December 31, 2011 and 2010 and Years Ended December 31, 2011, 2010 and 2009 and Independent Auditors' Report

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR CONSOLIDATED FINANCIAL STATEMENTS

The management of **SEMIRARA MINING CORPORATION** is responsible for the preparation and fair presentation of the consolidated financial statements for the years ended December 31, 2011 and 2010, including the additional components attached therein, in accordance with Philippine Financial Reporting Standards. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

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

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

Signed this 6th day of March 2012.

DAVID M. CONSUNJI
Chairman of the Board

ISIDRO A. CONSUNJI
Chief Executive Officer

JUNALINA S. TABOR
Chief Finance Officer

AUDIT COMMITTEE REPORT TO THE BOARD OF DIRECTORS

The Audit Committee ("Committee") assists the Board of Directors ("Board") in fulfilling oversight of the following matters consistent with its Board-approved Audit Committee Charter:

(1) Internal control environment,
(2) financial reporting process and the financial statements,
(3) external audit performance,
(4) internal audit performance,
(5) risk management, and
(6) compliance with legal and regulatory requirements and reporting standards.

The Committee is comprised of three (3) Members of the Board, two of whom are Independent Directors. An Independent Director chairs the Committee. The Committee Members meet the experience and other qualification requirements of the Securities and Exchange Commission.

In 2011, the Audit Committee had ten (10) meetings, all of which were in-person meetings that included sessions with Management, external auditor SGV & Co., internal audit manager, corporate counsel, Compliance Officer and Compliance Committee. Meetings were presided by the Committee Chairman with attendance by all its Members, except in May 6, 2011 when said meeting was held with a quorum of two Members.

In the discharge of its roles and responsibilities, the Audit Committee confirms that :

- *The Committee reviewed and discussed with Management and SGV & Co. the annual audited consolidated financial statements of Semirara Mining Corporation and Subsidiaries as of and for the year ended December 31, 2011. It also reviewed significant related party transactions to ensure a transparent and fair view that meet shareholder needs. The review is done in the context that Management has the primary responsibility for the financial statements and the financial reporting process, and that SGV & Co. is responsible for expressing an opinion on the conformity of the Company's audited consolidated financial statements with Philippine Financial Reporting Standards;*
- *The Committee reviewed and discussed with Management the quarterly unaudited financial statements of Semirara Mining Corporation during the year and recommended these for Board approval;*
- *The Committee reviewed and approved SGV & Co.'s overall audit scope, plan and audit-related services, fees and terms of engagements; it also reviewed and discussed the external audit performance, independence and qualifications. It is recommending to the Board the re-appointment of SGV & Co. as the Company's independent external auditor for 2012;*
- *The Committee reviewed and discussed audit findings, internal control and compliance issues with Management, SGV & Co., Internal Audit and Compliance Committee, and ensured Management responded appropriately for the continuous improvement of controls and risk management processes. The oversight is done in the context that Management has the responsibility and accountability for addressing internal control and compliance with legal and regulatory matters;*
- *The Committee approved Internal Audit's 2011 annual plan based on a risk-based approach and ensured Management provided adequate resources to support the function and maintain its independence. It met in executive sessions with the Internal Audit Manager to review and discuss Internal Audit's performance and Quality Assurance and Improvement Program initiative;*
- *The Committee discussed with Management the results of risk reviews and identified key risks to the Company's mission and strategic objectives, ensuring that the Company's Enterprisewide Risk Management framework is adequately supported by management information systems, risk mitigation measures, monitoring and reporting. It monitored through the Internal Audit the effectiveness of risk management strategies and action plans undertaken by Management to address and manage such risks. The oversight is done in the context that Management has the primary responsibility for the risk management process; and*
- *The Committee continued to support the Company's governance framework through continual review and endorsement to the Board of good governance policies and best practices.*

Based on the reviews and discussions referred to above, and subject to the limitations on the Committee's roles and responsibilities referred to above, the Audit Committee recommends to the Board of Directors the inclusion of the Company's audited consolidated financial statements as of and for the year ended December 31, 2011 in the Company's Annual Report to the Stockholders and for filing with the Securities and Exchange Commission.

March 6, 2012

VICTOR C. MACALINCAG
Committee Chair
Independent Director

FEDERICO E. PUNO
Member
Independent Director

VICTOR A. CONSUNJI
Member

Independent Auditors' Report

The Stockholders and the Board of Directors
Semirara Mining Corporation

We have audited the accompanying consolidated financial statements of Semirara Mining Corporation and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2011 and 2010, and the consolidated statements of comprehensive income, statements of changes in equity and statements of cash flow for each of the three years in the period ended December 31, 2011, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Semirara Mining Corporation and its subsidiaries as at December 31, 2011 and 2010, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2011 in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.

Jessie D. Cabaluna

Jessie D. Cabaluna
Partner
CPA Certificate No. 36317
SEC Accreditation No. 0069-AR-2 (Group A),
February 11, 2010, valid until February 10, 2013
Tax Identification No. 102-082-365
BIR Accreditation No. 08-001998-10-2009,
June 1, 2009, valid until May 31, 2012
PTR No. 3174583, January 2, 2012, Makati City

March 6, 2012

Consolidated Statements of Financial Position

	December 31	
	2011	2010
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 4, 28 and 29)	**₱5,005,240,275**	₱3,813,283,517
Receivables (Notes 3, 5, 17, 28 and 29)	**3,215,781,247**	3,183,300,192
Inventories (Notes 3, 6, 8 and 33)	**4,592,835,539**	2,356,684,774
Other current assets (Notes 7 and 29)	**1,310,428,666**	912,018,769
Total Current Assets	**14,124,285,727**	10,265,287,252
Noncurrent Assets		
Property, plant and equipment (Notes 3, 8, 19, 20 and 33)	**20,737,333,275**	19,582,414,736
Investments and advances (Notes 3, 9 and 12)	**490,789,157**	310,229,558
Pension assets (Note 18)	**1,021,507**	–
Deferred tax assets (Note 24)	**17,409,006**	–
Other noncurrent assets (Notes 3, 10 and 29)	**257,380,474**	336,777,866
Total Noncurrent Assets	**21,503,933,419**	20,229,422,160
	₱35,628,219,146	₱30,494,709,412
LIABILITIES AND EQUITY		
Current Liabilities		
Trade and other payables (Notes 13, 17, 28 and 29)	**₱7,299,028,784**	₱5,349,426,374
Short-term loans (Notes 11, 28 and 29)	**1,010,692,002**	449,845,179
Current portion of long-term debt (Notes 12, 28, 29 and 33)	**2,992,660,795**	1,132,896,820
Total Current Liabilities	**11,302,381,581**	6,932,168,373
Noncurrent Liabilities		
Long-term debt - net of current portion (Notes 12, 28, 29 and 33)	**9,469,150,099**	11,159,821,454
Deferred tax liabilities (Note 24)	**565,481**	28,087,305
Provision for decommissioning and site rehabilitation (Notes 3 and 14)	**47,582,228**	14,732,350
Pension liability (Note 18)	**–**	19,996,748
Total Noncurrent Liabilities	**9,517,297,808**	11,222,637,857
Total Liabilities	**20,819,679,389**	18,154,806,230
Equity		
Capital stock (Note 15)	**356,250,000**	356,250,000
Additional paid-in capital	**6,675,527,411**	6,675,527,411
Retained earnings (Note 16)		
Unappropriated	**7,076,762,346**	4,608,125,771
Appropriated	**700,000,000**	700,000,000
Total Equity	**14,808,539,757**	12,339,903,182
	₱35,628,219,146	₱30,494,709,412

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Comprehensive Income

	Years Ended December 31		
	2011	2010	2009
REVENUE (Note 32)			
Coal	**₱16,201,880,411**	₱14,242,224,629	₱11,500,192,811
Power	**9,611,704,378**	8,655,623,846	443,492,763
	25,813,584,789	22,897,848,475	11,943,685,574
COST OF SALES (Notes 17, 19 and 32)			
Coal	**10,263,535,800**	10,222,626,729	8,928,346,706
Power	**6,397,083,662**	5,767,407,484	419,708,530
	16,660,619,462	15,990,034,213	9,348,055,236
GROSS PROFIT	**9,152,965,327**	6,907,814,262	2,595,630,338
OPERATING EXPENSES (Notes 20 and 32)	**(2,857,174,114)**	(2,721,234,918)	(743,200,579)
INCOME FROM OPERATIONS	**6,295,791,213**	4,186,579,344	1,852,429,759
OTHER INCOME (CHARGES)			
Finance costs (Notes 17, 21 and 32)	**(483,287,781)**	(668,440,816)	(112,192,664)
Finance income (Notes 22 and 32)	**134,876,680**	57,667,764	52,752,896
Foreign exchange gains (losses) - net (Notes 28 and 32)	**(38,318,119)**	199,487,633	47,703,017
Equity in net earnings (losses) of associates (Notes 9 and 32)	**–**	76,825,789	(39,349,171)
Other income (Notes 23 and 32)	**99,905,297**	65,427,012	107,935,222
	(286,823,923)	(269,032,618)	56,849,300
INCOME BEFORE INCOME TAX	**6,008,967,290**	3,917,546,726	1,909,279,059
PROVISION FOR (BENEFIT FROM) INCOME TAX (Notes 24 and 32)			
Current	**22,761,546**	8,808,092	5,362,577
Deferred	**(44,930,831)**	(43,969,623)	57,931,775
	(22,169,285)	(35,161,531)	63,294,352
NET INCOME	**6,031,136,575**	3,952,708,257	1,845,984,707
OTHER COMPREHENSIVE INCOME	–	–	–
TOTAL COMPREHENSIVE INCOME	**₱6,031,136,575**	₱3,952,708,257	₱1,845,984,707
Basic/Diluted Earnings per Share (Note 25)	**₱16.93**	₱12.10	₱6.65

