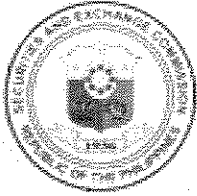




108142012002256



## SECURITIES AND EXCHANGE COMMISSION

SEC Building, EDSA, Greenhills, Mandaluyong City, Metro Manila, Philippines  
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### Company Information

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**SEC Registration No.** 0000091447  
**Company Name** SEMIRARA MINING CORP.  
**Industry Classification** Miscellaneous Business Activities  
**Company Type** Stock Corporation

### Document Information

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SEC Number : 91447  
File Number : \_\_\_\_\_

**SEMIRARA MINING CORPORATION**  
Company's Full Name

2<sup>nd</sup> Floor, DMCI Plaza  
2281 Chino Roces Avenue, Makati City  
Company's Address

**888-3550 to 888-3565**  
Telephone Number

For the Period Ending June 30, 2012  
Period Ended

QUARTERLY REPORT FORM 17-Q  
Form Type

**SEC FORM 17-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE SECURITIES REGULATION  
CODE AND SRC RULE 17(2)(b) THEREUNDER**

1. For the quarter period ended **June 30, 3012**
2. Commission Identification Number **91447**
3. BIR Tax Identification No. **000-190-324-000**

4. Exact Name of issuer as specified in its charter:

**SEMIRARA MINING CORPORATION**

5. Province, Country or other jurisdiction of incorporation of organization:

**PHILIPPINES**

6. Industry Classification Code: \_\_\_\_\_(SEC use only)

7. Address of issuer's principal office Postal Code

**2<sup>rd</sup> Floor, DMCI Plaza, 1231  
2281 Chino Roces Avenue, Makati City**

8. Registrants telephone Number, including area code:

**+63 2 8883550 to +63 2 8883565**

9. Former Address : 7<sup>th</sup> Floor, Quad Alpha Centrum Bldg.,  
125 Pioneer St., Mandaluyong City  
Telephone Nos. : 631-8001 to 6318010  
Former name: : Semirara Coal Corporation  
No former fiscal year of the registrant.

10. Securities registered pursuant to Section 4 of the RSA.

Title of each class	Number of shares of common Stock Outstanding
<u>Common Stock, P1.00 par value</u>	<u>356,250,000 shares</u>

11. 356,250,000 shares are listed in the Philippine Stock Exchange

12. The registrant has filed all reports required to be filed by Section 11 of the Revised Securities Act (RSA) and RSA Rule 11 (a)-1 thereunder and Sections 26 and 141 of the Corporation Code of the Philippines, during the preceding 12 months.

Has been subject for such filing requirements for the past 90 days

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SEMIRARA MINING CORPORATION AND SUBSIDIARY  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
As of June 30, 3012

	(Unaudited) June 30, 2012	(Audited) December 31, 2011
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents	1,327,087,020	5,005,240,275
Receivables - net	3,615,627,991	3,215,781,247
Inventories - net	4,358,336,784	4,592,835,539
Other current assets	969,316,925	1,310,428,666
<i>Total Current Assets</i>	<i>10,270,368,720</i>	<i>14,124,285,727</i>
Noncurrent Assets		
Property, plant and equipment - net	24,425,866,797	20,737,333,275
Investments and advances	498,089,811	490,789,157
Other noncurrent assets	264,242,695	275,810,987
Deferred tax asset	6,067,668	
<i>Total Noncurrent Assets</i>	<i>25,194,266,971</i>	<i>21,503,933,419</i>
<b>TOTAL ASSETS</b>	<b>35,464,635,691</b>	<b>35,628,219,146</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current Liabilities		
Short-term loans	2,676,213,377	1,010,692,002
Current portion of long-term debt	1,447,943,160	2,992,660,795
Trade and other payables	5,896,272,232	7,299,028,784
<i>Total Current Liabilities</i>	<i>10,020,428,769</i>	<i>11,302,381,581</i>
Noncurrent Liabilities		
Long-term debt - net of current portion	11,228,523,414	9,469,150,099
Deferred tax liabilities - net	565,481	565,481
Provision for decommissioning and site rehabilitation	47,582,228	47,582,228
<i>Total Noncurrent Liabilities</i>	<i>11,276,671,123</i>	<i>9,517,297,808</i>
<i>Total Liabilities</i>	<i>21,297,099,892</i>	<i>20,819,679,389</i>
Stockholders's Equity		
Capital stock	356,250,000	356,250,000
Additional paid-in capital	6,675,527,411	6,675,527,411
Deposit For Future Subscription		-
Retained earnings	7,135,758,388	7,776,762,346
Cost of shares held in treasury		-
<i>Total Stockholders' Equity</i>	<i>14,167,535,799</i>	<i>14,808,539,757</i>
<b>TOTAL LIABILITIES AND STOCKHOLDERS EQUITY</b>	<b>35,464,635,691</b>	<b>35,628,219,146</b>

SEMIRARA MINING CORPORATION AND SUBSIDIARY  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

For the Period Ending June 30, 2012 and 2011

For the Quarter Ending June 30, 2012 and 2011

	(Unaudited) For the Period		(Unaudited) For the Quarter	
	2012	2011	2012	2011
<b>REVENUE</b>				
Coal	9,423,790,091	10,690,897,268	5,087,943,095	6,739,055,110
Power	3,910,763,493	5,280,405,934	1,885,171,713	3,331,492,500
	<u>13,334,553,584</u>	<u>15,971,303,202</u>	<u>6,973,114,808</u>	<u>10,070,547,610</u>
<b>COST OF SALES</b>				
Coal	5,578,198,445	5,477,693,695	2,800,131,514	3,554,306,035
Power	2,361,441,099	3,260,536,103	1,185,561,194	2,012,391,151
	<u>7,939,639,544</u>	<u>8,738,229,798</u>	<u>3,985,692,708</u>	<u>5,566,697,186</u>
<b>GROSS PROFIT</b>	<u>5,394,914,040</u>	<u>7,233,073,404</u>	<u>2,987,422,100</u>	<u>4,503,850,424</u>
<b>OPERATING EXPENSES</b>	(1,876,344,330)	(2,531,459,350)	(1,078,404,650)	(1,572,783,710)
<b>FINANCE INCOME (COSTS)</b>	(216,247,517)	(184,910,208)	(142,874,709)	(70,925,678)
<b>FOREIGN EXCHANGE GAINS (LOSSES)</b>	169,915,068	6,981,733	95,258,422	(9,036,026)
<b>EQUITY IN NET LOSSES OF ASSOCIATES</b>		-		-
<b>OTHER INCOME</b>	164,538,342	59,830,179	39,538,315	42,686,834
	<u>(1,758,138,437)</u>	<u>(2,649,557,646)</u>	<u>(1,086,482,622)</u>	<u>(1,610,058,580)</u>
<b>INCOME BEFORE INCOME TAX</b>	3,636,775,603	4,583,515,758	1,900,939,478	2,893,791,844
<b>PROVISION FOR INCOME TAX</b>	2,779,561	6,353,910	(2,994,204)	2,837,728
<b>NET INCOME</b>	3,633,996,042	4,577,161,848	1,903,933,682	2,890,954,116
<b>OTHER COMPREHENSIVE INCOME</b>	-	-	-	-
<b>TOTAL COMPREHENSIVE INCOME</b>	<u>3,633,996,042</u>	<u>4,577,161,848</u>	<u>1,903,933,682</u>	<u>2,890,954,116</u>
<b>Basic / Diluted Earnings per Share</b>	<u>10.20</u>	<u>12.85</u>	<u>5.34</u>	<u>8.11</u>
Basis of EPS :				
EPS = NET INCOME (LOSS) FOR THE PERIOD/NO. OF OUTSTANDING SHARES				
Wherein :				
Wtd Average Outstanding Shares	356,250,000 (as of June 30, 2012)			
Wtd Average Outstanding Shares	356,250,000 (as of June 30, 2011)			

SEMIRARA MINING CORPORATION AND SUBSIDIARY

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

As of June 30, 2012 and 2011

	Common Stock	Additional Paid-In Capital	Deposit for Future Stock Subscriptions	Unappropriated Retained Earnings	Appropriated Retained Earnings	Total	Cost of Shares Held in Treasury	Grand Total
At January 1, 2012	356,250,000	6,675,527,411	-	7,076,762,346	700,000,000	14,808,539,757	-	14,808,539,757
Net Income for the period				3,633,996,042		3,633,996,042		3,633,996,042
Additional Paid-In Capital						-		-
Deposit for Future Subscription						-		-
Cost of Shares Held in Treasury						-		-
Stockrights Offering						-		-
Dividends				(4,275,000,000)		(4,275,000,000)		(4,275,000,000)
At June 30, 2012	356,250,000	6,675,527,411	-	6,435,758,388	700,000,000	14,167,535,799	-	14,167,535,799
At January 1, 2011	356,250,000	6,675,527,411	-	4,608,356,330	700,000,000	12,340,133,741	-	12,340,133,741
Net Income for the period				4,577,161,850		4,577,161,850		4,577,161,850
Additional Paid-In Capital						-		-
Deposit for Future Subscription						-		-
Cost of Shares Held in Treasury						-		-
Stock Rights Offering						-		-
Dividends				(3,562,500,000)		(3,562,500,000)		(3,562,500,000)
At June 30, 2011	356,250,000	6,675,527,411	-	5,623,018,180	700,000,000	13,354,795,591	-	13,354,795,591



