**1,756,419**	**1,756,419**	**345,195,455**	**–**	**–**	**348,708,293**
$61.79 million loan (USD) with interest payable in arrears	**17,139,530**	**546,549,905**	**743,999,781**	**1,516,278,852**	**–**	**2,823,968,068**
$35.00 million loan (USD) with interest payable in arrears	**9,322,950**	**111,431,450**	**226,077,098**	**1,257,976,720**	**–**	**1,604,808,218**
$3.42 million loan (USD) with interest payable in arrears	**1,260,873**	**1,260,873**	**154,399,338**	**–**	**–**	**156,921,084**
PDST-F benchmark yield for 3-month treasury securities + 1.00%	**104,473,270**	**104,473,270**	**208,946,540**	**875,004,071**	**4,851,931,386**	**6,144,828,537**
PDST-F benchmark yield for 3-month treasury securities + 1.75%	**779,957,166**	**780,372,235**	**1,594,101,156**	**1,605,963,747**	**809,335,971**	**5,569,730,275**
	7,043,155,698	**1,545,844,152**	**3,272,719,368**	**5,255,223,390**	**5,661,267,357**	**22,778,209,965**
	₱1,683,200,327	**(₱1,545,844,152)**	**(₱3,272,711,928)**	**(₱5,224,983,200)**	**(₱5,064,785,787)**	**(₱13,425,124,740)**

**excludes advances for liquidation*
***excludes statutory liabilities*

	2012					
	Less than 6 months	6-12months	1-2 years	2-3 years	More than 3 years	Total
Assets						
Cash in banks and cash equivalents	₱520,353,153	₱–	₱–	₱–	₱–	₱520,353,153
Receivables:						
Trade receivables - outside parties	3,207,794,303	186,082,876	–	–	–	3,393,877,179
Trade receivables - related parties	90,003,952	–	–	–	–	90,003,952
Others*	97,962,584	–	–	–	–	97,962,584
Environmental guarantee fund	–	–	–	–	1,500,000	1,500,000
Investment in sinking fund	–	–	–	–	508,041,189	508,041,189
	3,916,113,992	186,082,876	–	–	509,541,189	4,611,738,057
Liabilities						
Trade and other payables:						
Trade:						
Payable to suppliers and contractors	4,417,579,065	–	–	–	–	4,417,579,065
Related parties	709,496,525	–	–	–	–	709,496,525
Accrued expenses and other payables**	117,958,114	–	–	–	–	117,958,114
Short-term loans	175,646,271	–	–	–	–	175,646,271
Long-term debt at floating rate						
$23.08 million loan (USD) with interest payable in arrears	636,767,242	2,625,023	321,103,675	–	–	960,495,940
$5.62 million loan (USD) with interest payable in arrears	2,073,640	2,073,640	234,551,693	–	–	238,698,973
$62.29 million loan (USD) with interest payable in arrears	2,010,660,683	3,878,195	567,784,482	–	–	2,582,323,360
$25.34 million loan (USD) with interest payable in arrears	628,401,855	419,625,036	–	–	–	1,048,026,891
PDST-F benchmark yield for 3-month treasury securities + 1.00%	10,312,500	10,312,500	20,625,000	40,095,451	547,037,563	628,383,014
PDST-F benchmark yield for 3-month treasury securities + 1.75%	798,914,863	781,961,760	1,572,611,105	1,551,380,339	2,324,212,112	7,029,080,179
	9,507,810,758	1,220,476,154	2,716,675,955	1,591,475,790	2,871,249,675	17,907,688,332
	(₱5,591,696,766)	(₱1,034,393,278)	(₱2,716,675,955)	(₱1,591,475,790)	(₱2,361,708,486)	(₱13,295,950,275)

**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, 26.66% and 29.03% of the Group's sales in 2013 and 2012, respectively, were denominated in US$ whereas approximately 25.55% and 38.65% of debts as of December 31, 2013 and 2012, 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, 2013		December 31, 2012		
	U.S. Dollar	**Peso Equivalent**	Yen	U.S. Dollar	Peso Equivalent
Assets					
Cash and cash equivalents	**$18,318,751**	**₱813,260,942**	¥–	$129,885	₱5,331,779
Trade receivables	**10,654,649**	**473,013,142**	–	15,120,837	620,710,340
Liabilities					
Trade payables	**(21,816,839)**	**(968,558,569)**	(44,264,786)	(7,745,053)	(339,123,523)
Short-term loans	**(32,367,091)**	**(1,436,937,001)**	–	(4,278,837)	(175,646,271)
Long-term debt (including current portion)	**(107,910,746)**	**(4,790,697,569)**	–	(116,323,594)	(4,775,083,533)
Net exposure	**($133,121,276)**	**(₱5,909,919,055)**	(¥44,264,786)	($113,096,762)	(₱4,663,811,208)

The exchange rates used were ₱44.40 to $1 and ₱41.05 to $1 and ₱0.48 to ¥1 in 2013 and 2012, 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, 2013 and 2012.