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Changes in Equity

	Common Stock (Note 15)	Additional Paid-in Capital (Note 15)	Deposit on Future Stock Subscriptions (Note 15)	Unappropriated Retained Earnings (Note 16)	Appropriated Retained Earnings (Note 16)	Total	Cost of Shares Held in Treasury (Notes 15)	Grand Total
For the Year Ended December 31, 2011								
At beginning of the year	**₱356,250,000**	**₱6,675,527,411**	**₱–**	**₱4,608,125,771**	**₱700,000,000**	**₱12,339,903,182**	**₱–**	**₱12,339,903,182**
Total comprehensive income	**–**	**–**	**–**	**6,031,136,575**	**–**	**6,031,136,575**	**–**	**6,031,136,575**
Dividends declared	**–**	**–**	**–**	**(3,562,500,000)**	**–**	**(3,562,500,000)**	**–**	**(3,562,500,000)**
At end of the year	**₱356,250,000**	**₱6,675,527,411**	**₱–**	**₱7,076,762,346**	**₱700,000,000**	**₱14,808,539,757**	**₱–**	**₱14,808,539,757**
For the Year Ended December 31, 2010								
At beginning of the year	₱296,875,000	₱1,576,796,271	₱5,402,125,985	₱2,436,667,514	₱700,000,000	₱10,412,464,770	(₱528,891,260)	₱9,883,573,510
Reissuance of treasury shares	–	764,356,140	(1,293,247,400)	–	–	(528,891,260)	528,891,260	–
Additional subscriptions through stock rights offering	59,375,000	4,334,375,000	(4,108,878,585)	–	–	284,871,415	–	284,871,415
Total comprehensive income	–	–	–	3,952,708,257	–	3,952,708,257	–	3,952,708,257
Dividends declared	–	–	–	(1,781,250,000)	–	(1,781,250,000)	–	(1,781,250,000)
At end of the year	₱356,250,000	₱6,675,527,411	₱–	₱4,608,125,771	₱700,000,000	₱12,339,903,182	₱–	₱12,339,903,182
For the Year Ended December 31, 2009								
At beginning of the year	₱296,875,000	₱1,576,796,271	₱–	₱2,256,119,235	₱700,000,000	₱4,829,790,506	(₱528,891,260)	₱4,300,899,246
Deposit on future stock subscriptions	–	–	5,402,125,985	–	–	5,402,125,985	–	5,402,125,985
Total comprehensive income	–	–	–	1,845,984,707	–	1,845,984,707	–	1,845,984,707
Dividends declared	–	–	–	(1,665,436,428)	–	(1,665,436,428)	–	(1,665,436,428)
At end of the year	₱296,875,000	₱1,576,796,271	₱5,402,125,985	₱2,436,667,514	₱700,000,000	₱10,412,464,770	(₱528,891,260)	₱9,883,573,510

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

	Years Ended December 31		
	2011	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱6,008,967,290**	₱3,917,546,726	₱1,909,279,059
Adjustments for:			
Depreciation and amortization (Notes 8, 10, 19 and 20)	**2,909,610,888**	2,566,427,137	1,104,933,707
Finance costs (Note 21)	**483,287,781**	668,440,816	112,192,664
Finance income (Note 22)	**(134,876,680)**	(57,667,764)	(52,752,896)
Gain on sale of equipment (Notes 8 and 23)	**(53,547,507)**	(6,088,124)	(40,205,597)
Net unrealized foreign exchange losses (gains)	**37,939,453**	(67,308,294)	(168,563,289)
Pension expense (Note 18)	**7,446,271**	7,532,422	4,447,869
Provision for doubtful accounts (Notes 5 and 20)	**5,004,512**	53,744,668	–
Provision for impairment loss (Notes 8 and 20)	**–**	–	40,374,335
Equity in net (earnings) losses of associates (Note 9)	**–**	(76,825,789)	39,349,171
Gain on sale of investment (Notes 9 and 23)	**–**	(41,378,255)	–
Negative goodwill (Note 33)	**–**	–	(15,666,752)
Operating income before changes in working capital	**9,263,832,008**	6,964,423,543	2,933,388,271
Changes in operating assets and liabilities:			
Decrease (increase) in:			
Receivables	**(78,157,570)**	(1,947,398,569)	524,955,210
Inventories	**(3,704,727,490)**	73,701,971	(629,152,442)
Other current assets	**(697,662,177)**	(337,872,065)	(688,178,267)
Increase in trade and other payables	**2,205,941,337**	2,740,870,039	1,561,087,211
Cash generated from operations	**6,989,226,108**	7,493,724,919	3,702,099,983
Interest received	**134,757,554**	91,726,741	86,501,617
Interest paid	**(457,767,190)**	(852,363,965)	(56,051,307)
Income taxes paid	**(22,761,547)**	(8,071,333)	(63,423,038)
Net cash provided by operating activities	**6,643,454,925**	6,725,016,362	3,669,127,255
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to property, plant and equipment (Notes 8 and 31)	**(2,454,376,480)**	(3,007,368,967)	(2,853,983,593)
Proceeds from sale of investment (Note 9)	**–**	327,086,632	–
Additions to investments and advances (Note 9)	**(180,559,599)**	(310,229,558)	(60,550,001)
Retirement fund contribution (Note 18)	**(28,464,526)**	–	–
Decrease in other noncurrent assets (Note 10)	**49,709,618**	13,203,852	574,928,409
Proceeds from sale of equipment	**56,175,636**	53,000,798	762,961,381
Advance rental paid	**–**	–	(150,568,000)
Acquisition of a business (Note 33)	**–**	(10,021,631,926)	(7,104,375,497)
Net cash used in investing activities	**(2,557,515,351)**	(12,945,939,169)	(8,831,587,301)

(Forward)

	Years Ended December 31		
	2011	2010	2009
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from:			
Availments of:			
Long-term debt	**₱2,884,618,498**	₱11,554,776,302	₱1,626,006,970
Short-term loans	**2,011,193,260**	3,270,643,589	
Notes payable	**–**	–	742,144,817
Additional issuance of capital stocks	**–**	4,393,750,000	–
Sale of shares held in treasury (Note 15)	**–**	1,293,247,400	–
Payments of:			
Dividends (Note 16)	**(3,562,500,000)**	(1,781,250,000)	(1,665,436,428)
Long-term debt	**(2,789,633,990)**	(113,195,951)	(1,469,859,178)
Short-term loans	**(1,445,313,429)**	(3,665,439,966)	–
Deposit on future stock subscriptions (Note 15)	**–**	(5,402,125,985)	5,402,125,985
Net cash (used in) provided by financing activities	**(2,901,635,661)**	9,550,405,389	4,634,982,166
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**7,652,845**	1,880,000	(3,010,347)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**1,191,956,758**	3,331,362,582	(530,488,227)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**3,813,283,517**	481,920,935	1,012,409,162
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	**₱5,005,240,275**	₱3,813,283,517	₱481,920,935

See accompanying Notes to Consolidated Financial Statements.

Notes To Consolidated of Financial Statements

1. **Corporate Information**

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

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

The Parent Company has three (3) wholly-owned subsidiaries namely Sem-Calaca Power Corporation (SCPC), Southwest Luzon Power Generation Corporation (SLPGC) and SEM-Cal Industrial Park Developers, Inc. (SIPDI).

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

2. **Summary of Significant Accounting Policies**

Basis of Preparation
The consolidated financial statements have been prepared using the historical cost basis. The consolidated financial statements are prepared in Philippine Peso (₱), which is also the Group's functional currency. All amounts are rounded off the nearest peso 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 December 31, 2011 and 2010 and for the years 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.

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

Notes To Consolidated Financial Statements

	Effective Percentages of Ownership	
	2011	2010
Power:		
Sem-Calaca Power Corporation (SCPC)	**100.00%**	100.00%
Southwest Luzon Power Generation Corporation(SLPGC)*	**100.00**	–
SEM-Cal Industrial Park Developers, Inc. (SIPDI)*	**100.00**	–

** Has not yet started commercial operations.*

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

SIPDI
On April 24, 2011, SIPDI was incorporated to acquire, develop, construct, invest in, operate and maintain an economic zone capable of providing infrastructures and other support facilities for export manufacturing enterprises, information technology enterprises, tourism economic zone enterprises, medical tourism economic zone enterprises, retirement economic zone enterprises and/or agro-industrial enterprises, inclusive of the required facilities and utilities, such as light and power system, water supply and distribution system, sewerage and drainage system, pollution control devices, communication facilities, paved road network, and administration building as well as amenities required by professionals and workers involved in such enterprises, in accordance with R.A. No. 7916, as amended by R.A. No. 8748, otherwise known as the Special Economic Zone Act of 1995.

As of December 31, 2011, SLPGC and SIPDI have not yet started its actual commercial operation.

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

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

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

Changes in Accounting Policies
The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those of the previous financial year except for the following new and amended Philippine Accounting Standards (PAS), PFRS and Philippine Interpretations of International Financial Reporting Interpretations 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 Issues* (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 PAS 40, *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 or 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 Interests 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.

Notes To Consolidated Financial Statements

- 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 agreement', irrespective of whether they are set-off in accordance with PAS 32. The amendments require entities to disclose, in a tabular format unless another format is more appropriate, the following minimum quantitative information. This is presented separately for financial assets and financial liabilities recognized at the end of the reporting period:

  a) The gross amounts of those recognized financial assets and recognized financial liabilities;
  b) The amounts that are set off in accordance with the criteria in PAS 32 when determining the net amounts presented in the 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.

  The amendments to PFRS 7 are to be retrospectively applied for annual periods beginning on or after January 1, 2013.

- 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 to 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 will 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 require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in PAS 27. 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, but rather provides guidance on how to measure 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*
  This 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.

<u>Financial Instruments</u>

Date of recognition

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

Initial recognition of financial instruments

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 December 31, 2011 and 2010, 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.

Notes To Consolidated Financial Statements

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

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

Day 1 difference
For transactions other than those related to customers' guaranty and other deposits, where the transaction price in a non-active market is different to the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Group recognizes the difference between the transaction price and fair value (a Day 1 difference) in the consolidated statements of comprehensive income unless it qualifies for recognition as some other type of asset. In cases where the valuation technique used is made of data which is not observable, the difference between the transaction price and model value is only recognized in the consolidated statements of comprehensive income when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the 'Day 1' difference amount.