SEMIRARA MINING CORPORATION AND SUBSIDIARY  
**CONSOLIDATED STATEMENTS OF CASH FLOW**  
As of June 30, 2012 and 2011

	(Unaudited)	
	2012	2011
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income before income tax	3,636,775,603	4,583,515,758
Adjustments for:		
Depreciation and amortization	1,377,453,882	1,684,732,552
Finance costs and revenues	199,947,865	184,910,208
Gain on sale of equipment	(109,183,193)	(53,477,507)
Provision for impairment loss		1,713,378
Net unrealized foreign exchange gains	(108,844,612)	7,349,721
Equity in net earnings of associates		
Provision for Income Tax		
Pension expense	1,501,247	
Operating income before changes in working capital	4,997,650,792	6,408,744,110
Decrease (increase) in:		
Receivables	(463,948,640)	(156,164,666)
Inventories	(757,448,140)	395,464,287
Other current assets	125,104,846	(334,393,487)
Increase (decrease) in:		
Trade and other payables	(612,035,997)	10,060,271
Cash generated from (used in) operations	3,289,322,861	6,323,710,515
Interest received	28,580,702	56,016,674
Income tax paid	(2,779,561)	6,353,910
Interest paid	(223,566,117)	(217,642,992)
<b>Net cash provided by (used in) operating activities</b>	<b>3,091,557,885</b>	<b>6,168,438,107</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Decrease (increase) in other noncurrent assets	(15,145,738)	36,878,666
Proceeds from sale of equipment	109,183,193	53,477,507
Decrease (increase) in Investments		(11,058,525)
Retirement Fund Contribution		
<b>Additions to property, plant and equipment</b>	<b>(4,771,701,265)</b>	<b>(1,946,572,988)</b>
<b>Net cash used in investing activities</b>	<b>(4,677,663,810)</b>	<b>(1,867,275,340)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Short-term loans		(144,502,249)
Loan Availments	3,356,935,800	1,384,039,443
Payment of dividend	(4,275,000,000)	(3,562,500,000)
Loan Repayment	(1,118,498,310)	(1,164,896,743)
Increase (decrease) in payable to related parties	(55,484,820)	
Proceeds from sales of shares held in Treasury		
Proceed from additional issuance of capital stocks		
<b>Net cash provided by (used in) financing activities</b>	<b>(2,092,047,330)</b>	<b>(3,487,859,549)</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(3,678,153,255)</b>	<b>813,303,218</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>5,005,240,274</b>	<b>3,813,283,519</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>1,327,087,019</b>	<b>4,626,586,737</b>

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## **1. 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 the Group's functional currency. All amounts are rounded off to the nearest peso unless otherwise indicated.

### Statement of Compliance

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

### Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Group as at June 30, 2012 and for the year then ended. A subsidiary is an entity over which the Parent Company has the power to govern the financial and operating policies of the entity. The subsidiary is fully consolidated from the date of incorporation, being the date on which the Parent Company obtains control, and continues to be consolidated until the date that such control ceases. The results of subsidiaries acquired or disposed of during the year are included in the consolidated statements of comprehensive income from the date of acquisition or up to the date of the disposal, as appropriate.

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of the subsidiary are prepared for the same reporting period as the Parent Company, using consistent accounting policies.

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

### Changes in Accounting Policies

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those of the previous financial year except for the following new and amended Philippine Accounting Standards (PAS), PFRS and Philippine Interpretations of International Financial Reporting Interpretation Committee (IFRIC) which were adopted as of January 1, 2011. The following new and amended standards and interpretations did not have any impact on the accounting policies, financial position and performance of the Group :

#### *New and Amended Standards and Interpretations*

- PAS 24, Related Party Disclosures (Amendment)
- PAS 32, Financial Instruments: Presentation (Amendment) – Classification of Rights Issued (Amendment)

- Philippine Interpretation IFRIC 13, Customer Loyalty Programmes (determining the fair value of award credits)
- Philippine Interpretation IFRIC 14, Prepayments of a Minimum Funding Requirement (Amendment)
- Philippine Interpretation IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments

#### *Improvements to PFRSs 2010*

- PFRS 3, *Business Combinations*
- PFRS 7, *Financial Instruments - Disclosures*
- PAS 1, *Presentation of Financial Statements*
- PAS 27, *Consolidated and Separate Financial Statements*
- PAS 34, *Interim Financial Statements*

#### New Standards Issued but not yet Effective

The Group has not adopted the following PFRS and Philippine Interpretations which are not yet effective as of December 31, 2011. The Group intends to adopt those standards when they become effective. The Group does not expect the adoption of these standards to have a significant impact in the consolidated financial statements, unless otherwise stated.

- *PAS 1, Financial Statement Presentation – Presentation of Items of Other Comprehensive Income*  
The amendments change the grouping of items presented in other comprehensive income. Items that could be reclassified to profit or loss at a future point in time would be presented separately from items that will never be reclassified. The amendment becomes effective for annual periods beginning on or after July 1, 2012.
- *PAS 12, Income Taxes – Recovery of Underlying Assets*  
The amendment clarified the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in PAS40, *Investment Property*, should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in PAS 16, *Property, Plant and Equipment*, always be measured on a sale basis of the asset. The amendment becomes effective for annual periods beginning on or after January 1, 2012.
- *PAS 19, Employee Benefits (Amendment)*  
Amendments to PAS 19 range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and rewording. The amendment becomes effective for annual periods beginning on or after January 1, 2013. The Group is currently assessing the full impact of the amendments in reporting actuarial gains and losses.

- *PAS 27, Separate Financial Statements (as revised in 2011)*  
 As a consequence of the new PFRS 10, *Consolidated Financial Statements*, and PFRS 12, *Disclosure of Interest in Other Entities*, what remains of PAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The amendment becomes effective for annual periods beginning on or after January 1, 2013.
- *PAS 28, Investment in Associates and Joint Ventures (as revised in 2011)*  
 As a consequence of the new PFRS 11, *Joint Agreements*, and PFRS 12, PAS 28 has been renamed *PAS 28, Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment becomes effective for annual periods beginning on or after January 1, 2013.
- *PAS 32, Financial Instruments Presentation – Offsetting of Financial Assets and Financial Liabilities*  
 These amendments to PAS 32 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 to PAS 32 are to be retrospectively applied for annual periods beginning on or after January 1, 2014.
- *PFRS 7, Financial Instruments Disclosures – Offsetting of Financial Assets and Financial Liabilities*  
 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 arrangement’, 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 statements of financial position;
  - c) The net amounts presented in the statements 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 9, Financial Instruments Disclosures – Enhanced Derecognition Disclosure Requirements*  
The amendment requires additional disclosure about financial assets that have been transferred but not derecognized to enable the user of the Group's financial statements to understand the relationship with those assets that have not been derecognized and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognized assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognized assets. The amendment becomes effective for annual periods beginning on or after July 1, 2011.
  - *PFRS 9, Financial Instruments: Classification and Measurement*  
PFRS 9 as issued reflects the first phase on the replacement of PAS 39 and applies classification and measurement of financial assets and financial liabilities as defined in PAS 39. The standard is effective for annual periods beginning on or after January 1, 2015. In subsequent phases, hedge accounting and impairment of financial assets will be addressed with the completion of this project expected on the first half of 2012. 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 potentially have no impact on classification and measurement of financial liabilities. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.
  - *PFRS 10, Consolidated Financial Statements*  
PFRS 10 replaces the portion of PAS 27, *Consolidated and Separate Financial Statements*, which addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12, *Consolidation – Special Purpose Entities*. PFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by PFRS 10 will required management to exercise significant judgment to determinewhich entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in PAS 27. This standard becomes effective for annual periods beginning on or after January 1, 2013.
  - *PFRS 11, Joint Agreements*  
PFRS 11 replaces PAS 31, *Interests in Joint Ventures and SIC-13, Jointly-Controlled Entities – Non-Monetary Contributions by Venturers*, PFRS 11 removes the option to account for Jointly Controlled Entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. This standard becomes effective for

annual periods beginning on or after January 1, 2013.

- *PFRS 12, Disclosure of Interests in Other Entities*  
PFRS 12 includes all of the disclosures that were previously in PAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in PAS 31 and PAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. This standard becomes effective for annual periods beginning on or after January 1, 2013.
- *PFRS 13, Fair Value Measurement*  
PFRS 13 establishes a single source of guidance under PFRS for all fair value measurements. PFRS 13 does not change when an entity is required to use fair value under PFRS when fair value is required or permitted. This standard becomes effective for annual periods beginning on or after January 1, 2013.
- *Philippine Interpretation IFRIC 15, Agreement for the Construction of Real Estate*  
The interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11, *Construction Contracts*, or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion. The SEC and the Financial Reporting Standards Council (FRSC) have deferred the effectivity of this interpretation until the final Revenue standard is issued by 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.
- *Philippine Interpretation IFRIC 20, Stripping Costs in the Production Phase of a Surface Mine*  
This interpretation applies to waste removal costs that are incurred in surface mining activity during the production phase of the mine ("production stripping costs") and provides guidance on the recognition of the production stripping costs as an asset and measurement of the stripping activity asset. This interpretation becomes effective for annual periods beginning on or after January 1, 2013. This interpretation may have an impact on both financial position and performance of the Group.