Reasonably possible change in the Philippine peso-US dollar exchange rate	Increase (decrease) in income before tax	
	2013	2012
₱2	**(₱266,242,552)**	(₱226,193,524)
(₱2)	**266,242,552**	226,193,524

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 ₱481.00 million net foreign exchange loss, ₱391.00 million net foreign exchange gain and ₱38.32 million net foreign exchange loss for the years ended December 31, 2013, 2012 and 2011, respectively, arising from the translation of the Group's cash and cash equivalents, trade receivables, trade payables, short-term loans and long-term debt.

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

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

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

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

The credit risk is concentrated to the following markets:

	2013	2012
Trade receivables - outside parties	**96.65%**	94.75%
Trade receivables - related parties	**1.87**	2.52
Others	**1.48**	2.73
	100.00%	100.00%

As of December 31, 2013 and 2012, the credit quality per class of financial assets is as follows:

	2013				
	Neither Past Due nor Impaired		**Substandard**	**Past due and/or Individually**	
	Grade A	**Grade B**	**Grade**	**Impaired**	**Total**
Cash in banks and cash equivalents	**₱4,812,937,791**	**₱–**	**₱–**	**₱–**	**₱4,812,937,791**
Receivables:					
Trade receivables - outside parties	**2,149,725,650**	**1,481,867,441**	**–**	**762,123,106**	**4,393,716,197**
Trade receivables - related parties	**75,553,612**	**–**	**–**	**–**	**75,553,612**
Others	**43,132,924**	**–**	**–**	**5,815,359**	**48,948,283**
Environmental guarantee fund	**1,500,000**	**–**	**–**	**–**	**1,500,000**
Investment in sinking fund	**517,603,224**	**–**	**–**	**–**	**517,603,224**
Total	**₱7,600,453,201**	**₱1,481,867,441**	**₱–**	**₱767,938,465**	**₱9,850,259,107**

	2012				
	Neither Past Due nor Impaired		Substandard	Past due and/or Individually	
	Grade A	Grade B	Grade	Impaired	Total
Cash in banks and cash equivalents	₱520,353,153	₱–	₱–	₱–	₱520,353,153
Receivables:					
Trade receivables - outside parties	1,910,273,911	1,217,942,375		319,184,695	3,447,400,981
Trade receivables - related parties	–	90,003,952	–	–	90,003,952
Others	97,962,584	–	–	5,815,359	103,777,943
Environmental guarantee fund	1,500,000	–	–	–	1,500,000
Investment in sinking fund	508,041,189	–	–	–	508,041,189
Total	₱3,038,130,837	₱1,307,946,327	₱–	₱325,000,054	₱4,671,077,218

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:

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

As of December 31, 2013 and 2012, the aging analyses of the Group's past due and/or impaired receivables presented per class are as follows:

	2013			
	Past Due but not Impaired		**Impaired Financial**	
	<45 days	**45-135 days**	**Assets**	**Total**
Receivables				
Trade receivables - outside parties	**₱205,773,956**	**₱59,175,268**	**₱497,173,882**	**₱762,123,106**
Others	**–**	**–**	**5,815,359**	**5,815,359**
Total	**₱205,773,956**	**₱59,175,268**	**₱502,989,241**	**₱767,938,465**

	2012			
	Past Due but not Impaired		Impaired Financial	
	<45 days	45-135 days	Assets	Total
Receivables				
Trade receivables - outside parties	₱229,925,118	₱35,735,775	₱53,523,802	₱319,184,695
Others	–	–	5,815,359	5,815,359
Total	₱229,925,118	₱35,735,775	₱59,339,161	₱325,000,054

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, 2013 and 2012.