Financial assets
Loans and Receivables
Loans and receivables are financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. These are not entered into with the intention of immediate or short-term resale and are not designated as AFS financial assets or financial assets at FVPL. These are included in current assets if maturity is within 12 months from the reporting date otherwise; these are classified as noncurrent assets. This accounting policy relates to the consolidated statements of financial position accounts "Cash and cash equivalents", "Receivables" 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 (EIR) method, less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR and transaction costs. The amortization is included in "Finance income" in the consolidated statements of comprehensive income. The losses arising from impairment are recognized in the consolidated statements of comprehensive income as "Finance costs".

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

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

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

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

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

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

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

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

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

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

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

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

Notes To Consolidated Financial Statements

Derecognition of Financial Assets and Liabilities

Financial assets

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

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

When the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial liabilities

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

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

Offsetting of Financial Instruments

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

Inventories

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

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

Spare parts and supplies are usually carried as inventories and are recognized in the consolidated statements of comprehensive income when consumed. However, transfers are made from inventories to property, plant and equipments when the Group expects to use 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 require complex geological judgments to interpret the data. The estimation of recoverable reserves is based upon factors such as estimates of foreign exchange rates, commodity prices, future capital requirements, and production costs along with geological assumptions and judgments made in estimating the size and grade of the coal body. Changes in the reserve or resource estimates may impact 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 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:

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

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.

Notes To Consolidated Financial Statements

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 statements 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 statements 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 Combination 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 the noncontrolling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses. When the 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 or loss. Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognized in accordance with PAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

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

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the 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 January 1, 2010
In comparison to the abovementioned requirements, the following differences applied:

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

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

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

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

Notes To Consolidated Financial Statements

Impairment of Nonfinancial 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 statements 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 consolidated statements of comprehensive income unless the asset is carried at revalued amount, in which case, the reversal is treated as a revaluation increase. After such reversal, the depreciation 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 consolidated statements of comprehensive income.

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 acceptance of the goods delivered when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount of revenue can be measured reliably. Revenue from local and export coal sales are denominated in Philippine 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 Sport 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 consolidated statements of comprehensive income in the period in which they are incurred.

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

Borrowing costs capitalized in the "Property, plant and equipment" account amounted to nil in 2011 and 2010 and ₱86.12 million in 2009.

Notes To Consolidated Financial Statements

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

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

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

Provision for decommissioning and site rehabilitation
The Group records the present value of estimated costs of legal and constructive obligations required to restore operating locations in the period in which the obligation is incurred. The nature of these restoration activities includes dismantling and removing structures, rehabilitating mines and tailings dams, dismantling operating facilities, closure of plant and waste sites, and restoration, reclamation and re-vegetation of affected areas. The obligation generally arises when the asset is installed or the ground environment is disturbed at the production location. When the liability is initially recognized, the present value of the estimated cost is capitalized by increasing the carrying amount of the related mining assets. Over time, the discounted liability is increased for the change in present value based on the discount rates that reflect current market assessments and the risks specific to the liability. The periodic unwinding of the discount is recognized in the consolidated statements of comprehensive income as a finance cost. Additional disturbances or changes in rehabilitation costs will be recognized as additions or charges to the corresponding assets and rehabilitation liability when they occur. For closed sites, changes to estimated costs are recognized immediately in the consolidated statements of comprehensive income.

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

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

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

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

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

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

Notes To Consolidated Financial Statements

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 declared. Dividends for the year that are approved after the reporting date are dealt with as an event after the reporting date. Retained earnings may also include effect of changes in accounting policy as may be required by the standard's transitional provisions.

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

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

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

Operating Segment
The Group's operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. The Group generally accounts for intersegment revenues and expenses at agreed transfer prices. Income and expenses from discontinued operations are reported separate from normal income and expenses down to the level of income after taxes. Financial information on operating segments is presented in Note 33 to the consolidated financial statements.

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

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

3. **Significant Accounting Judgments, Estimates and Assumptions**

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

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

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

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

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

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

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

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

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

Notes To Consolidated Financial Statements

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

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

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

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

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

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

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

The amount of coal pile inventory is disclosed in Note 6.

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

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

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

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

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

f. *Estimating useful lives of property, plant and equipment and intangible assets (except land)*
The Group estimated the useful lives of its property, plant and equipment and 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.

The estimated useful lives of property, plant and equipment and intangible assets are disclosed in Note 2.

g. *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 December 31, 2011 and 2010.

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

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

In 2011 and 2010, the Group has various deductible temporary differences from which no deferred tax assets have been recognized as the Group does not foresee taxable earnings due to the its Income Tax Holiday (ITH) (see Note 24).

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

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

Notes To Consolidated Financial Statements

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.

The accrued balance of unpaid vacation and sick leaves as of December 31, 2011 and 2010 amounted to ₱8.56 million and ₱5.85 million, respectively (see Note 13).

4. Cash and Cash Equivalents

	2011	2010
Cash on hand and in banks	**₱1,108,525,449**	₱1,976,645,025
Cash equivalents	**3,896,714,826**	1,836,638,492
	₱5,005,240,275	₱3,813,283,517

Cash in banks earns interest at the respective bank deposit rates. Cash equivalents include short-term placements made for varying periods of up to three months depending on the immediate cash requirements of the Group and earn interest at the respective prevailing short-term placement rates ranging from 1.80% to 4.62% and 2.00% to 4.50% in 2011 and 2010, respectively.

In 2011, 2010 and 2009, total interest income earned from cash and cash equivalents amounted to ₱121.67 million, ₱35.88 million and ₱30.12 million, respectively (see Note 22).

5. Receivables

	2011	2010
Trade receivables (Notes 28 and 29):		
Electricity sales	**₱1,993,374,929**	₱1,651,955,469
Local coal sales	**950,455,290**	757,221,337
Export coal sales	**108,413,708**	582,130,762
Due from related parties (Notes 17, 28 and 29)	**199,110,601**	120,628,995
Others (Notes 28 and 29)	**33,318,009**	143,142,750
	3,284,672,537	3,255,079,313
Less allowance for doubtful accounts	**68,891,290**	71,779,121
	₱3,215,781,247	₱3,183,300,192

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

Coal sales
Receivables from coal sales are noninterest-bearing and generally have 30 - 45 days' credit terms.
- Export sales - coal sold to international market which is priced in US Dollar.
- Local sales - coal sold to domestic market which is priced in Philippine Peso.

Due from related parties
Due from related parties refers to transactions entered by the Group with the related parties at arm's length and have similar terms to the transactions entered into with third parties (see Note 17).

Others include advances to officers, employees and contractors with maturity of up to one (1) year.

As of December 31, 2011 and 2010, trade receivables and other receivables with a nominal value of ₱68.89 million and ₱71.78 million were impaired and provided with allowance. Movements in the allowance for doubtful accounts of receivables were as follows:

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

	2010			
	Local Coal Sales	Electricity Sales	Other Receivables	Total
At January 1, 2010	₱13,569,447	₱–	₱10,142,110	₱23,711,557
Provision (Note 20)	–	53,523,802	220,866	53,744,668
Reversals (Note 23)	(5,677,104)	–	–	(5,677,104)
At December 31, 2010	₱7,892,343	₱53,523,802	₱10,362,976	₱71,779,121
Individual impairment	₱7,892,343	₱53,523,802	₱10,362,976	₱71,779,121

6. Inventories

	2011	2010
Coal pile inventory at cost	**₱2,470,381,662**	₱827,182,784
Spare parts and supplies at NRV	**2,122,453,877**	1,529,501,990
	₱4,592,835,539	₱2,356,684,774

Spare parts and supplies with original cost of ₱580.93 million as of December 31, 2011 and 2010, were provided with allowance for inventory obsolescence amounting to ₱53.29 million.

The cost of coal inventories recognized as expense in the consolidated statements of comprehensive income amounted to ₱10.26 billion, ₱10.22 billion and ₱8.93 billion for the years ended December 31, 2011, 2010 and 2009, respectively (see Note 19).

7. Other Current Assets

	2011	2010
Advances to suppliers	**₱797,353,268**	₱312,134,305
Creditable withholding tax	**418,916,623**	235,463,531
Prepaid insurance and others	**88,986,374**	53,836,891
Prepaid rent (Notes 10 and 30)	**5,172,401**	6,183,431
Security deposits (Notes 28, 29 and 30)	**–**	304,400,611
	₱1,310,428,666	₱912,018,769

Notes To Consolidated Financial Statements

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

Security deposits
Security deposits represent payments to and held by the lessor as security for the faithful and timely performance by the Group of all its obligations and compliance with all provisions of the equipment rental agreement (see Note 30). These prepayments shall be returned by the lessor to the Group after deducting any unpaid rental, and/or any other amounts due to the lessor for any damage or expense incurred to put the vehicle in good working condition.

As of December 31, 2011, security deposits amounting to ₱304.40 million was refunded to the Group. There were no additional security deposits made during the year.

As of December 31, 2009, security deposits with a nominal amount of ₱22.20 million were initially recorded at fair value. Movement in the unamortized discount of security deposits follows:

	2011	2010
At January 1	**₱168,856**	₱12,956,371
Accretion (Note 22)	**(168,856)**	(12,787,515)
At December 31	**₱–**	₱168,856

8. **Property, Plant and Equipment**

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

	2010				
	Mining, Tools and Other Equipment	Power Plant and Buildings	Roads and Bridges	Equipment in Transit and Construction in Progress	Total
At Cost					
At January 1	₱10,362,070,550	₱17,727,550,950	₱279,062,950	₱571,185,355	₱28,939,869,805
Additions	2,589,750,052	9,200,188	–	708,798,651	3,307,748,891
Transfers	517,872,050	20,413,973	–	(538,286,023)	–
Transfers from inventory (Note 31)	–	–	–	529,047,775	529,047,775
Disposals (Note 23)	(54,249,706)	(37,750)	–	(1,750,087)	(56,037,543)
At December 31	13,415,442,946	17,757,127,361	279,062,950	1,268,995,671	32,720,628,928
Accumulated Depreciation					
At January 1	8,988,247,985	1,317,761,799	279,062,950	–	10,585,072,734
Depreciation (Notes 19 and 20)	1,629,170,035	933,096,292	–	–	2,562,266,327
Disposals (Note 23)	(9,123,414)	(1,455)	–	–	(9,124,869)
At December 31	10,608,294,606	2,250,856,636	279,062,950	–	13,138,214,192
Net Book Value	₱2,807,148,340	₱15,506,270,725	₱–	₱1,268,995,671	₱19,582,414,736

Equipment in transit and construction in progress accounts mostly contains purchased mining equipments that are in transit and various buildings and structures that are under construction as of December 31, 2011 and 2010. Construction in progress also includes capitalized rehabilitation costs for the Unit I of Calaca power plant incurred in 2011, the rehabilitation of which is expected to be completed by early 2012.