## Financial Instruments

### *Date of recognition*

The Group recognizes a financial asset or a financial liability on the consolidated statement 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*

All financial instruments are initially recognized at fair value. Except for securities at fair value through profit or loss (FVPL), the initial measurement of financial assets includes transaction costs. The Group classifies its financial assets in the following categories: financial assets at FVPL, held-to-maturity (HTM) investments, available-for-sale (AFS) financial assets, and loans and receivables. The Group classifies its financial liabilities as financial liabilities at FVPL and other financial liabilities. The classification depends on the purpose for which the investments were acquired and whether these are quoted in an active market. Management determines the classification of its financial instruments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

As of June 30, 2012 and December 31, 2011, the Group's financial instruments are of the nature of loans and receivables, and other financial liabilities.

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

### *Determination of fair value*

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

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

### *Day 1 difference*

For transactions other than those related to customers' guaranty and other deposits,

where the transaction price in a non-active market is different to the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Group recognizes the difference between the transaction price and fair value (a day 1 difference) in the profit or loss 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 profit or loss when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the 'Day 1' difference amount.

### *Financial assets*

#### Loans and Receivables

Loans and receivables are financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. These are not entered into with the intention of immediate or short-term resale and are not designated as AFS 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" and "Receivables" and Security Deposits under "Other current assets".

After initial measurement, the loans and receivables are subsequently measured at amortized cost using the effective interest rate 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 effective interest rate and transaction costs. The amortization is included in "Finance income" in the consolidated statements of comprehensive income. The losses arising from impairment are recognized in the consolidated statements of comprehensive income as "Finance costs".

### *Financial liabilities*

#### Other financial liabilities

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

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

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



### Deferred Financing Costs

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

### Impairment of Financial Assets

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

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

### *Loans and receivables*

For loans and receivables carried at amortized cost, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses 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 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 consolidated statements of comprehensive income during the period in which it arises. Interest income continues to be recognized based on the original EIR of the asset. Receivables, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery has been realized and all collateral has been realized or has been transferred to the Group.

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

#### Derecognition of Financial Assets and Liabilities

##### *Financial Assets*

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

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

When the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's

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

#### *Financial Liabilities*

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

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

#### Offsetting of Financial Instruments

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

#### Inventories

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

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

Spare parts and supplies are usually carried as inventories and are recognized in the consolidated statements of income when consumed. However, transfers are made from inventories to property, plant and equipments when the Group expects them for more than one period. Similarly, if the spare parts and supplies can be used only in connection with an item of property, plant and equipment, they are transferred and accounted for as property, plant and equipment. Transfers between inventories to property, plant and equipment do not change the carrying amount of the inventories transferred and they do not change the cost of that inventory for measurement or disclosure purposes.

### Exploration and Evaluation Costs

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

### Mining Reserves

Mining reserves are estimates of the amount of coal that can be economically and legally extracted from the Group's mining properties. The Group estimates its mining reserves and mineral resources based on information compiled by appropriately qualified persons relating to the geological data on the size, depth and shape of the coal body, and requires complex geological judgments to interpret the data. The estimation of recoverable reserves is based upon factors such as estimates of foreign exchange rates, commodity prices, future capital requirements, and production costs along with geological assumptions and judgments made in estimating the size and grade of the coal body. Changes in the reserve or resource estimates may impact upon the carrying value of exploration and evaluation assets, mine properties, property, plant and equipment, provision for rehabilitation, recognition of deferred tax assets, and depreciation and amortization charges.

### Property, Plant and Equipment

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

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

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

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

direct costs.

Depreciation of assets commence 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:

	<b>Number of years</b>
Mining, tools and other equipment	<b>2 to 13 years</b>
Power plant and buildings	<b>10 to 25 years</b>
Roads and bridges	<b>17 years</b>

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

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

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

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

### Investments

This account includes investments in associates.

An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture. Investments in associates are accounted for under the equity method of accounting.

Under the equity method, the investments in associates are carried in the consolidated statement of financial position at cost plus post-acquisition changes in the Group's share in the net assets of the associates, less any impairment in value. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortized. The consolidated statements of comprehensive income reflect the share of the results of the operations of associates. Profit and losses resulting from transactions between the Group and the investee companies are eliminated to the extent of the interest in the investee companies.

If the Group's share of losses of an associate equals or exceeds its interest in the

associate, the Group discontinues recognizing its share of further losses, unless the Group has guaranteed certain obligations of the associates. When the associates subsequently report net income, the Group will resume applying the equity method but only after its share of that net income equals the share of net losses not recognized during the period the equity method was suspended.

The reporting dates of the investee companies and the Group are identical and the investee companies' accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

Upon loss of significant influence over the associate, the Group measures and recognizes any retaining investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retaining investment and proceeds from disposal is recognized in the consolidated statements of comprehensive income.

#### Other intangible assets

Other intangible assets include computer software.

Intangible assets acquired separately are measured on initial recognition at cost, which comprises its purchase price plus any directly attributable costs of preparing the asset for its intended use. The cost of intangible assets acquired in a business combination is measured initially at fair value as at the date of acquisition. Following initial recognition, intangible assets are 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 accumulated impairment losses. Amortization of intangible assets is recognized under the cost of sales in the consolidated statements of comprehensive income.

Internally generated intangible assets are not capitalized and expenditure is reflected in the consolidated statements of comprehensive income in the year in which the expenditure is incurred.

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

#### Input value-added tax (VAT)

Input VAT represents VAT imposed on the Group by its suppliers and contractors for the acquisition of goods and services required under Philippine taxation laws and regulations.

The input VAT that will be used to offset the Group's current VAT liabilities is recognized as a current asset. Input VAT representing claims for refund from the taxation authorities is recognized as a noncurrent asset. Input taxes are stated at their estimated NRV.

## Business Combinations and Goodwill

### *Business Combinations from 1 January 2010*

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures noncontrolling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses. When the Company 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 and loss. Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognized in accordance with PAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

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

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

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

### *Business Combinations prior to 1 January 2010*

In comparison to the above-mentioned requirements, the following differences

applied:

Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest (formerly known as minority interest) was measured at the proportionate share of the acquiree's identifiable net assets.

Business combinations achieved in stages were accounted for as separate steps. Any additional acquired share of interest did not affect previously recognized goodwill.

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

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

#### Impairment of Non-financial Assets

The Group assesses at each reporting date whether there is an indication that the property, plant and equipment, software, investment in associates or jointly controlled entities 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. An asset's recoverable amount is the higher of an asset's or cash generating unit's fair value less cost to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that largely independent of those from other assets or group of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses of continuing operations are recognized in the consolidated statement of comprehensive income in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date 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 and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is



recognized in the profit or loss unless the asset is carried at revalued amount, in which case, the reversal is treated as a revaluation increase. After such reversal, the depreciation and amortization 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.

#### *Investments in associates*

After application of the equity method, the Group determines whether it is necessary to recognize any additional impairment loss with respect to the Group's net investment in the investee companies. The Group determines at each reporting date whether there is any objective evidence that the investment in associates or jointly controlled entities is impaired. If this is the case, the Group calculates the amount of impairment as being the difference between the fair value and the carrying value of the investee company and recognizes the difference in the profit or loss.

#### Related Party Relationships and Transactions

Related party relationship exist when one party has the ability to control, directly or indirectly through one or more intermediaries, the other party or exercise significant influence over the other party in making financial and operating decisions. Such relationship also exists between and/or among entities, which are under common control with the reporting enterprises and its key management personnel, directors, or its shareholders. In considering each related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

#### 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 delivery 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 Pesos and US Dollars, respectively.

Under the terms of arrangements with customers, local sales are billed 80% upon delivery and 20% upon release of coal quality test. Export sales are billed 100% after release of coal quality test. All quality test results are agreed by both the Group and customers. Revenue is recognized upon 100% billing for both local and export sales.

#### *Contract energy sales*

These are revenue derived from the Group's primary function of providing and selling electricity to customers of its generated and purchased electricity. Revenue derived from the generation and/ or supply of electricity is recognized based on the actual energy received by the customer or the actual energy nominated by the customer, net of adjustments, as agreed upon between parties.

#### *Spot electricity sales*

Revenue 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 trading of electricity will be made, as mandated by Republic Act (RA) No. 9136 of the Department of Energy (DOE).

#### *Rendering of services*

Service fees from coal handling activities are recognized as revenue when the related services have been rendered.

#### *Finance income*

Finance income is recognized as interest accrues.

#### Cost of Sales

##### *Cost of coal*

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

##### *Cost of power*

Cost of power includes expenses 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 energy also includes electricity purchased from the spot market and the related market fees. It is recognized as expense when the Group receives the electricity and simultaneously sells to its customers.

#### Operating Expenses

Operating expenses are expenses that arise in the course of the ordinary operations of the Group. These usually take the form of an outflow or depletion of assets such as cash and cash equivalents, supplies, and office furniture and equipment. 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 profit or loss in the period in which they are incurred.

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

#### Pension Expense

The Group has a noncontributory defined benefit retirement plan.

The retirement cost of the Group is determined using the projected unit credit method. Under this method, the current service cost is the present value of retirement benefits payable in the future with respect to services rendered in the current period. The liability recognized in the consolidated statements of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the reporting date less the fair value of plan assets, together with adjustments for unrecognized actuarial gains or losses and past service costs. The value of any asset is restricted to the sum of any past service costs not yet recognized, if any, and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

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

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

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

### Income Tax

#### *Current tax*

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

#### *Deferred tax*

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

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

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

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

Deferred tax assets and 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 profit or loss 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).