	2013	2012 (As restated)
Interest-bearing loans	**₱15,808,646,351**	₱12,179,273,676
Total equity	**20,127,511,704**	16,870,331,398
Debt-to-Equity ratio	**78.54%**	72.19%
EPS (Note 26)	**₱21.11**	₱17.85

The aggressive expansion and investment strategies of the Group resulted to higher Debt-to-Equity ratios in 2013 and 2012. 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, 2013 and 2012:

	2013	2012
Total paid-up capital	**₱7,031,777,411**	₱7,031,777,411
Remeasurement losses on pension plan	**(5,876,670)**	(18,465,694)
Retained earnings - unappropriated	**10,801,610,963**	9,157,019,681
Retained earnings - appropriated	**2,300,000,000**	700,000,000
	₱20,127,511,704	₱16,870,331,398

30. **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, 2013 and 2012, interest rate ranges from 1.00% to 3.00% and 1.03% to 4.00%, respectively.

Fair Value Hierarchy

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

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data

As of December 31, 2013 and 2012, the Group does not have financial instruments measured at fair value.

31. Lease Commitments

Equipment Rental Agreement
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 equipment 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 deposit 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 equipment are, at all times, shall be and remain the sole and exclusive equipment of the lessor, and no title shall pass to the Parent Company.

As of December 31, 2013, the Agreement with the Lessor is terminated.

LLA
As discussed in Notes 8, 28 and 34, 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. SCPC 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, SCPC 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 SCPC the “Option” to purchase parcels of land (Optioned Assets) that form part of the leased premises. SCPC availed of the “Option” and paid the Option Price amounting to US$0.32 million or 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 Sale with PSALM for the total consideration of ₱376.61 million.

On October 12, 2011, SCPC reiterated its proposal to purchase the remainder of the Leased Premises not identified as Optioned Assets. One of the salient features of the proposal included the execution of Contract to Sell (CTS) between SCPC and PSALM. This included the proposal of SCPC to assign its option to purchase and sub-lease in favor of Southwest Luzon Power Generation (SLPGC).

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

On February 24, 2012, SCPC sent a letter to PSALM for its proposal to handle the titling of Calaca Land.

As of the December 31, 2013, PSALM is pending for any response in connection therewith.

32. Notes to Consolidated Statements of Cash Flow

Supplemental disclosure of noncash investing and financing activities follows:

	2013	2012	2011
Increase in property, plant and equipment and liabilities arising from adjustments relating to decommissioning (Note 8)	**₱133,188,944**	₱275,903,977	₱226,731,248
Application of creditable withholding tax to income tax payable	**11,691,929**	–	–
Transfers from inventory to property, plant and equipment (Note 8)	–	223,519,372	1,607,455,720
Adjustments to provision for decommissioning and site rehabilitation (Note 15)	–	5,265,923	–