In January 2011, rehabilitation of Unit II of the Calaca power plant was completed. Related rehabilitation costs that are capitalized as part of the "Power plant and building" amounted to ₱620.29 million.

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

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

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

In 2011, 2010 and 2009, the Group sold various equipments at a gain amounting to ₱53.55 million, ₱6.09 million and ₱40.21 million, respectively (see Note 23).

Notes To Consolidated Financial Statements

Depreciation and amortization in the consolidated statements of comprehensive income follow:

	2011	2010	2009
Included under:			
Cost of coal sales (Note 19):			
Depreciation and amortization	**₱1,792,534,859**	₱1,661,071,376	₱1,012,486,855
Hauling and shiploading costs	**302,255,715**	82,713,420	8,721,841
Cost of power sales (Note 19):			
Depreciation and amortization	**776,589,421**	794,013,317	75,338,855
Operating expenses (Note 20)	**38,230,893**	28,629,024	8,386,156
	₱2,909,610,888	₱2,566,427,137	₱1,104,933,707
Depreciation and amortization of:			
Property, plant and equipment	**₱2,904,285,532**	₱2,562,266,327	₱1,101,085,787
Software costs (Note 10)	**5,325,356**	4,160,810	3,847,920
	₱2,909,610,888	₱2,566,427,137	₱1,104,933,707

9. **Investments and Advances**

	2011	2010
Acquisition cost		
At beginning of year	**₱–**	₱250,000,000
Additions during the year	**–**	–
Disposals during the year	**–**	(250,000,000)
	–	–
Accumulated equity in net earnings		
Balance at beginning of year	**–**	(41,117,412)
Equity in net earnings (losses) during the year	**–**	76,825,789
Disposals during the year	**–**	(35,708,377)
Balance at end of year	**–**	–
Investment in sinking fund	**490,789,157**	310,229,558
	₱490,789,157	₱310,229,558

Disposal of investment in DMCI Mining Corporation (DMCI-MC) and DMCI Power Corporation (DMCI-PC)
On December 8, 2010, a Deed of Assignment was made and executed between the Parent Company and DMCI-HI, the former being the "Assignor" and the latter being the "Assignee". The Parent Company offered to assign, transfer and convey all of its rights, ownership and interest over its shares in DMCI-PC and DMCI-MC. The said transaction resulted to a gain on disposal of investment in the amount of ₱41.38 million presented in the consolidated statements of comprehensive income (see Note 23).

Investment in sinking fund
In a special meeting of the BOD of SCPC held on March 9, 2010, the BOD authorized SCPC to establish, maintain, and operate trust and investment management accounts with Banco de Oro BDO Unibank, Inc., - Trust and Investment Group. The Omnibus Agreement provided that the Security Trustee shall invest and reinvest the monies on deposit in Collateral Accounts (see Note 12). All investments made shall be in the name of the Security Trustee and for the benefit of the Collateral Accounts. BDO Unibank, Inc., - Trust and Investment Group made an investment in Sinking Fund amounting ₱490.79 million and ₱310.23 million as of December 31, 2011 and 2010, respectively.

Interest from sinking fund amounted to ₱7.21 million and ₱5.42 million in 2011 and 2010, respectively (see Note 22).

10. **Other Noncurrent Assets**

	2011	2010
5% input VAT withheld - net	**₱150,127,447**	₱150,127,447
Prepaid rent (Note 30)	**104,103,570**	144,204,098
Software cost - net	**5,732,959**	6,345,855
Environmental guarantee fund	**1,500,000**	1,500,000
Others	**1,088,899**	40,783,897
	262,552,875	342,961,297
Less current portion of prepaid rent (Note 7)	**5,172,401**	6,183,431
	₱257,380,474	₱336,777,866

5% input VAT withheld
As a result of the enactment of RA No. 9337 effective November 1, 2005 (see Note 24), National Power Corporation (NPC) started withholding the required 5% input VAT on the VAT exempt coal sales of the Group. On March 7, 2007, the Group obtained a ruling from the Bureau of Internal Revenue (BIR) which stated that the sale of coal remains exempt from VAT. In 2007, the Group filed a total claim for refund of ₱190.50 million from the BIR representing VAT erroneously withheld by NPC from December 2005 to March 2007, which eventually was elevated to the Court of Tax Appeals (CTA). On October 13, 2009, CTA granted the Group's petition for a refund on erroneously withheld VAT initially on December 2005 sales amounting to ₱11.85 million. The Commissioner of BIR moved for reconsideration of the CTA's Decision. On November 21, 2009, the Group filed its comment thereon. The motion for reconsideration remains pending to date. Management has estimated that the refund will be recovered after three (3) to five (5) years. Consequently, the claim for tax refund was provided with provision for impairment loss amounting to ₱40.37 million (see Note 20).

During the year, the CTA rendered a Decision granting the Parent Company's petition for refund or issuance of tax credit certificate (TCC) in the total amount of ₱178.65 million. The BIR filed a motion for reconsideration which was denied in a Resolution executed by the CTA. Its motion for reconsideration having been denied, the BIR filed for a Petition for Review with the CTA En Banc on the following grounds:

- that the Parent Company failed to substantiate its claim for refund;
- that the sale or importation of coal is no longer exempted from VAT under the Tax Code, as amended by R.A. No. 9337; and
- that the BIR Ruling No. 006-2007 dated March 7, 2007 does not prevent the Government from collecting VAT on the sale of coal by the Parent Company.

Notes To Consolidated Financial Statements

The Petition for review remains pending to date. Management has estimated that the refund will be recovered after three (3) to five (5) years.

Software Cost
Movements in software cost account follow:

	2011	2010
At Cost		
At January 1	**₱19,083,211**	₱16,112,568
Additions	**4,712,460**	2,970,643
At December 31	**23,795,671**	19,083,211
Accumulated Amortization		
At January 1	**12,737,356**	8,576,546
Amortization (Note 19)	**5,325,356**	4,160,810
At December 31	**18,062,712**	12,737,356
Net Book Value	**₱5,732,959**	₱6,345,855

Environmental Guarantee Fund
The environmental guarantee fund represents the funds designated to cover all costs attendant to the operation of the multi-partite monitoring team (MMT) of the Group's environmental unit.

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

11. **Short-term Loans**

Short-term loans represent various acceptances and trust receipts which are used to facilitate payment for importations of materials, fixed assets and other assets. Acceptances and trust receipts as of December 31, 2011 and 2010 amounted to ₱1.01 billion and ₱0.45 billion, respectively.

12. **Long-term Debt**

	2011	2010
Mortgage payable	**₱8,365,572,777**	₱9,495,157,286
Bank loans	**4,096,238,117**	2,022,817,439
Deferred purchase payment	**–**	774,743,549
	12,461,810,894	12,292,718,274
Less current portion of:		
Mortgage payable	**1,530,694,871**	1,132,896,820
Bank loans	**1,461,965,924**	–
	2,992,660,795	1,132,896,820
	₱9,469,150,099	₱11,159,821,454

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

Breakdown of the syndicated loan is as follows:

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

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

Details of the loan follow:

a. Interest: At a floating rate per annum equivalent to the three (3) months Philippine Dealing System Treasury-Fixing (PDST-F) benchmark yield for treasury securities as published on the PDEx page of Bloomberg (or such successor electronic service provider at approximately 11:30 a.m. (Manila Time) on the banking day immediately preceding the date of initial borrowing or start of each interest period, as applicable, plus a spread of 175 basis points.

b. Repayment: The principal amount shall be payable in twenty-five equal consecutive quarterly installments commencing on the twelfth month from the initial borrowing date. Final repayment date is seven (7) years after initial borrowing.

The loan was drawn in full on May 20, 2010. Capitalized debt issuance cost amounted to ₱110.04 million and is amortized using the EIR method over the loan's term. Amortization of debt issuance cost recognized under "Finance cost" account in the consolidated statements of comprehensive income amounted to ₱22.15 million and ₱5.20 million for the years 2011 and 2010, respectively (see Note 21).

Rollforward of the capitalized debt issuance cost follows:

	2011	2010
Beginning at January 1	**₱104,842,714**	₱–
Additions	**–**	110,042,257
Amortization (Note 21)	**(22,415,490)**	(5,199,543)
Ending at December 31	**₱82,427,224**	₱104,842,714

As security for the prompt and full payment by SCPC, this loan was collateralized by all monies in the Collateral accounts, supply receivables, proceeds of any asset and business continuity insurance, project agreements and first-ranking mortgage on present and future real assets. Further, 67% of issued and outstanding shares in SCPC owned by the Parent Company were also pledged on this loan.

Notes To Consolidated Financial Statements

The Omnibus Agreement provided that the Security Trustee shall invest and reinvest the monies on deposit in Collateral accounts. All investments made shall be in the name of the Security Trustee and for the benefit of the Collateral accounts. BDO Unibank, Inc., - Trust and Investment Group made an investment in Sinking Fund amounting ₱490.79 million and ₱310.23 million as of December 31, 2011 and 2010, respectively (see Note 9).