#### *Group as a lessee*

Finance leases, which transfer to the Group substantially all the risks and rewards incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum

lease payments. Lease payments are apportioned between finance charges and the reduction of the lease liability so as to achieve a constant periodic rate of interest on the remaining balance of the liability. Finance charges are recognized in the consolidated statements of comprehensive income.

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

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

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

#### Foreign Currency Transactions and Translation

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

#### Equity

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

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

#### Treasury Shares

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

### Earnings per Share (EPS)

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

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

### Operating Segment

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

### Contingencies

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

### Events after the Reporting Period

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

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## **2. Significant Accounting Estimates, Judgments 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 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 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:

### *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.

### *Distinction between investment properties and owner-occupied properties*

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

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

### *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.

### *Contingencies*

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

## Management's Use of Estimates and Assumptions

The key assumptions concerning the future and other sources of estimation uncertainty at the reporting date that have a significant risk of causing a material



adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

*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 (ASTM).

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

*Estimating allowance for doubtful accounts on loans and receivables*

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

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

*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.

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

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

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

#### *Estimating decommissioning and site rehabilitation costs*

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

#### *Estimating useful lives of property, plant and equipment and intangible assets (except Land)*

The Group estimated the useful lives of its property, plant and equipment and intangible assets 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 intangible assets based on factors that include asset utilization, internal technical evaluation, technological changes, environmental and anticipated use of the assets. It is possible that future results of operations could be materially affected by changes in these estimates brought about by changes in the factors mentioned.

#### *Estimating impairment for nonfinancial assets*

The Group assesses impairment on investments and advances, property, plant and equipment and software cost 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 net selling price and value in use.

In determining the present value of estimated future cash flows expected to be generated from the continued use of the assets, the Group is required to make estimates and assumptions that can materially affect the consolidated financial statements. The nonfinancial assets of the Group include investments in associates, property, plant and equipment, and software cost.

There has been no existing indicator of impairment as of June 30, 2012 and December 31, 2011.

#### *Deferred tax assets*

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

#### *Estimating pension and other employee benefits*

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

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

## MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### I. PRODUCTION – COMPARATIVE REPORT H1 2012 vs H1 2011

#### Coal

To take advantage of the dry weather in the Q1, mining operations were concentrated at the lowest level of the pit resulting to longer hauling cycle. Total rainfall in H1 this year is at 859mm, 20% higher than same period last year. This constrained operations, especially starting middle of Q2. Due to the longer hauling cycle and higher rainfall, year-on-year material movement dropped by 15% at 41.58 million bank cubic meters (bcm) from 49.14 million bcm last year.

On the other hand, strip ratio is lower by 14% at 9.61:1 in the current period versus 11.22:1 last year as mining operations was not able to advance its stripping activities due to rain and longer hauling cycle. Nevertheless, volume of coal production was not significantly affected. The lower strip ratio mitigated the decrease in run-of-mine (ROM) coal production at 2% to 4.03 million MTs as compared to 4.12 million MTs in H1 2011. Net total product coal registered at 3.74 million MTs this period from 3.79 million MTs in H1 2011 or 1% lower resulting from lower ROM coal.

Total volume sold during the current period almost matched production, thus change in coal inventory was insignificant from beginning level of 992 thousand MTs to close at 963 thousand MTs. Current coal inventory level is more than 13 times of H1 2011 ending inventory of 74 thousand tons as sales volume was significantly higher last year.

The table below shows the comparative production data for H1 2012 and H1 2011.

<b>COMPARATIVE PRODUCTION DATA</b>							
<i>(in '000, except Strip Ratio)</i>							
	<b>Q1 '12</b>	<b>Q2 '12</b>	<b>H1 '12</b>	<b>Q1 '11</b>	<b>Q12'11</b>	<b>H1 '11</b>	<b>%Inc (Dec)</b>
<b>Total Materials (bcm)</b>	22,303	19,273	41,576	26,850	22,294	49,144	-15%
<b>ROM Coal (MT)</b>	1,805	2,220	4,025	1,822	2,296	4,117	-2%
<b>Strip Ratio</b>	11.64:1	7.97:1	9.61:1	14.03:1	9.00:1	11.22:1	-14%
<b>Net TPC (MT)</b>	1,651	2,089	3,740	1,642	2,149	3,791	-1%
<b>COAL WASHING</b>							
<b>Washable Coal (MTs)</b>	344	334	678	408	313	721	-6%
<b>Washed Coal (MTs)</b>	206	200	407	245	188	432	-6%
<b>%recovery</b>	60%	60%	60%	60%	60%	60%	
<b>Beg. Inventory (MTs)</b>	992	950	992	491	469	992	0%
<b>End Inventory (MTs)</b>	950	963	963	469	74	74	1195%

## **Power**

Power capacity in H1 2012 is still at 300MW coming from Power Unit 2 with average load of 239MW from 192MW in H1 2011, registering a 24% improvement. As of cut-off date Power Unit 1 was still down for the final stage of the rehabilitation works, while partial test commissioning of the major equipment was on-going. Total energy generated from Unit 2 is 951W or 63% higher than same period last year. Total plant energy generation is lower by 11% due to the absence of Unit 1. Unit 2 availability is at 88%, registering 34% improvement from 66% in 2011. Meanwhile, total plant availability is only at 44% compared to 69% same period last year. Registered capacity factor of Unit 2 alone is 72% from 45% during the same period last year.

The table below shows the comparative plant performance for H1 2012 and H1 2011.

<b>COMPARATIVE PLANT PERFORMANCE DATA</b>							
<i>H1'12 vs H1'11</i>							
	<b>Q1 '12</b>	<b>Q2 '12</b>	<b>H1 '12</b>	<b>Q1 '11</b>	<b>Q12'11</b>	<b>H1 '11</b>	<b>%Inc (Dec)</b>
<b>Gross Generation, Gwh</b>							
<b>Unit 1</b>	-	-	-	243	245	488	-100%
<b>Unit 2</b>	473	478	951	189	395	585	63%
<b>Total Plant</b>	473	478	951	432	641	1,073	-11%
<b>% Availability</b>							
<b>Unit 1</b>	0%	0%	0%	70%	74%	72%	-100%
<b>Unit 2</b>	88%	88%	88%	49%	83%	66%	34%
<b>Total Plant</b>	44%	44%	44%	59%	78%	69%	-36%
<b>Capacity Factor</b>							
<b>Unit 1</b>	0%	0%		70%	37%	37%	-100%
<b>Unit 2</b>	72%	72%	73%	49%	60%	45%	62%
<b>Total Plant</b>	36%	44%	36%	59%	48%	41%	-11%

## **II. MARKETING – COMPARATIVE REPORT H1 2012 vs. H1 2011**

### **Coal**

Total coal sales volume in H1 2012 of 3.73 million MTs is 10% lower than H1 2011 sales of 4.16 million MTs. Although Q1 2012 sales of 1.67 million MTs was 2% stronger than 1.64 million MTs in Q1 2011, Q2 2012 sales volume of 2.06 million MTs was weaker by 18% as against 2.52 million MTs in Q2 2011.

The table below shows the comparative coal sales volume data as of H1 2012 and H1 2011.

COMPARATIVE SALES VOLUME DATA									
(in '000 MTs)									
CUSTOMER	Q1 '12	Q2 '12	H1 '12	%	Q1 '11	Q1 '11	H1 '11	%	%Inc (Dec)
<b>Power Plants</b>									
Calaca	205	285	490	13%	412	320	732	18%	-33%
Other PPs	325	382	708	19%	384	325	708	17%	0%
<b>TOTAL PPs</b>	<b>531</b>	<b>667</b>	<b>1,198</b>	<b>60%</b>	<b>795</b>	<b>645</b>	<b>1,440</b>	<b>71%</b>	<b>-17%</b>
<b>Other Industries</b>									
Cement	271	338	608	16%	186	127	313	8%	94%
Others	99	105	204	5%	199	77	276	7%	-26%
<b>Total Others</b>	<b>370</b>	<b>443</b>	<b>813</b>	<b>22%</b>	<b>384</b>	<b>205</b>	<b>589</b>	<b>14%</b>	<b>38%</b>
<b>TOTAL LOCAL</b>	<b>901</b>	<b>1,110</b>	<b>2,011</b>	<b>54%</b>	<b>1,180</b>	<b>850</b>	<b>2,030</b>	<b>49%</b>	<b>-1%</b>
<b>EXPORT</b>	<b>771</b>	<b>946</b>	<b>1,717</b>	<b>46%</b>	<b>462</b>	<b>1,665</b>	<b>2,127</b>	<b>51%</b>	<b>-19%</b>
<b>GRAND TOTAL</b>	<b>1,672</b>	<b>2,056</b>	<b>3,728</b>	<b>100%</b>	<b>1,641</b>	<b>2,516</b>	<b>4,157</b>	<b>100%</b>	<b>-10%</b>

Sales to power plants of 1.20 million MTs this year dropped by 17% from 1.44 million MTs last year, mainly as a result of the 33% decrease in SCPC off-take with only one plant running this year. Unlike last year, wherein both power units were up and running during the first half, although reliability of Unit 2 post-rehab was only fully realized at the start of Q2. Unit 1 was down for rehabilitation since September last year, thus explaining the drop in SCPC's coal requirements.