33. Operating Segments

Segment Information

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

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

	2013 (In thousands)				
	Mining	**Power**	**Others**	**Adjustments and Eliminations**	**Consolidated**
Revenue					
Sales to external customers	**₱12,573,569**	**₱14,757,590**	**₱–**	**₱–**	**₱27,331,159**
Inter-segment sales	**4,103,853**	**–**	**–**	**(4,103,853)**	**–**
	16,677,422	**14,757,590**	**–**	**(4,103,853)**	**27,331,159**
Cost of sales	**(10,067,559)**	**(4,999,756)**	**–**	**3,412,666**	**(11,654,649)**
Depreciation and amortization	**(1,665,007)**	**(1,509,951)**	**–**	**719,111**	**(2,455,847)**
Gross profit	**4,944,856**	**8,247,883**	**–**	**27,924**	**13,220,663**
Operating expenses	**(1,686,861)**	**(1,967,466)**	**(200)**	**–**	**(3,654,527)**
Loss on property, plant and equipment writedown	**–**	**(1,559,385)**	**–**	**–**	**(1,559,385)**
Depreciation	**(28,020)**	**(22,584)**	**–**	**–**	**(50,604)**
Operating profit	**3,229,975**	**4,698,448**	**(200)**	**27,924**	**7,956,147**
Other income	**2,577,903**	**203,180**	**126**	**(2,500,000)**	**281,209**
Finance income	**1,889**	**24,839**	**77**	**–**	**26,805**
Foreign exchange loss	**(463,938)**	**(17,239)**	**–**	**–**	**(481,177)**
Finance costs	**(152,628)**	**(228,601)**	**–**	**–**	**(381,229)**
Provision for (benefit from) income tax	**(131,452)**	**13,613**	**1**	**–**	**(117,838)**
Net income	**₱5,324,653**	**₱4,667,014**	**₱2**	**(₱2,472,076)**	**₱7,519,593**
Segment assets	**₱12,363,065**	**₱33,386,629**	**₱46,356**	**(₱1,208,617)**	**₱44,587,433**
Deferred tax assets	**135,182**	**4,743**	**33**	**–**	**139,958**
	₱12,498,247	**₱33,391,372**	**₱46,389**	**(₱1,208,617)**	**₱44,727,391**
Segment liabilities	**₱6,186,795**	**₱3,736,745**	**₱38,330**	**(₱1,170,637)**	**₱8,791,233**
Long-term debt	**4,790,698**	**11,017,949**	**–**	**–**	**15,808,647**
Deferred tax liability	**–**	**–**	**–**	**–**	**–**
	₱10,977,493	**₱14,754,694**	**₱38,330**	**(₱1,170,637)**	**₱24,599,880**
Cash flows arising from:					
Operating activities	**₱6,061,170**	**₱6,593,511**	**(₱18)**	**–**	**12,654,663**
Investing activities	**(2,183,859)**	**(6,656,038)**	**(37,963)**	**–**	**(8,877,860)**
Financing activities	**(3,056,366)**	**3,554,835**	**–**	**–**	**498,469**
Other disclosures					
Capital expenditures	**₱1,747,122**	**₱7,150,621**	**₱–**	**₱–**	**₱8,897,743**
Provision for doubtful accounts	**29,743,263**	**413,906,817**	**–**	**–**	**443,650,080**
Provision for inventory obsolescence	**4,120,197**	**–**	**–**	**–**	**4,120,197**
Reversal of impairment losses	**(61,549,364)**	**–**	**–**	**–**	**(61,549,364)**

	2012 (In thousands)				
	Mining	Power	Others	Adjustments and Eliminations	Consolidated
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)
Gross profit	5,297,167	4,146,407	–	62,732	9,506,306
Operating expenses	(1,977,308)	(1,036,854)	(102)	1,961	(3,012,303)
Loss on property, plant and equipment writedown	–	(341,162)	–	–	(341,162)
Depreciation	(23,097)	(21,814)	–	–	(44,911)
Operating profit	3,296,762	2,746,577	(102)	64,693	6,107,930

(Forward)

	2012 (In thousands)				
	Mining	Power	Others	Adjustments and Eliminations	Consolidated
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)	(28,156)	3	–	(39,604)
Net income	₱5,250,836	₱2,543,281	(₱17)	(₱1,435,307)	₱6,358,640
Segment assets	₱12,196,116	₱24,856,536	₱5,065	(₱873,134)	₱36,184,583
Deferred tax assets	–	10,729	19	–	10,748
	₱12,196,116	₱24,867,265	₱5,084	(₱873,134)	₱36,195,331
Segment liabilities	₱5,043,169	₱2,909,635	₱152	(₱807,230)	₱7,145,726
Long-term debt	4,775,084	7,404,190	–	–	12,179,274
Deferred tax liability	–	–	–	–	–
	₱9,818,253	₱10,313,825	₱152	(₱807,230)	₱19,325,000
Cash flows arising from:					
Operating activities	₱3,422,328	₱3,731,637	₱65	(₱219,828)	₱6,934,202
Investing activities	(2,836,329)	(4,567,013)	–	1,167,665	(6,235,677)
Financing activities	(3,913,919)	(2,151,516)	2,500	956,635	(5,106,300)
Other disclosures					
Capital expenditures	₱2,060,066	₱3,309,580	₱–	₱–	₱5,369,646
Reversal of allowance for doubtful accounts	(9,552,129)	–	–	–	(9,552,129)
Provision for impairment losses	47,150,717	–	–	–	47,150,717

	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	(1,816,319)	(1,001,658)	(50)	–	(2,818,027)
Depreciation	(20,667)	(17,564)	–	–	(38,231)
Operating profit	4,219,831	2,195,398	(50)	(118,471)	6,296,708
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	16,154	5,741			21,895
Net income	₱5,484,395	₱1,865,905	(₱50)	(₱1,318,471)	₱6,031,779
Segment assets	₱22,192,742	₱23,151,248	₱2,500	(₱9,736,701)	₱35,609,789
Deferred tax assets	–	19,747	–	–	19,747
	₱22,192,742	₱23,170,995	₱2,500	(₱9,736,701)	₱35,629,536
Segment liabilities	₱5,323,444	₱3,826,400	₱50	(₱833,401)	₱8,316,493
Long-term debt	4,140,133	8,369,261		–	12,509,394
Deferred tax liability	565	–	–	–	565
	₱9,464,142	₱12,195,661	₱50	(₱833,401)	₱20,826,452
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)