Bank loans

Loan Type	Date of Availment	Outstanding Balance 2011	2010	Maturity	Interest Rate	Payment Terms	Covenants/Collaterals
		(In Millions)					
Local bank loans							
Loan 1	October 2010	**₱140.29**	₱701.44	Various maturities in 2012 & 2013	1.16% payable in arrears, to be repriced every 90 days	Interest payable in 90 days; not deducted from proceeds of loans and principal repayable in maturity.	Any monies standing to the credit of the borrower's other account with the bank and any securities, deeds, boxes and parcels and their contents and property of any description held in borrower's name
Loan 2	Various availments in 2010 & 2011	**1,313.59**	639.06	Various maturities in 2012 & 2013	1.14% - 1.18% p.a. payable semi-annually in arrears, to be repriced every 6 months	Interest payable semi-annually in arrears, with interest rates inclusive of 10% withholding tax. Payment of interest shall commence on the 6th month and every six months thereafter until fully paid at the prevailing rate.	Unsecured loans
Loan 3	Various availments in 2010 & 2011	**688.45**	442.08	October 2012	1.09% - 1.80% p.a. for 92 days, to be repriced every 30 to 180 days	Interest shall be payable on the last day of the current interest period or the 90th day of said period whichever occurs earlier and full payment of principal at maturity.	Unsecured loans
Loan 4	Various availments in 2010 & 2011	**1,028.25**	240.24	October 26, 2012 & various maturities in 2013	1.01%- 1.82% to be repriced over the 90 to 180 days	Interest payable in 90 days; not deducted from proceeds of loans and principal repayable in maturity.	Unsecured loans
Loan 5	August 2011	**925.66**	–	August 2013	1.03% - 1.10% p.a. for the first 90 days. Thereafter, interest will be re-priced on a monthly/ quarterly/semi-annual or annual basis.	Interest payable in 90 - 180 days and principal repayable in maturity.	Proceeds of the loan were restricted for equipment fund and working capital; Financial Covenants: Current Ratio not less than 1:1, Debt-Equity Ratio not exceeding 2:1, Debt-EBITDA Ratio not exceeding 3:1, compliant.
		₱4,096.24	₱2,022.82				

Deferred purchase payment
On November 16, 2009, the Group entered into a Deferred Payment Sale and Purchase Agreement with Marubeni Corporation (MC) for the purchase of various equipment intended for enhancing its mining activities.

The amounts corresponding to the units or pieces of equipment that are shipped to the Group shall be paid by the Group to MC within seven hundred twenty (720) days after the date of the bill of lading for the relevant shipment of such units or pieces of equipment.

The interest rate applicable to each interest period shall be four percent (4.00%) per annum over the rate 180 days BBA LIBOR on two (2) business days prior to the first day of such interest period.

Notwithstanding the provisions for payment of the contract amount as stipulated, the Group may, with not less than fourteen (14) business days written notice to MC, prior to the next interest payment date, prepay the whole or any part of the respective contract amount on that interest payment date.

During the first quarter of 2011, deferred purchase payment with MC has been fully settled.

13. Trade and Other Payables

	2011	2010
Trade:		
Payable to suppliers and contractors	**₱5,010,829,635**	₱3,081,556,102
Due to related parties (Note 17 and 28)	**238,222,442**	198,245,320
Output VAT Payable	**965,446,171**	600,148,149
Payable to DOE and local government units (LGU) (Note 26)	**905,008,728**	1,013,039,943
Accrued expenses and other payables	**179,521,808**	456,436,860
	₱7,299,028,784	₱5,349,426,374

Trade payables to suppliers, contractors and others include liabilities amounting to ₱468.08 million (US$10.68 million) and ₱97.58 million (US$2.11 million) as of December 31, 2011 and 2010, respectively, to various foreign suppliers for open account purchases of equipment and equipment parts and supplies. Trade payables are noninterest-bearing and are normally settled on 30-day to 60-day credit terms.

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

Notes To Consolidated Financial Statements

Details of the accrued expenses and other payables account follow:

	2011	2010
Interest	**₱76,887,268**	₱52,629,791
Withholding and other taxes	**37,024,671**	58,777,144
Real property tax	**18,828,610**	18,828,610
Rental (Note 17)	**15,264,799**	15,264,799
Salaries and wages	**12,476,527**	40,010,809
Financial benefit payable	**8,265,879**	–
Professional fees	**6,050,000**	6,000,000
Probable legal claims (Note 27)	**–**	215,803,423
Coal hauling	**–**	13,034,083
Others	**4,724,054**	36,088,201
	₱179,521,808	₱456,436,860

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

14. Provision for Decommissioning and Site Rehabilitation

	2011	2010
At January 1	**₱14,732,350**	₱17,621,980
Additions	**31,091,791**	–
Accretion of interest (Note 21)	**1,758,087**	774,354
Adjustment	–	(3,663,984)
At December 31	**₱47,582,228**	₱14,732,350

On May 13, 2008, the DOE granted the Parent Company's request for an extension of its COC for another 15-year or until July 14, 2027. Due to the term extension, the Parent Company has changed the discount rates used in the calculation of the net present value of the provision from 4.16% to 5.53% in 2009 to 2.50% to 7.49% in 2010.

Also, on November 12, 2009, the COC was amended further, expanding its contract area to include portions of Caluya and Sibay islands, covering an additional area of 5,500 hectares and 300 hectares, respectively. Due to these change, the Parent Company has provided additional provision for decommissioning and site rehabilitation in the amount of ₱80.00 million, with a carrying value of ₱31.09 million as of December 31, 2011.

In accordance with the provisions of IFRIC 1, the additions and adjustments were included in the consolidated statements of financial position for the years 2011 and 2010.

15. Capital Stock

The details of the Parent Company's capital stock as of December 31, 2011 and 2010 are as follows:

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

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

As of December 31, 2011, the Parent Company has 356.25 million common shares issued and outstanding which were owned by 639 shareholders.

Stock Rights Offering

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

Deposit on Future Stock Subscriptions

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

Shares Held in Treasury

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

The number of shares held in treasury is 19,302,200 amounting to ₱528.89 million as of December 31, 2009 and 2008. On April 8, 2010, the Parent Company reissued all of its treasury shares to Dacon at ₱67 per share or a total of ₱1.29 billion. The excess of the proceeds over the total cost of the treasury is included under additional paid-in capital in the amount of ₱764.36 million.

16. Retained Earnings

Retained earnings amounting to ₱2.07 billion and ₱1.52 billion as of December 31, 2011 and 2010, respectively, include the accumulated equity in undistributed net earnings of subsidiaries accounted for under cost method. The amounts are not available for dividends until declared by the subsidiaries.

In accordance with SEC Memorandum Circular No. 11 issued in December 2008, the Parent Company's retained earnings available for dividend declaration as of December 31, 2011 amounted to ₱5.36 billion.

Cash Dividends

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

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

On March 30, 2009, the BOD authorized the Parent Company to declare and distribute cash dividends of ₱6.00 per share or ₱1.67 billion to stockholders of record as of April 30, 2009. The said cash dividends were paid on May 15, 2009.

Notes To Consolidated Financial Statements

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

On March 18, 2008, the BOD authorized an additional 500.00 million appropriation for capital expenditures and expansion and likewise, on November 11, 2008, the BOD approved the reversal of the appropriated retained earnings in the amount ₱800.00 million. The remaining ₱700.00 million shall continue to be appropriated to partially cover new capital expenditures for the Group's mine operation.

17. **Related Party Transactions**

Related parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making the financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Affiliates are entities that are owned and controlled by DMCI-HI. These affiliates are effectively sister companies of the Group. Transactions entered into by the Group with related parties are at arm's length and have terms similar to the transactions entered into with third parties. In the regular course of business, the Group's significant transactions with related parties include the following:

a. Continuing Indemnity Agreement dated September 3, 1998 with DMCI-HI and certain related parties whereby the Parent Company, in consideration for guarantees extended by DMCI-HI and related parties in the form of Real Estate Mortgage (REM), standby letters of credit and other credit lines or facilities to secure the Group's indebtedness to various banks and creditors, agreed to indemnify and hold DMCI-HI and related parties free from and against any and all claims, liabilities, demands, actions, costs, expenses and consequences of whatever nature which may arise or result from said corporate guarantees. The Parent Company further agreed to pay a fixed interest rate per annum on all sums or monies paid by DMCI-HI and related parties by reason of or in connection with the said corporate guarantees, letters of credit, credit facilities or REM; real properties of this affiliate were already freed from lien effective at the time when these old equipment loans were fully paid. The loans contracted in 2004 and 2005 were still guaranteed by DMCI-HI. Guarantee fees incurred amounted to nil, ₱0.30 million and ₱2.62 million in 2011, 2010 and 2009, respectively. These are included under "Finance costs" in the consolidated statements of comprehensive income (see Note 21);

b. DMC-Construction Equipment Resources, Inc. (DMC-CERI), an affiliate, has transactions with the Parent Company for services rendered relating to the Parent Company's coal operations. These services are for the confirmatory drilling for coal reserve evaluation of identified potential areas, exploratory drilling of other minerals within Semirara Island, dewatering well drilling along cut-off wall of Panian mine and fresh water well drilling for industrial and domestic supply under an agreement. Expenses incurred for said services amounted to ₱52.90 million, ₱59.17 million and ₱166.22 million in 2011, 2010, and 2009, respectively. These are included in Cost of sales under "Cost of coal sales - Outside services" in the consolidated statements of comprehensive income (see Note 19).