Meanwhile, sales to other power plants was maintained at 708 thousand MTs.

On the other hand, with three new customers this year, sales to cement plants increased by 94% at 608 thousand MTs from 313 thousand MTs.

Slower offtake by some small traders in Q1 2012 resulted to a 26% drop in sales to other industries at 204 thousand MTs from 276 thousand MTs last year. However, it is important to note that deliveries to these traders started to pick-up in Q2.

Total deliveries to domestic customers registered a slight 1% drop at 2.01 million MTs from 2.03 million MTs last year. The lower offtake of SCPC was offset by the increase in offtake for the cement plants. Export sales recorded a bigger decrease of 19% at 1.72 million MTs this year from 2.13 million MTs last year. With the softening in export prices, exports in Q2 2012 was tempered by the Company.

The drop in global coal prices resulted to a corresponding 6% decrease in composite average FOB price per MT at PHP2,847 from PHP3,014 last year.

### **Power**

From the total energy generated of 951GW in H1 2012, 913GW was sold and the balance was utilized for station use. There was very minimal spot purchase of 17GW in H1. Likewise, volume sold to spot market of 1GW was negligible. Hence, almost the entire energy sales was sold to bilateral contracts (BCQ). Sales in H1 is 19% lower

compared to the same period last year. Although energy generation was lower, contracted energy was met, hence, the almost nil spot purchase.

Of the total BCQ sales, 81% went to Meralco. Meralco share was doubled from last year after the power supply contract was successfully negotiated last December 2011. The share of the pie for energy sold to "Other" customers was further reduced to 1% due to the expiration of the direct power supply to Cavite Economic Zone, which now forms part of the Meralco contract. The balance of 18% of the pie are for BATELEC and Trans-Asia at 12% and 6%, respectively. Spot sales was negligible during the quarter.

Average H1 sales price per kWh registered at P4.28 against P4.69 in H1 2011.

The table below shows the comparative power sales volume data as of H1 2012 and H1 2011.

<b>COMPARATIVE SALES VOLUME DATA</b>									
<i>(in GWh)</i>									
<b>CUSTOMER</b>	<b>Q1 '12</b>	<b>Q2 '12</b>	<b>H1 '12</b>	<b>%</b>	<b>Q1 '11</b>	<b>Q1 '11</b>	<b>H1 '11</b>	<b>%</b>	<b>%Inc (Dec)</b>
BCQs	452	460	913	100%	353	466	819	73%	11%
Spot Sales	0.6	0.9	1.4	0%	94	215	308	27%	-100%
<b>GRAND TOTAL</b>	<b>453</b>	<b>461</b>	<b>914</b>	<b>100%</b>	<b>446</b>	<b>681</b>	<b>1,127</b>	<b>100%</b>	<b>-19%</b>

### **III. FINANCE**

#### **A. Sales and Profitability**

Consolidated Revenues, net of eliminating entries, decreased by 17% at PHP13.33 billion in the current period versus PHP15.97 billion last year. Coal Revenues, before elimination, dropped by 15% at PHP10.61 billion this year from PHP12.53 billion last year, resulting from lower sales volume and lower composite average price per MT. Coal Revenues after eliminations decreased by 12% at PHP9.42 billion from PHP10.69 billion last year. Meanwhile, with only one plant running at a derated capacity and lower average price per kwhr, energy Revenues dropped by 26% at PHP3.91 billion from PHP5.28 billion in H1 last year.

Consolidated Cost of Sales increased by 9% at PHP7.94 billion from PHP8.74 billion last year. Before elimination, Cost of Coal Sales dropped by 7% at PHP6.94 billion from PHP7.50 billion last year mainly due to lower volume sold. Net of elimination, cost of coal sold registered a slight decline of 1% at PHP5.58 billion from PHP5.62 billion due to lower volume sold with higher cost of coal sold per unit during the period compared to same period last year.

On the other hand power Cost of Sales decreased by 29% before elimination at PHP2.31 billion from PHP3.26 billion last year; and 28% after elimination at PHP2.36 billion from PHP3.26 billion last year. The decrease is a result of minimal spot purchases for replacement power this year compared to last year and lower coal fuel average cost.

The resulting consolidated Gross Profit amounted to PHP5.4 billion, with the coal and power segments each contributing PHP3.85 billion and PHP1.55 billion, respectively. This decreased by 25% compared to last year's consolidated Gross profit of PHP7.09 billion, PHP5.21 billion from coal and PHP2.02 billion from power. Gross profit margin decreased to 40% this year from 45% last year due to the combined effect of higher cost of coal beginning inventory and decrease in composite average price both for coal and energy sales.

Consolidated Operating Expenses decreased by 26% at PHP1.88 billion from PHP2.53 billion last year. The coal segment's Operating Expenses this year of PHP1.41 billion decreased by 25% from last year's PHP1.87 billion as Government Share dropped by 29% at PHP1.20 billion from PHP1.70 billion last year due to lower coal revenues during the period. The power segment also recorded a decrease of 16% at PHP442.90 million from PHP523.76 million last year mainly due to reduced O&M fees amounting to P100M or 32% lower compared with same period last year. The pre-operating Southwest Luzon Power Generation Corp. (SLPGC), a wholly-owned subsidiary of the Company incorporated to expand its power capacity with the construction of 2 x 150 MW power plants, incurred PHP18.95 million pre-operating expenses, representing taxes, licenses and fees incurred during the period.

Consolidated Finance Costs dropped by 4% at PHP244.65 million from PHP235.10 million last year. Although the coal segment's interest-bearing loans increased by 33% at PHP4.53 billion from PHP3.39 billion last year, reduction in interest rates brought down its Finance Costs by 19% at PHP37.06 million from PHP46.02 million last year. On the other hand, although the PHP9.6 billion long-term project financing debt of the power segment dropped to PHP7.68 billion, after it started servicing the loan, availment of short-term working capital loans, increased its Finance Costs by 10% at PHP191 million from PHP174 million last year.

Consolidated Finance Revenues decreased by 43% at PHP28.41 million from PHP50.19 million last year. The drop is a combined effect of lower cash and lower placement interest rates. The coal segment's investible funds reduced after its additional equity infusion of PHP2.41 billion to SLPGC, thus its Finance Revenues decreased by 66% at PHP9.48 million from PHP28.18 million last year. The power segment's Finance Revenues also dropped by 14% at PHP18.93 million from PHP22.01 million last year after using most of its cash this year for debt service and payment of dividends.

Consolidated Forex Gains improved by 2334% at PHP169.92 million from PHP6.98 million last year. This is due to the continuous strengthening of the peso against the dollar. The coal segment recognized PHP168.84 million of Forex Gains this year as



compared to PHP5.85 million last year as most of its loans are in USD; while with minimal Forex exposure, the power segment's Forex Gains registered at PHP1.08 million from PHP1.13 million last year.

Consolidated Other Income increased by 175% at PHP164.54 million from PHP59.83 million generated by the coal segment last year from gain on sale of retired assets. The coal segment's Other Income this year which increased by 94% at PHP116.30 million included gain on sale of retired assets, sale of electricity and insurance claims. Meanwhile, the power segment's Other Income of PHP48.24 million is mainly composed of sale of fly ash.

The resulting consolidated Income Before Tax stood at PHP3.64 billion, with the coal segment and power segment contributing PHP2.67 billion and PHP983.31 million, respectively, while SLPGC registered a loss of 18.95 million. This is 21% lower than last year's consolidated Income Before Tax of PHP4.56 billion, with coal and power segments contributing PHP3.24 billion and PHP1.34 billion, respectively.

Both the coal and power segments enjoy Income Tax Holidays as Board of Investments (BOI)-registered companies. SLPGC's application for BOI registration was also approved recently. Consolidated Income Tax Provision remained minimal at PHP2.78 million this year representing final tax, lower by 56% than last year's PHP6.35 million. The coal and power segments' tax provision in the current period was at PHP1.15 million and PHP1.63 million, respectively.

The resulting Net Income After Tax decreased by 21% at PHP3.63 billion from PHP4.58 billion last year. Coal and power respectively generated PHP2.67 billion, PHP1.63 billion, and PHP21.67 million this year, while SLPGC recorded a net loss of PHP18.95 million. Earnings per Share (EPS) correspondingly decreased by 21% at PHP10.20 from PHP12.85 last year.

## **B. Solvency and Liquidity**

Consolidated Cash Provided by Operations in H1 dropped by 48% at PHP3.29 billion this year as compared to last year's PHP6.32 billion. Operating Income Before Working Capital Changes decreased by 22% at PHP5.0 billion from PHP6.41 billion last year. Moreover, consolidated working capital requirements this year is 1909% more at PHP1.71 billion from PHP85.03 million last year. Decrease in Trade and Other Payables and increase in Receivables and Inventories were the main causes for the increase in the current period's working capital.

Advance payments of the Company's expansion of power assets mainly comprised the Cash Outflow from Investing Activities of PHP4.68 billion, recording a 151% increase from last year's PHP1.87 million.

Cash dividends payment is higher this year as dividend per share increased from PHP10 last year to PHP12. However, the Company availed more loans for its Capex, while SLPGC had its initial drawdown of PHP550 million from its project finance facility set up for the power expansion. As a result, Cash Flows from Financing Activities dropped by 40% at PHP2.09 billion from PHP3.49 billion last year.