(Forward)

	2011 (In thousands)				
	Mining	Power	Others	Adjustments and Eliminations	Consolidated
Other disclosures					
Capital expenditures	₱2,130,050	₱324,326	₱–	₱–	₱2,454,376
Provision for (reversal of) allowance for doubtful accounts	5,004,512	(7,892,343)	–	–	(2,887,831)

1. Intersegment revenues, other income, cost and expenses are eliminated in the consolidation.
2. Segment assets exclude deferred tax assets amounting to ₱139.96 million, ₱10.75 million and ₱19.75 million in 2013, 2012 and 2011, respectively.
3. Segment liabilities exclude deferred tax liabilities amounting to ₱31.65 million, ₱36.55 million and ₱6.77 million in 2013, 2012 and 2011. Long term bank loans are no longer included as these are managed on a group basis.
4. Significant noncash items charged to comprehensive income include loss on property, plant and equipment writedown and depreciation and amortization.
5. Capital expenditures consist of additions of property, plant and equipment.
6. All noncurrent assets other than financial instruments are located in the Philippines.

Total power energy sold to MERALCO amounted to ₱10.73 billion, ₱6.14 billion and ₱5.18 billion in 2013, 2012 and 2011, respectively.

Geographic Information

Revenues from external customers

The financial information about the operation of the Group as of December 31, 2013, 2012 and 2011 reviewed by the management follows:

	2013	2012	2011
Revenue:			
Local coal sales	**₱5,287,388,411**	₱7,440,134,295	₱9,041,167,716
Export coal sales	**7,286,180,834**	7,010,021,039	7,160,712,695
	₱12,573,569,245	₱14,450,155,334	₱16,201,880,411

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 to China.

All revenues from power are derived from the Philippine market.

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 Manila Electric Company (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.

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. 2011-037 RC.

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

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

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.

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 Philippine 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, 2011.
On April 30, 2012, the Company and Pozzolanic sealed its new contract valid and effective for a period of fifteen (15) years beginning February 1, 2012. Pozzolanic, as agreed, shall purchase One Hundred (100 %) percent of fly ashes produced or generated by the Power Plant.

e. Temporary Restraining Order on MERALCO

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

On January 10, 2014, the SC impleaded MERALCO's suppliers of generation costs, including PEMC, the operator of the wholesale electricity supply market (WESM), as parties-respondents in the cases.

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

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

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

Pending PEMC's actions and/or recalculation of the WESM prices for the November and December 2013 supply months in accordance with the ERC Order, and its effect on each generation company that trade in the WESM, the Company estimated its exposure to the said ERC order . Please see judgments and estimates in Note 3.

35. Events after Reporting Date

On March 6, 2014, the Parent Company's BOD approved the following matters, during their regular meeting, which are subject to approval of stockholders in their upcoming annual meeting on May 5, 2014:

- Stock dividends declaration amounting to ₱712,500,000, divided into 712,500,000 shares at the par value of ₱1.00 per share, or two (2) common shares for every one common share held, from the unrestricted retained earnings of the Parent Company as of December 31, 2013, and to be issued from the increase in the authorized capital stock of the Parent Company with delegation to the President of the power to determine the record date and payment dates;
- Change in corporate name to Semirara Mining and Power Corporation;
- Increase in authorized capital stock from ₱1,000,000,000 to ₱3,000,000,000;

- Change in principal office address from “Metro Manila” to “2/F DMCI Plaza, 2281 Don Chino Roces Avenue, Makati City, Metro Manila” in compliance to SEC Memorandum Circular No. 6, Series of 2014; and
- Ratification of the Parent Company’s authority to execute the required securities and corporate guarantee in relation to the procurement of project debt facility by its wholly owned subsidiary, St. Raphael Power Generation Corporation (SRPGC) to fund Phase 2 of its power expansion at Calaca, Batangas, with capacity of up to 400MW and project cost of up to
- USD600 million, of which 70% shall be funded by debt, and the 30% equity requirement shall be funded by the Parent Company. The Parent Company pledged 67% voting shares and interim corporate suretyship in SRPGC for the project debt facility.