   DMC-CERI also provides to the Parent Company marine vessels for use in the delivery of coal to its various customers. The coal freight billing is on a per metric ton basis plus demurrage charges when delay will be incurred in the loading and unloading of coal cargoes. Expenses (at gross amount) incurred for these services amounted to ₱498.42 million, ₱507.86 million and ₱500.75 million in 2011, 2010 and 2009, respectively, and are included in Cost of sales under "Cost of coal sales - Hauling and shiploading costs" in the consolidated statements of comprehensive income (see Note 19). The reported expense of the Group is net of freight payment by NPC (billing is cost and freight). Land lease rental with DMC-CERI amounting to ₱1.70 million and ₱13.74 million were accrued during the periods ended December 31, 2011 and 2010, respectively (see Note 13);

c. M&S Company, Inc. (M&S), an affiliate, supplies various supplies and materials to the Parent Company on cash on delivery basis. The Parent Company's total purchases from M&S amounted to ₱52.83 million and ₱48.07 million in 2011 and 2010, respectively. M&S also rents out various equipment used in the Parent Company's operations which amounted to nil and ₱110.70 million in 2011and 2010, respectively. This is included in Cost of sales under "Cost of coal sales - Outside services" in the consolidated statements of comprehensive income (see Note 19);

d. DMCI-PC, DMCI-MC, and DMCI Masbate Power Corporation (DMCI-MPC), affiliates under common control of DMCI-HI, entered into an agreement with the Parent Company to assign some of its employees to render services in the specific projects of the said affiliates. The related expenses billed to DMCI-PC, DMCI-MC and DMCI-MPC aggregated to ₱129.08 million and ₱121.29 million in 2011 and 2010, respectively;

e. Dacon, the ultimate parent of DMCI-HI, upgraded during the year the Parent Company's information technology environment, including the maintenance of its accounting system, Navision, to which related expenses amounting to ₱0.32 million are included in Operating expenses under "Office and other expenses" in the consolidated statements of comprehensive income (see Note 20);

f. D.M. Consunji, Inc. (DMCI), an affiliate under common control of DMCI-HI, had transactions with the Group representing equipment rental and other transactions such as transfer of equipment, hauling and retrofitting services. The related expenses amounted to ₱220.49 million, ₱67.38 million and ₱69.01 million in 2011, 2010 and 2009, respectively. These are included in Cost of sales under "Cost of coal sales - Outside Services" in the consolidated statements of comprehensive income (see Note 19).

   The Parent Company engaged the services of DMCI for the construction of various projects in compliance with its Corporate Social Responsibility (CSR) such as the mine rehabilitation, construction of covered tennis courts, track and field, perimeter fence and others to which related expenses aggregated to ₱341.04 million and nil in 2011 and 2010, respectively. These are included in Cost of sales under "Cost of coal sales - Outside service" in the consolidated statements of comprehensive income (see Note 19). SCPC also engaged the services of DMCI in the ongoing rehabilitation of the power plant. Billing of DMCI was charged to "Construction in progress" account in the consolidated statements of financial position;

g. DMC Urban Property Developers, Inc. (UPDI), an affiliate, had transactions with the Parent Company representing long-term lease on office space and other transactions rendered to the Parent Company necessary for the coal operations. Office rental expense amounted to ₱6.49 million, ₱6.97 million and ₱7.78 million in 2011, 2010 and 2009, respectively. These are included in Cost of sales under "Cost of coal sales - Outside services" in the consolidated statements of comprehensive income (see Note 19);

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

i. Wire Rope Corporation of the Philippines, an affiliate, had transactions with the Parent Company representing supply of cable wires. The related expenses amounted to nil and ₱10.40 million in 2011 and 2010, respectively. This is included in Cost of sales under "Cost of coal sales - Materials and supplies" in the consolidated statements of comprehensive income (see Note 19);

j. Royal Star Aviation Inc., an affiliate, transports the Parent Company's guests and employees from Manila to Semirara Island and vice versa and bills them for the utilization costs of the aircrafts. The related expenses amounted to ₱2.75 million and ₱0.73 million in 2011 and 2010, respectively, and are included in Cost of sales under "Cost of coal sales - Production overhead" in the consolidated statements of comprehensive income (see Note 19);

k. Asia Industries Inc., an affiliate, had transactions with the Parent Company for the rental of parking space to which related expenses amounted to ₱0.29 million and ₱0.32 million in 2011 and 2010, respectively. These are included in Operating expenses under "Office and other expenses" in the consolidated statements of comprehensive income (see Note 20);

Notes To Consolidated Financial Statements

l. In June 2010, SCPC's accounting and administrative functions, including payroll were handled by the DMCI-PC and charges SCPC for the services rendered.

In March 2011, SCPC entered into an Operation and Maintenance Agreement with DMCI-PC for the latter to render management, rehabilitation, operation and maintenance services to SCPC for a period of ten (10) years for a fee equal to the budgeted cost of services plus a mutually agreed mark-up of 5%.

Management fees amounted to ₱497.40 million and ₱216.46 million in 2011 and 2010 (see Note 20). Compensation of SCPC's key management personnel is paid by the said related party. Hence, the disclosure of compensation required under PAS 24 for key management personnel is included in the financial statements of DMCI-PC; and

m. At a special meeting held on December 1, 2009, the BOD of DMCI-HI approved the assignment to SCPC of DMCI-HI's rights and obligations under the APA and LLA for an amount equal to at least all costs incurred by DMCI-HI during or relating to its participation in the bidding and acquisition process for the Purchased Assets.

The following table summarizes the total amount of transactions due to or from related parties as of December 31, 2011 and 2010:

	2011	2010
Due from related parties (Note 5)		
Under common control of DMCI-HI	₱194,311,607	₱120,605,298
Others	4,798,994	23,697
	199,110,601	120,628,995
Due to related parties (Note 13)		
Under common control of DMCI-HI	178,304,963	126,491,712
Others	59,917,479	71,743,608
	238,222,442	198,235,320
	(₱39,111,841)	(₱77,606,325)

The Group has not recorded any impairment losses on its receivables relating to amounts owned by related companies. This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

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

	2011	2010	2009
Short-term employee benefits	₱93,866,643	₱101,960,815	₱61,966,888
Post employment benefits	2,346,104	2,738,299	1,268,462
	₱96,212,747	₱104,699,114	₱63,235,350

There are no agreements between the Group and any of its directors and key officers providing for benefits upon termination of employment, except for such benefits to which they may be entitled under the Group's pension plan.

18. **Pension Plan**

The Group has a funded, noncontributory defined benefit plan covering substantially all of its employees. The date of the latest actuarial valuation is December 31, 2011.

As of December 31, 2011, 2010 and 2009, the assumptions used to determine pension benefits follow:

	2011	2010	2009
Discount rate	6.75%	8.10%	10.75%
Salary increase rate	3.00%	3.00%	3.00%
Expected rate of return on plan assets	6.00%	6.00%	5.75%

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

	2011	2010	2009
Current service cost	₱5,597,830	₱4,762,273	₱3,876,679
Interest cost on benefit obligation	4,405,686	4,405,532	3,734,738
Expected return on plan asset	(2,572,704)	(1,635,383)	(1,500,491)
Actuarial loss (gain) recognized	15,459	–	(1,663,057)
	₱7,446,271	₱7,532,422	₱4,447,869

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

The pension (asset) liability recognized in the consolidated statements of financial position follows:

	2011	2010
Present value of defined benefit obligation	₱64,766,789	₱54,391,181
Fair value of plan assets	57,994,669	28,646,138
Excess of present value of defined benefit obligation over fair value of plan assets	6,772,120	25,745,043
Unrecognized actuarial loss	(7,793,627)	(5,748,295)
	(₱1,021,507)	₱19,996,748

Movements in the present value of defined benefit obligation follow:

	2011	2010
Balance at the beginning of year	₱54,391,181	₱40,981,694
Current service cost	5,597,830	4,762,273
Interest cost on benefit obligation	4,405,686	4,405,532
Actuarial loss	372,092	7,047,090
Benefits paid - from plan assets	–	(2,334,000)
Benefits paid - direct payments from book reserves	–	(471,408)
Balance at end of year	₱64,766,789	₱54,391,181

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Movements in the fair value of plan assets follow:

	2011	2010
Balance at beginning of the year	**₱28,646,138**	₱28,423,387
Contributions during the period	**28,464,526**	–
Expected return on plan assets	**2,572,704**	1,635,383
Actuarial gain (loss) from plan assets	**(1,688,699)**	921,368
Benefits paid	**–**	(2,334,000)
Balance at end of year	**₱57,994,669**	₱28,646,138
Actual return	**₱884,005**	₱2,556,751

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

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

The amounts for the current and previous four periods follow:

	2011	2010	2009	2008	2007
Present value of defined benefit obligation	**₱64,766,789**	₱54,391,181	₱40,981,694	₱39,107,208	₱27,760,518
Fair value of plan assets	**57,994,669**	28,646,138	28,423,387	25,008,190	55,374,465
Deficit (excess)	**6,772,120**	25,745,043	12,558,307	14,099,018	(27,613,947)
Experience adjustments on plan liabilities	**(2,339,743)**	4,250,163	(5,651,794)	(12,320,619)	(37,166,703)
Experience adjustments on plan assets	**(1,688,699)**	921,368	(31,911,761)	1,545,486	–

Movements in the unrecognized actuarial loss follow:

	2011	2010
Balance at the beginning of year	**(₱5,748,295)**	₱377,427
Actuarial loss on defined benefit obligation	**(372,092)**	(7,047,090)
Actuarial gain (loss) on the fair value of plan assets	**(1,688,699)**	921,368
Actuarial loss recognized	**15,459**	–
	(₱7,793,627)	(₱5,748,295)

As of December 31, 2011 and 2010, the major categories of plan assets as a percentage of the fair value of the total plan assets are as follows:

	2011	2010
Investment in debt/equity securities	**96.25%**	97.89%
Deposits in banks	**2.10**	0.42
Miscellaneous receivables	**1.65**	1.69
	100.00%	100.00%

19. Cost of Sales

Cost of coal sales consists of:

	2011	2010	2009
Materials and supplies (Note 17)	**₱3,539,708,005**	₱3,648,419,107	₱2,469,067,063
Fuel and lubricants	**2,812,308,480**	2,192,053,459	1,895,994,109
Depreciation and amortization (Notes 8 and 10)	**1,792,534,859**	1,661,071,376	1,012,486,855
Outside services (Note 17)	**583,512,807**	1,392,956,840	2,306,385,701
Hauling and shiploading costs (Notes 8 and 17)	**859,891,741**	605,250,315	540,872,300
Direct labor	**354,994,588**	411,300,417	366,772,235
Production overhead (Note 17)	**320,585,320**	311,575,215	336,768,443
	₱10,263,535,800	₱10,222,626,729	₱8,928,346,706

Cost of power sales consists of:

	2011	2010	2009
Coal	**₱3,720,772,855**	₱2,956,897,728	₱172,809,840
Spot purchases	**1,500,978,204**	1,773,351,388	154,852,467
Depreciation and amortization (Notes 8 and 10)	**776,589,421**	794,013,317	75,338,855
Bunker	**234,071,851**	67,731,908	7,169,892
Diesel	**113,440,407**	99,855,348	2,620,572
Lube	**22,661,500**	37,938,217	2,264,229
Market fees	**22,015,982**	24,022,888	1,265,307
Coal handling expense	**2,107,676**	13,596,690	3,387,368
Others	**4,445,766**	–	–
	₱6,397,083,662	₱5,767,407,484	₱419,708,530

Spot purchases pertain to the cost of electricity acquired from the spot market. This is recognized as expense when the Group receives the electricity and simultaneously sells to its customers.