Consolidated Net Cash Outflow this year stood at PHP3.68 billion as against net inflow of PHP813.30 million last year. Although consolidated beginning cash is 31% healthier at PHP5.01 billion this year as compared to PHP3.81 billion last year, consolidated cash end is 71% lower at PHP1.33 billion from PHP4.63 billion last year.

Current ratio is lower this year at 1.02x as compared to 1.63x as at the end of H1 2011.

### **C. Financial Condition**

Consolidated Total Assets closed at PHP35.47 billion, just about the same as beginning balance level of PHP35.62 billion. Net of eliminations, the coal and power segments' Total Assets stood at PHP10.31 billion and PHP21.34 billion, respectively. SLPGC and Sem-Cal Industrial Park Developers, Inc. (SIPDI), another wholly-owned subsidiary, incorporated to develop the Calaca property into an economic zone, recorded Total Assets of PHP3.80 billion and PHP2.50 million, respectively.

Consolidated Current Assets dropped by 27% at PHP10.27 billion from PHP14.16 billion last year. Coal, power, SLPGC, and SIPDI accounted for PHP6.15 billion and PHP3.66 billion, PHP456.32 million, and PHP2.50 million, respectively.

The 73% decrease in consolidated Cash and Cash Equivalents at PHP1.33 billion from PHP5.01 billion beginning level mainly accounted for the decrease in consolidated Current Assets. The substantial decrease in Cash is attributable to payment of dividends and payment of Trade and Other Payables, particularly the down payment for the 2 x 150MW power plant expansion.

The decrease in consolidated Cash and Cash Equivalents was partially offset by the 10% growth in consolidated Net Receivables at PHP3.53 billion from PHP3.22 billion due to higher coal and power receivables at cut-off dates from beginning balances. The coal and power segments Receivables of PHP2.06 billion and PHP1.46 billion, respectively, are mainly trade related.

Consolidated Net Inventories dropped by 5% at PHP4.36 billion from PHP4.59 billion as at the start of the year. The coal segment's ending Inventory of PHP3.14 billion is mainly comprised of cost of ending coal inventory and materials and supplies, while the power segment's Inventory of PHP1.22 billion is mainly from spareparts inventory for corrective, preventive and predictive maintenance program.

During the period, the Company accounted for Due from Affiliated Companies of 90.30 million, of which PHP69.26 million is from coal and PHP21.03 million from power. These receivables from affiliates are accrued in the normal and ordinary course of business which are included under "Receivable" account.

Consolidated Other Current Assets reduced by 1% at PHP969.32 million from PHP1.31 billion beginning balance. The coal segment's Other Current Assets of PHP683.12 million is mainly comprised of creditable withholding taxes, advances to suppliers, and pre-paid insurance. Meanwhile, the power segment's Other Current Assets amounting of PHP286.20 million mainly accounted for advances to suppliers and pre-paid insurance.

Consolidated Non-Current Assets increased by 17% at PHP25.19 billion from PHP21.50 billion beginning balance. Coal, power, and SLPGC accounted for PHP4.16 billion and PHP17.69 billion, and PHP3.34 billion, respectively.

The 9% increase in consolidated non-current assets came mainly from the increase in consolidated net PPE at PHP24.43 billion from PHP20.74 billion beginning balance. Down payments were made to suppliers for the expansion of power capacity under SLPGC, while the coal segment also purchased additional mining equipment to replace its retired assets. Coal, power, and SLPGC accounted for net PPE of PHP4.00 billion and PHP17.09 billion, and PHP3.34 billion, respectively.

Consolidated Investments and Advances posted a minimal 1% growth at PHP498.09 million from PHP490.79 million beginning balance. The whole amount is attributed to the power segment for this period.

SLPGC accounted for Deferred Tax Assets of PHP6.07 million for which was recognized in 2011 for future tax deductibility of recorded losses. In 2011, consolidated Deferred Tax Assets closed at PHP17.41, thus current balance reflected a 65% reduction.

Consolidated Other Non-Current Assets slightly increased by 3% at PHP264.24 million from PHP258.4 million as at the start of the year. Coal and power segments accounted for PHP164.80 million and PHP99.45 million, respectively.

Meanwhile Consolidated Total Liabilities increased by 2% at PHP21.30 billion from PHP20.82 billion beginning balance. Coal, power, SLPGC and SIPDI accounted for PHP9.90 billion, PHP10.84 billion, PHP561.36 million and PHP0.05 million, respectively.

Consolidated Total Current Liabilities decrease by 12% at PHP10.02 billion from PHP11.3 billion beginning balance. Coal, power, SLPGC and SIPDI accounted for PHP6.00 billion, PHP4.01 billion, PHP11.36 million and PHP0.05 million, respectively.

Consolidated Trade and Other Payables decrease by 20% at PHP5.89 billion from PHP7.30 billion beginning balance after payment of the balance of the coal segment's government share for prior year of P905.0 million and settlement of other trade

accounts for both coal and power segments. Coal, power, SLPGC and SIPDI respectively accounted for PHP4.0 billion and PHP1.85 billion, PHP11.36 million and PHP0.05 million of Trade and Other Payables.

Consolidated Current Portion of Long-Term Debt dropped by 52% at PHP1.45 billion from beginning balance of PHP2.99 billion after payment of maturities. Of the current balance, coal and power accounted for PHP679.94 million and PHP768 million, respectively.

Consolidated Short-Term Loans increased by 165% at PHP2.68 billion from PHP1.01 billion beginning balance as both coal and power segments availed of bridge loans for working capital requirement. Coal and power accounted for PHP1.29 billion and PHP1.38 billion, respectively.

Meanwhile, the coal and power segments accounted for Due to Affiliated Companies amounting of PHP57.86 million and PHP165.65 million, respectively, consolidating to PHP223.51 million. These payables were accrued in the normal and ordinary course of business and included under "Trade and Other Payable" account.

Consolidated Total Non-Current Liabilities increased by 18% at PHP11.28 billion, from PHP9.52 billion beginning balance. Coal, power, and SLPGC accounted for PHP3.89 billion, PHP6.83 billion and PHP550million, respectively.

The Increase in consolidated Total Non-Current Liabilities is mainly due to the coal segment's availment of medium-term loans to finance its Capex during the period and the initial drawdown of SLPGC's project finance facility. Consolidated Long-Term Debt increased by 19% at PHP11.23 billion from PHP9.47 billion beginning balance, of which coal, power, and SLPGC accounted for PHP3.85 billion, PHP6.83 billion, and PHP550million, respectively.

There were no movements in other Non-Current Liabilities accounts during the period.

After payment of dividends amounting to PHP4.28 billion and accounting of income generation of PHP3.63 billion, consolidated Stockholders' Equity decreased by 6% at PHP14.17 billion from PHP14.81 billion as at the start of the year. Stockholders' Equity of coal, power, SLPGC and SIPDI closed at PHP12.51 billion, PHP1.68 billion, (PHP24.67) million and (PHP0.05) million, respectively.

Debt-to-Equity ratio decreased by 7% at 1.50:1 from 1.41:1 as at the start of the year.

#### IV. PERFORMANCE INDICATORS:

1. **Earnings per Share** – Despite unfavorable market conditions for the coal segment and limited capacity of the power segment the Company's strong income generation during the period is reflected in its healthy EPS.
2. **Debt-to-Equity Ratio** – As a measure of the Company's financial condition, the current period's DE Ratio reflects a strong balance sheet. This allows the Company to continue enjoy competitive borrowing rates. On 24 February, financial close for its 2 x 150 MW power plants expansion was obtained, with best commercial terms.
3. **Business Expansion** – The forward-integration into the power business proved to be beneficial for the Company. It improves its coal recovery as its power assets are the only local plants that could use unwashed coal as of this time. Moreover, it creates a multiplier effect of the value its coal reserves, as evidenced by the positive income generation of the power assets since their acquisition. Finally, it safeguards the Company's income generation from unfavorable market developments in the the coal industry. These are sound motivations for the Company to further expand its power capacities.
4. **Expanded Market** – The Company's current marketing strategy evolves in developing more domestic demand for coal by providing customers incentives to fully refurbish their plants to be able to use 100% Semirara coal. This is over and above the expansion program of its power business.

Meanwhile, the power segment's supply contract with Meralco is the ideal solution for a base load plant as it offers a reliable and stable market for power. Pricing mechanism for the bilateral contracts provide cushion to the highly volatile spot prices.

5. **Improved coal quality** – While the Company continues to implement measures to improve coal quality for its domestic customers, the power segment is on experimentation stage as it tried to blend unwashed coal with clean coal for fuel. During the period, its experiment proved successful for Unit 2 but the Company is still in the process of finding the perfect fuel mix ratio and determining whether this strategy is sustainable for both Units. This development brings more promising upside for the Company as this will improve coal recovery and save coal washing cost.

## **PART II OTHER INFORMATION**

### **Other disclosures:**


- a. The Group's operation is not cyclical in nature or seasonal. Mining activities is continuous throughout the year;
- b. There were no issuances, repurchases, and repayments of debt in equity securities which transpired during the quarter;
- c. There are no subsequent events, that came to our knowledge, which are material enough to warrant an adjustment in the consolidated financial statements;
- d. The Group has no contingent assets nor liabilities known as of financial position date.