On December 4, 2009, SCPC received from the Philippine Electricity Market Corporation the electronic certificate which evidenced the direct membership of the SCPC in the WESM. Being a direct member of the WESM, SCPC can sell electricity to its customers assigned by PSALM, sell available power in excess of its customers' electricity requirements in the WESM as spot sales and purchase power directly from the spot market should the need arises. In addition, SCPC, as a requirement for being a direct member of WESM, has to pay market fees based on the total energy traded in the market. In 2011, 2010 and 2009, SCPC purchased power from the spot market in the amount of ₱1.50 billion, ₱1.77 billion and ₱0.15 billion, respectively.

20. Operating Expenses

	2011	2010	2009
Government share (Note 26)	**₱1,479,972,809**	₱1,310,029,153	₱450,151,548
Management fees (Note 17)	**500,743,201**	216,458,717	–
Taxes and licenses	**334,393,508**	31,705,447	2,729,342
Personnel costs (Notes 17 and 18)	**194,509,438**	335,103,976	140,485,645
Insurance and bonds	**61,394,404**	57,083,139	11,273,086

(Forward)

Notes To Consolidated Financial Statements

	2011	2010	2009
Repairs and maintenance	**₱52,485,703**	₱49,501,640	₱3,125,221
Depreciation (Note 8)	**38,230,893**	28,629,004	8,386,156
Transportation and travel	**34,221,417**	33,561,854	17,871,246
Professional fees	**29,987,831**	65,796,354	28,373,909
Entertainment, amusement and recreation	**16,542,752**	18,855,526	9,251,477
Provision for doubtful accounts (Note 5)	**5,004,512**	53,744,668	–
Provision for billing disputes (Note 27)	**–**	383,293,921	–
Provision for impairment loss (Note 10)	**–**	–	40,374,335
Office expenses and others	**109,687,646**	137,471,519	31,178,614
	₱2,857,174,114	₱2,721,234,918	₱743,200,579

Office expenses and others pertain to various expenses such as advertising, utilities, supplies and repairs and maintenance expenses.

21. Finance Costs

	2011	2010	2009
Interest on:			
Bank loans	**₱428,635,398**	₱652,152,869	₱100,651,973
Amortization of debt issuance cost (Note 12)	**22,415,490**	5,199,543	–
Acceptances and letters of credits	**30,478,806**	10,314,050	10,379,698
Accretion of ARO (Note 7)	**1,758,087**	774,354	1,160,993
	₱483,287,781	₱668,440,816	₱112,192,664

22. Finance Income

	2011	2010	2009
Interest on:			
Cash in banks	**₱20,485,464**	₱25,628,932	₱1,514,481
Cash equivalents and temporary investments	**108,389,881**	15,668,969	28,604,294
Accretion on security deposits (Note 10)	**168,856**	12,787,515	20,623,718
Others	**5,832,479**	3,582,348	2,010,403
	₱134,876,680	₱57,667,764	₱52,752,896

23. Other Income

	2011	2010	2009
Gain on sale of equipment (Note 8)	**₱53,547,507**	₱6,088,124	₱40,205,597
Recoveries from insurance claims	**35,179,622**	5,069,284	18,173,051
Reversal of allowance for doubtful accounts (Note 5)	**7,892,343**	5,677,104	3,191,293
Gain on sale of investments (Note 9)	**–**	41,378,255	–
Negative goodwill (Note 33)	**–**	–	15,666,754
Miscellaneous	**3,285,825**	7,214,245	30,698,527
	₱99,905,297	₱65,427,012	₱107,935,222

24. Income Tax

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

	2011	2010	2009
Statutory income tax rate	**30.00%**	30.00%	30.00%
Adjustments for:			
Tax-exempt income	**(30.68)**	(31.14)	(30.62)
Interest income already subjected to final tax at a lower rate - net of nondeductible interest expense	**(0.29)**	(0.11)	(0.19)
Unrecognized deferred tax assets	**0.26**	0.30	3.35
Nondeductible interest expense	**0.19**	0.11	0.16
Nondeductible expense	**0.16**	0.25	–
Equity in net losses (earnings)	**–**	(0.59)	0.62
Gain on divestment	**–**	(0.32)	–
Derecognized deferred tax assets	**–**	0.60	–
Effective income tax rate	**(0.37%)**	(0.90%)	3.32%

The significant components of deferred tax assets and liabilities represent the deferred tax effects of the following:

	2011	2010
Deferred tax assets on:		
SCPC		
Amortization of loan discount	**₱6,724,647**	₱–
Unrealized foreign exchange loss	**3,439,317**	–
Provision for decommissioning and site rehabilitation	**1,177,374**	–
	11,341,338	–
SLPGC		
Organizational costs	**6,060,168**	–
NOLCO	**7,500**	–
	6,067,668	–
	₱17,409,006	₱–
Deferred tax liabilities on:		
Parent Company		
Incremental cost of property, plant and equipment	**₱565,481**	₱7,846,603
Net unrealized foreign exchange gains	**–**	20,192,488
Unamortized prepaid rent	**–**	48,214
	₱565,481	₱28,087,305

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In 2011 and 2010, the Group has the following deductible temporary differences that are available for offset against future taxable income or tax payable for which deferred tax assets has not been recognized:

	2011	2010
Allowance for doubtful accounts (Note 5)	**₱68,891,290**	₱71,779,121
Allowance for inventory write down (Note 6)	**53,286,925**	53,286,925
Provision for impairment loss (Note 10)	**40,374,335**	40,374,335
Provision for decommissioning and site rehabilitation (Note 14)	**39,788,796**	14,732,350
Unrealized foreign exchange loss	**26,475,064**	–
Pension costs	**25,156,349**	19,996,748
NOLCO	**30,000**	–
Organizational costs	**20,170**	–
Unamortized discount on security deposits	**–**	168,856
	₱254,022,929	₱200,338,335

Unrecognized NOLCO for 2011 will expire on 2014.

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

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

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

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

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

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

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

The Parent Company availed of tax incentive in the form of ITH on its income under registered activities amounting to ₱1.35 billion, ₱1.37 billion and ₱0.64 billion in 2011, 2010 and 2009, respectively.

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

a. SCPC shall enjoy income tax holiday for four (4) years from April 2011 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration. The ITH incentives shall be limited to the revenue generated from the sales of electricity of the 600 MW Batangas Coal-Fired Power Plant.

b. For the first five (5) years from the date of registration, SCPC shall be allowed an additional deduction from taxable income of 50% of the wages corresponding to the increment in the number of direct labor for skilled and unskilled workers in the year of availment as against the previous year if the project meets the prescribed ratio of capital equipment to the number of workers set by the BOI of $10,000 to one worker and provided that this incentive shall not be availed of simultaneously with the ITH.

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

d. Importation of consigned equipment for a period of ten (10) years from the date of registration, subject to the posting of re-export bond.

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

SCPC availed of tax incentive in the form of ITH on its income under registered activities amounting to ₱1.87 billion and ₱1.40 billion in 2011 and 2010, respectively.

25. Basic/Diluted Earnings Per Share

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

	2011	2010	2009
Net income	**₱6,031,136,575**	₱3,952,708,257	₱1,845,984,707
Divided by the weighted average number of common shares outstanding	**356,250,000**	326,684,867	277,572,800
Basic / diluted earnings per share	**₱16.93**	₱12.10	₱6.65

For the years ended December 31, 2011, 2010 and 2009, there were no outstanding dilutive potential common shares.

26. Coal Operating Contract with DOE

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

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

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

In return for the mining rights granted to the Parent Company, the Government is entitled to receive annual royalty payments consisting of the balance of the gross income after deducting operating expenses, operator's fee and special allowance. The Parent Company's provision for DOE's share (including accrued interest computed at 14% per annum on outstanding balance) under this contract and to the different LGU in the province of Antique, under the provisions of the Local Government Code of 1991, amounted to ₱1.48 billion, ₱1.31 billion and ₱0.45 billion in 2011, 2010 and 2009, respectively, included under "Operating expenses" in the consolidated statements of comprehensive income (see Note 20). The liabilities, amounting to ₱0.91 billion and ₱1.01 billion as of December 31, 2011 and 2010 are included under the "Trade and other payables" account in the consolidated statements of financial position (see Note 13).

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

27. **Contingencies and Commitments**

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

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

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

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

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

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

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

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

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

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

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

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

SCPC made a provision for the total amount withheld by NPC, which amounted to ₱383.29 million (see Note 20). Though a provision has already been made, SCPC has not waived its right to collect the said amount in case the outcome of the dispute resolution would be a favorable settlement for SCPC. The provision will be reversed and an income would be recognized in the "Other income" account upon collection of the said receivable.

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

As of December 31, 2011, decision of ERC regarding the case is still pending resolution.

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28. **Financial Risk Management Objectives and Policies**

The Group has various financial assets such as trade receivables, 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 long-term debt. The main purpose of these financial liabilities is to raise finance for the Group's operations.