### **PART III SIGNATURES**


Pursuant to the requirement of the Revised Securities **Code**, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Issuer: **SEMIRARA MINING CORPORATION**

**Signature and Title:**

  
**VICTOR A. CONSUNJI**  
Principal Executive and Operating Officer  
Date: August 13, 2012

  
**JUNALINA S. TABOR**  
Chief Finance Officer  
Principal Financial Officer/Comptroller  
Date: August 13, 2012

  
**LEANDRO D. COSTALES**  
Principal Accounting Officer  
Date: August 13, 2012

## PART IV - ANNEX A

SEMIRARA MINING CORPORATION  
AGING OF ACCOUNTS RECEIVABLE

(in Php000)	TOTAL	Current	2 - 3 Mon	4 - 6 Mon	7 Mon - 1 Yr	Allow for DA
<b>A. AR TRADE RECEIVABLES</b>						
<b>COAL</b>						
PNOC	87,929	24,081	63,848	-	-	-
TPC	101,552	101,552	-	-	-	-
APO	77,639	43,615	34,024	-	-	-
JPC	24,479	24,479	0	-	-	-
SOLID	72,608	22,251	50,356	-	-	-
SCMC	2,585	1,169	1,416	-	-	-
HOLCIM	156,510	53,639	102,805	66	-	-
CEDC	136,185	126,996	-	9,188	-	-
PEDC	67,940	24,272	43,668	-	-	-
ECC	29,453	23,049	6,404	-	-	-
RCC	244,897	129,419	101,765	13,712	-	-
UPPC	8,737	-	8,737	-	-	-
EXPORT	1,037,551	183,917	853,634	-	-	-
<b>POWER</b>						
POZZOLANIC	23,195	23,195	-	-	-	(53,524)
CAVITE ECOZONE	9,100	-	-	-	9,100	-
ECSCO	1,325	1,137	37	151	-	-
JORAM	2,323	2,306	-	17	-	-
MERALCO	907,853	471,520	-	9,533	426,801	-
PUYAT STEEL	4,698	4,550	-	148	-	-
STEEL CORP.	12,187	12,002	0	185	-	-
BATELEC	152,619	114,450	23,741	12,225	2,203	-
PEMC	302,638	19,959	-	-	282,679	-
ABOITIZ POWER	177	-	-	-	177	-
TEAM ENERGY	31	-	-	-	31	-
TRANS-ASIA OIL & ENERGY	90,492	89,599	893	0	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
	<b>3,554,704</b>	<b>1,497,160</b>	<b>1,291,328</b>	<b>45,225</b>	<b>720,990</b>	<b>(53,524)</b>
	53,524					
Less: Allowance for doubtful account						
	<b>3,501,180</b>					
<b>B. NON - TRADE RECEIVABLES</b>						
<b>COAL</b>						
Advances-Officers	2,724	2,724	-	-	-	(15,367)
Advances-Employees	1,202	1,202	-	-	-	-
Advances-Contractors	13,238	13,238	-	-	-	-
Advances-For liquidation	7,994	7,994	-	-	-	-
Advances-SSS Claims	558	558	-	-	-	-
Advances-Others	267	267	-	-	-	-
Advances-Medical Accounts	2,777	2,777	-	-	-	-
<b>POWER</b>						
Advances-Officers	18	18	-	-	-	-
Advances-Employees	24	24	-	-	-	-
Advances-For liquidation	2,268	2,268	-	-	-	-
Advances-SSS Claims	30	30	-	-	-	-
Adv.for Govt Institutions	6,703	6,703	-	-	-	-
Advances-Others	1,686	1,686	-	-	-	-
Advances-For liquidation	28	28	-	-	-	-
	<b>39,519</b>	<b>39,519</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(15,367)</b>
Less: Allowance for D/A-AR Others	15,367					
Net NON - TRADE RECEIVABLE	<b>24,151</b>					
<b>C. DUE FROM AFFILIATED COMPANIES</b>						
	90,297					
<b>NET RECEIVABLES ( A + B + C )</b>	<b>3,615,628</b>					



**SEMIRARA MINING CORPORATION**  
**FINANCIAL RISK MANAGEMENT DISCLOSURES**  
**As of June 30, 2012**

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

The Group's financial liabilities comprise bank loans, trade and other payables, and loans. 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 prices
- Interest rate risk – market interest rate on unsecured bank loans
- Foreign currency risk – yearly movement in the foreign exchange rates

The assumption used in calculating the sensitivity analyses of the relevant income statement is the effect of the assumed changes in respective market risks.

**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 its coal 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 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 the risk, the Group continues to improve the quality of its coal and diversify its market from power industry, cement industry, or 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, forex).

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

	<u>06/30/2012</u>	<u>12/31/2011</u>
Domestic Market	53.95%	62.73%
Export Market	46.05%	37.27%
<i>as a percentage of total coal sales volume</i>		

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

	Effect on income <u>before income tax</u>	
<i>Based on ending coal inventory</i>	<u>06/30/2012</u>	<u>12/31/2011</u>
<u>Change in coal price</u>		
Increase by 30%	822,837,547	915,760,551
Decrease by 30%	(822,837,547)	(915,760,551)
	Effect on income <u>Before income tax</u>	
<i>Based on coal sales volume</i>	<u>06/30/2012</u>	<u>12/31/2011</u>
<u>Change in coal price</u>		
Increase by 30%	3,184,084,417	6,019,117,161
Decrease by 30%	(3,184,084,417)	(6,019,117,161)

## **Interest Rate Risk**

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

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

<b>June 30, 2012</b>							
	Interest	Within1 year	1-2 years	2-3 years	3-4 years	More than 4 years	Carrying Value
(In Thousands)							
Cash equivalents	2% to 4.5%	762,092	-	-	-	-	762,092
Short-term Loans	3.75% - 4.00% payable within 30days maximum 360days	1,885,000	-	-	-	-	1,885,000
Foreign Long-term debts at floating rate							
\$3.20 million loan (USD)	1.59-2.88% payable in arrears, to be repriced every 90 days	134,784	-	-	-	-	134,784
\$37.66 million loan (USD)	1.94% p.a. payable semi-annually in arrears, to be repriced every 6 months	-	1,586,225	-	-	-	1,586,225
\$15.70 million loan (USD)	1.80 p.a. for 92 days, to be repriced every 30 to 180 days	-	661,436	-	-	-	661,436
\$29.85 million loan (USD)	1.82% p.a., to be repriced every 3 months	-	1,257,104	-	-	-	1,257,104
\$21.11 million loan (USD)	103% - 1.10% p.a., payable in 3-4 months; principal to be paid at maturity	545,159	344,187	-	-	-	889,346
Mortgage Payable at floating rate	PDST-F benchmark yield for three-month treasury securities + 1.00%	-	-	-	-	550,000	550,000
Mortgage Payable at floating rate	PDST-F benchmark yield for three-month treasury securities + 1.75%	1,512,304	1,517,687	1,523,090	1,528,512	1,534,294	7,615,888
		4,077,247	5,366,638	1,523,090	1,528,512	2,084,294	14,579,782
<b>December 31, 2011</b>							
	Interest	Within1 year	1-2 years	2-3 years	3-4 years	More than 4 years	Carrying Value
(In Thousands)							
Cash equivalents	1.80% to 4.62%	3,896,715	-	-	-	-	3,896,715
Foreign Long-term debts at floating rate							
\$3.20 million loan (USD)	1.59-2.88% payable in arrears, to be repriced every 90 days	140,228	-	-	-	-	140,228
\$29.96 million loan (USD)	1.94% p.a. payable semi-annually in arrears, to be repriced every 6 months	639,057	674,531	-	-	-	1,313,588
\$15.70 million loan (USD)	1.80 p.a. for 92 days, to be repriced every 30 to 180 days	442,382	246,064	-	-	-	688,446
\$23.45 million loan (USD)	1.82% p.a., to be repriced every 3 months	240,239	788,014	-	-	-	1,028,253
\$21.11 million loan (USD)	103% - 1.10% p.a., payable in 3-4 months; principal to be paid at maturity	-	925,663	-	-	-	925,663
Mortgage Payable at floating rate	PDST-F benchmark yield for three-month treasury securities + 1.75%	1,508,877	1,514,248	1,519,639	1,525,049	2,297,759	8,365,572
		2,970,783	4,148,520	1,519,639	1,525,049	2,297,759	12,461,750

## **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 sufficiently 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 accounts receivables. Although accounts 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 to avoid past due collectibles.

As part of its liquidity risk management, the Group regularly evaluates its projected and actual cash flows. It also continuously assesses the 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 June 30, 2012 and December 31, 2011 based on undiscounted contractual payments.

	Within 6 months	Next 6 months	1-2 years	2-3 years	More than 3 years	Total
<b>June 30, 2012</b>						
<b>Cash and cash equivalents</b>	1,327,087					1,327,087
<b>Receivables</b>						
Trade						
Local sales	1,001,778					1,001,778
Export sales	1,037,551					1,037,551
Electricity sales	1,453,114					1,453,114
Due from related parties	90,297					90,297
Others	27,542					27,542
<b>Security deposits</b>	-					-
<b>Environmental guarantee fund</b>					1,500	1,500
	<u>4,937,368</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,500</u>	<u>4,938,868</u>
						4,938,868
<b>Trade and other payables</b>						
Trade	3,723,711					3,723,711
Accrued expenses and other payables	193,582					193,582
Due to related parties	223,512					223,512
<b>Short term loans</b>	791,213	1,885,000				2,676,213
<b>Long term debt at floating rate</b>						
\$3.20 million loan (USD) with interest payable in arrears, to be repriced every 90 days	-	134,784				134,784
\$29.96 million loan (USD) with interest payable semi-annually in arrears, to be repriced every six (6) months	-	-	1,586,225			1,586,225
\$15.70 million loan (USD) with interest payable in arrears, to be repriced every 30 to 180 days	-	-	661,436			661,436
\$23.45 million loan (USD) with interest payable in arrears, to be repriced every 30 to 180 days	-	-	1,257,104			1,257,104
\$21.11 million loan (USD) with interest payable in arrears, to be repriced every 90 to 180 days	-	545,159	889,346			1,434,505
P11.5 billion (initial) at PDST-F benchmark yield for 3-month treasury securities + 1.00%	-	-	-		550,000	550,000
P9.60 billion at PDST-F benchmark yield for 3-month treasury securities + 1.75%	15,947	1,528,250	1,532,834	1,538,291	3,093,371	7,708,692
	<u>4,947,966</u>	<u>4,093,193</u>	<u>5,926,943</u>	<u>1,538,291</u>	<u>3,643,371</u>	<u>20,149,763</u>
	<u>(10,597)</u>	<u>(4,093,193)</u>	<u>(5,926,943)</u>	<u>(1,538,291)</u>	<u>(3,641,871)</u>	<u>(15,210,895)</u>
<b>December 31, 2011</b>						
<b>Cash and cash equivalents</b>	4,989,794					4,989,794
<b>Receivables</b>						
Trade						
Local sales	942,197	8,258				950,455
Export sales	108,414					108,414
Electricity sales	834,042	1,105,809				1,939,851
Due from related parties	199,111					199,111
Others	6,492	8,705				15,197
<b>Security deposits</b>	-					-
<b>Environmental guarantee fund</b>					1,500	1,500
	<u>7,080,050</u>	<u>1,122,772</u>	<u>-</u>	<u>-</u>	<u>1,500</u>	<u>8,204,322</u>
<b>Trade and other payables</b>						
Trade	5,000,033	10,796				5,010,830
Accrued expenses and other payables	238,222					238,222
Due to related parties	142,174	323				142,497
<b>Short term loans</b>	1,010,692					1,010,692
<b>Long term debt at floating rate</b>						
\$3.20 million loan (USD) with interest payable in arrears, to be repriced every 90 days	810	140,778				141,588
\$29.96 million loan (USD) with interest payable semi-annually in arrears, to be repriced every six (6) months	7,628	649,524	675,016			1,332,167
\$15.70 million loan (USD) with interest payable in arrears, to be repriced every 30 to 180 days	3,461	447,369	246,064			696,894
\$23.45 million loan (USD) with interest payable in arrears, to be repriced every 30 to 180 days	5,533	246,646	791,123			1,043,302
\$21.11 million loan (USD) with interest payable in arrears, to be repriced every 90 to 180 days	4,985	4,985	932,310			942,280
P9.60 billion at PDST-F benchmark yield for 3-month treasury securities + 1.75%	25,446	1,477,733	1,568,361	1,573,172	3,957,135	8,601,846
	<u>6,438,986</u>	<u>2,978,154</u>	<u>4,212,873</u>	<u>1,573,172</u>	<u>3,957,135</u>	<u>19,160,320</u>
	<u>641,063</u>	<u>(1,855,382)</u>	<u>(4,212,873)</u>	<u>(1,573,172)</u>	<u>(3,955,635)</u>	<u>(10,955,998)</u>

(in Php000)

## Foreign Currency Risk

The Group's foreign exchange risk results primarily from movements of the Philippine Peso (₱) against the US\$. Majority of revenue are generated in Pesos, however, substantially all of capital expenditures are in US\$.

The foreign currency-denominated loans of the Group are matched with the dollar revenues earned from export sales; hence, this is not viewed by the Group as a significant currency risk exposure.

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

	June 30, 2012		December 31, 2011	
	U.S. Dollar	Peso Equivalent	U.S. Dollar	Peso Equivalent
<b>Assets</b>				
Cash and cash equivalents	\$ 532,529	22,430,136	\$ 27,878,828	1,222,207,823
Trade receivables	24,633,206	1,037,550,640	2,472,940	108,413,708
	\$ 25,165,735	1,059,980,776	30,351,768	1,330,621,531
<b>Liabilities</b>				
Trade payables	\$ 9,186,212	386,923,265	1,023,013	44,848,885
Short-term loans	14,019,341	591,758,239	23,054,106	1,010,692,002
Long-term debt (including current portion)	107,523,594	4,528,893,798	93,436,089	4,096,238,127
	\$ 130,729,147	5,507,575,302	117,513,208	5,151,779,014
<b>Net foreign currency denominated assets (liabilities)</b>	<b>\$ (105,563,412)</b>	<b>(4,447,594,527)</b>	<b>\$ (87,161,440)</b>	<b>(3,821,157,483)</b>

The spot exchange rates used in June 30, 2012 and December 31, 2011 were 42.42 to US\$1 and 43.84 to US\$1, 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 June 30, 2012 and 2011.

Reasonably possible change in foreign exchange rate for every five units of Philippine Peso	Increase (decrease) in profit before tax	
	30-Jun-12	31-Dec-11
2	(211,186,825)	(174,322,880)
(2)	211,186,825	174,322,880

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

## **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 trades only 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 to the Group's approval, hence, mitigating the risk on collection. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. The Group generally offers 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.

With respect to the credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents, other receivables, security deposits and environmental guarantee fund, the exposure to credit risk arises from default of the counterparty, with a maximum exposure 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 that have proven track record in financial soundness.

The credit risk is concentrated to the following markets:

	<b>6/30/2012</b>	<b>12/31/2011</b>
Trade		
Electricity	<b>56.48%</b>	<b>62.48%</b>
Local sales	<b>38.94%</b>	<b>30.61%</b>
Due from related parties	<b>3.51%</b>	<b>6.41%</b>
Other receivables	<b>1.07%</b>	<b>0.49%</b>
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>

The table below shows the maximum exposure to credit risk of the Group :

	<b>Gross Maximum Exposure</b>	
	<b>6/30/2012</b>	<b>12/31/2011</b>
Cash and cash equivalents	<b>1,327,087</b>	4,989,794
Receivables		
Trade		
Local coal sales	<b>1,001,778</b>	950,455
Electricity sales	<b>1,453,114</b>	1,939,851
Due from related parties	<b>90,297</b>	199,111
Others	<b>27,542</b>	15,197
Environmental Guarantee Fund	<b>1,500</b>	1,500
<b>Total credit risk exposure</b>	<b>3,901,318</b>	<b>8,095,908</b>

## **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. There were no changes made in the Group's capital management objectives, policies or processes.

The following table shows the component of the Group's capital as of June 30, 2012 and 2011:

	6/30/2012	12/31/2011
Total paid-up capital	7,031,777	7,031,777
Retained earnings – unappropriated	6,435,758	7,076,762
Retained earnings – appropriated	700,000	700,000
	<b>14,167,536</b>	14,808,540
	3/31/2012	12/31/2011
Long Term Interest Bearing Loan	12,676,467	12,461,811
Total equity	14,167,536	14,808,540
Debt to Equity Ratio	89.48%	84.15%
EPS	20.40	16.93
Weighted Average no of Share	177,151,639	356,250,000

*in Php000*

## **Fair Values**

The following tables set forth the carrying values and estimated fair values of the Group's financial assets and liabilities recognized as of June 30, 2012 and December 31, 2011.

	Carrying Value	Fair Value	Carrying Value	Fair Value
<b>Financial Assets</b>				
Loans and receivables <sub>2</sub>				
Cash and cash equivalents	1,327,087	1,327,087	4,989,794	4,989,794
Trade				
Electricity sale	1,453,114	1,453,114	1,939,851	1,939,851
Local sales	1,001,778	1,001,778	950,455	950,455
Export sales	1,037,551	1,037,551	108,414	108,414
Due from related parties	90,297	90,297	199,111	199,111
Others	27,542	27,542	15,197	15,197
Environmental Guarantee Fund	1,500	1,500	1,500	1,500
Total	<b>4,938,868</b>	<b>4,938,868</b>	<b>8,204,322</b>	<b>8,204,322</b>
	Carrying Value	Fair Value	Carrying Value	Fair Value
<b>Financial Liabilities</b>				
Other financial liabilities:				
LCs and short term notes payable	2,676,213	2,676,213	1,010,692	1,010,692
Long-term debt	12,694,782	12,694,782	12,461,811	12,461,811
Trade and other payables				
Trade payables	3,723,711	3,723,711	5,010,830	5,010,830
Accrued expenses and other payables	193,582	193,582	142,497	142,497
Due to related parties	223,512	223,512	238,222	238,222
Total	<b>19,511,801</b>	<b>19,511,801</b>	<b>18,864,052</b>	<b>18,864,052</b>

*(in Php000)*



The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate such value:

*Financial Assets*

Due to the short-term nature of the transactions, the fair value of cash and cash equivalents and receivables approximate carrying amounts at the reporting date.

*Financial Liabilities*

Trade and other payables

The fair values of trade and other payables approximate their carrying amounts as of reporting dates due to the 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 market conditions.

Fair Value Hierarchy

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

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

As of June 30, 2012 and December 31, 2011, the Group does not have financial instruments measured at fair value.