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

The sensitivity analyses have been prepared on the following basis:

- Price risk - movement in one-year historical coal prices
- Interest rate risk - market interest rate on unsecured bank loans
- Foreign currency risk - yearly movement in the foreign exchange rates

The assumption used in calculating the sensitivity analyses of the relevant income statement item is the effect of the assumed changes in respective market risks. This is based on the financial assets and financial liabilities held at December 31, 2011 and 2010.

Price risk

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

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

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

To mitigate this risk, the Group continues to improve the quality of its coal and diversify its market from power industry, cement industry, other local industries and export market. This will allow flexibility in the distribution of coal to its target customers in such manner that minimum target average price of its coal sales across all its customers will still be achieved (i.e. domestic vs local). Also, in order to mitigate any negative impact resulting from price changes, it is the Group's policy to set minimum contracted volume for customers with long term supply contracts for each given period (within the duration of the contract) and pricing is negotiated on a monthly basis to even out the impact of any fluctuation in coal prices, thus, protecting its target margin. The excess volumes are allocated to spot sales which may command different price than those contracted already since the latter shall follow pricing formula per contract. Nevertheless, on certain cases temporary adjustments on coal prices with reference to customers following a certain pricing formula are requested in order to recover at least the cost of coal if the resulting price is abnormally low vis-à-vis cost of production (i.e. abnormal rise in cost of fuel, foreign exchange).

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

	2011	2010
Domestic market	**41.14%**	29.24%
Export market	**37.27**	57.36

as a percentage of total coal sales volume

The following table shows the effect on income before income tax should the change in the prices of coal occur based on the inventory of the Group as of December 31, 2011 and 2010 with all other variables held constant. The change in coal prices is based on 1-year historical price movements.

Based on ending coal inventory	**Effect on income before income tax**	
Change in coal price	**2011**	2010
Increase by 30%	**₱915,762,074**	₱344,913,146
Decrease by 30%	**(915,762,074)**	(344,913,146)

Based on coal sales volume	**Effect on income before income tax**	
Change in coal price	**2011**	2010
Increase by 30%	**₱6,019,117,161**	₱5,022,990,106
Decrease by 30%	**(6,019,117,161)**	(5,022,990,106)

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.

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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.

	2011						
	Interest	**Within 1 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 debt at floating rate							
$3.20 million loan (USD)	**1.59%-2.88% payable in arrears, to be re-priced every 90 days**	**₱140,288**	**₱–**	**₱–**	**₱–**	**₱–**	**₱140,288**
$29.96 million loan (USD)	**1.94% p.a. payable semi-annually in arrears, to be repriced every 6 months**	**639,057**	**674,531**	**–**	**–**	**–**	**1,313,588**
$15.70 million loan (USD)	**1.80% p.a. for 92 days, to be repriced every 30 to 180 days**	**442,382**	**246,064**	**–**	**–**	**–**	**688,446**
$23.45 million loan (USD)	**1.82% p.a., to be re-priced every 3 months**	**240,239**	**788,014**	**–**	**–**	**–**	**1,028,253**
$21.11 million loan (USD)	**1.03%-1.10% payable in 3-4 months, principal to be paid at maturity**	–	**925,663**	**–**	**–**	**–**	**925,663**
Mortgage payable at floating rate	**PDST-F benchmark yield for 3-month treasury securities +1.75%**	**1,508,877**	**1,514,248**	**1,519,639**	**1,525,049**	**2,297,759**	**8,365,572**
		₱2,970,843	**₱4,148,520**	**₱1,519,639**	**₱1,525,049**	**₱2,297,759**	**₱12,461,810**

	2010						
	Interest	Within 1 year	1-2 years	2-3 years	3-4 years	More than 4 years	Carrying Value
				(In Thousands)			
Cash equivalents	2.00% to 4.50%	₱1,836,638	₱–	₱–	₱–	₱–	₱1,836,638
Local bank loans at floating rate							
$16.0 million loan (USD)	1.59% - 2.88% payable in arrears, to be repriced every 90 days	₱–	₱701,440	₱–	₱–	₱–	₱701,440
$14.58 million loan (USD)	1.95% p.a. payable semi-annually in arrears, to be repriced every 6 months	–	639,057	–	–	–	639,057
$10.08 million loan (USD)	1.90 p.a. for 92 days, to be repriced every 30 to 180 days	–	442,081	–	–	–	442,081
$5.48 million loan (USD)	1.82% p.a., to be repriced every 3 months	–	240,239	–	–	–	240,239
Deferred purchase payment	4% p.a. over the rate 180 days	–	774,743	–	–	–	774,743
Mortgage payable at floating rate	PDST-F benchmark yield for 3-month treasury securities +1.75%	1,129,585	1,508,877	1,514,248	1,521,153	3,821,294	9,495,157
		₱1,129,585	₱4,306,437	₱1,514,248	₱1,521,153	₱3,821,294	₱12,292,717

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The following table demonstrates the sensitivity of the Group's profit before tax to a reasonably possible change in interest rates on December 31, 2011 and 2010, with all variables held constant, through the impact on floating rate borrowings.

	Effect on Profit Before Tax			
Basis points (in hundred thousands)	**2011**			2010
+100	**(₱124,681)**	**(US$2,844)**	(₱122,934)	(US$2,804)
-100	**124,681**	**2,844**	122,934	2,804

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

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

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans. The Group's policy is to maintain a level of cash that is sufficient to fund its monthly cash requirements, at least for the next four to six months. Capital expenditures are funded through a mix of suppliers' credit, letters of credit, trust receipts and long-term debt, while operating expenses and working capital requirements are 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 conditions in the financial markets for opportunities to pursue fund raising activities. Fund raising activities may include obtaining bank loans.

The tables below summarize the maturity profile of the Group's financial assets and liabilities as of December 31, 2011 and 2010 based on undiscounted contractual payments.

	2011					
	Less than 6 months	6-12months	1-2 years	2-3 years	More than 3 years	Total
Assets						
Cash in bank and cash equivalents	**₱4,989,794,059**	**₱–**	**₱–**	**₱–**	**₱–**	**₱4,989,794,059**
Receivables:						
Trade:						
Electricity sales	**834,041,959**	**1,105,809,168**	–	–	–	**1,939,851,127**
Local coal sales	**942,197,245**	**8,258,045**	–	–	–	**950,455,290**
Export coal sales	**108,413,708**	–	–	–	–	**108,413,708**
Due from related parties	**199,110,601**	–	–	–	–	**199,110,601**
Others*	**6,492,192**	**8,705,081**	–	–	–	**15,197,273**
Environmental guarantee fund	–	–	–	–	**1,500,000**	**1,500,000**
	7,080,049,764	**1,122,772,294**	–	–	**1,500,000**	**8,204,322,058**
Liabilities						
Trade and other payables:						
Trade:						
Payable to suppliers and contractors	**5,000,033,413**	**10,796,222**	–	–	–	**5,010,829,635**
Due to related parties	**238,222,442**	–	–	–	–	**238,222,442**
Accrued expenses and other payables**	**142,174,353**	**322,784**	–	–	–	**142,497,137**
Short-term loans	**1,010,692,002**	–	–	–	–	**1,010,692,002**
Long-term debt at floating rate						
$3.2 million loan (USD) with interest payable in arrears	**810,163**	**140,778,239**	–	–	–	**141,588,402**
$29.96 million loan (USD) with interest payable semi-annually in arrears	**7,627,682**	**649,523,897**	**675,015,756**	–	–	**1,332,167,335**
$15.70 million loan (USD) with interest payable in arrears	**3,461,409**	**447,368,880**	**246,064,056**	–	–	**696,894,345**
$23.45 million loan (USD) with interest payable in arrears	**5,533,275**	**246,646,131**	**791,122,589**	–	–	**1,043,301,995**
$21.11 million loan (USD) with interest payable in arrears, to be repriced every 90 to 180 days	**4,985,227**	**4,985,227**	**932,309,744**	–	–	**942,280,198**
₱9.60 billion mortgage payable at PDST-F benchmark yield for 3-month treasury securities +1.75%	**25,446,333**	**1,477,732,575**	**1,568,360,565**	**1,573,171,948**	**3,957,134,668**	**8,601,846,089**
	6,438,986,299	**2,978,153,955**	**4,212,872,710**	**1,573,171,948**	**3,957,134,668**	**19,160,319,580**
	₱641,063,465	**(₱1,855,381,661)**	**(₱4,212,872,710)**	**(₱1,573,171,948)**	**(₱3,955,634,668)**	**(₱10,955,997,522)**

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

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	2010					
	Less than 6 months	6-12months	1-2 years	2-3 years	More than 3 years	Total
Assets						
Cash in bank and cash equivalents	₱3,804,596,734	₱–	₱–	₱–	₱–	₱3,804,596,734
Receivables:						
Trade:						
Electricity sales	1,598,431,667	–	–	–	–	1,598,431,667
Local coal sales	749,328,994	–	–	–	–	749,328,994
Export coal sales	582,130,762	–	–	–	–	582,130,762
Due from related parties	120,628,995	–	–	–	–	120,628,995
Others*	129,640,823	–	–	–	–	129,640,823
Security deposits	304,400,611	–	–	–	–	304,400,611
Environmental guarantee fund	–	–	–	–	1,500,000	1,500,000
	7,289,158,586	–	–	–	1,500,000	7,290,658,586
Liabilities						
Trade and other payables:						
Trade:						
Payable to suppliers and contractors	3,081,556,102	–	–	–	–	3,081,556,102
Due to related parties	198,245,320	–	–	–	–	198,245,320
Accrued expenses and other payables**	183,017,680	–	–	–	–	183,017,680
Short-term loans	449,845,179	–	–	–	–	449,845,179
Long-term debt at floating rate						
$16.00 million loan (USD) with interest payable in arrears, to be repriced every 90 days	9,156,418	9,156,418	703,800,303	–	–	722,113,139
$14.58 million loan(USD) with interest payable semi-annually in arrears, to be repriced every six (6) months	6,221,439	6,221,439	650,157,885	–	–	662,600,763
$10.08 million loan (USD) with interest payable in arrears, to be repriced every 30 to 180 days	3,985,363	3,985,363	448,059,321	–	–	456,030,047
$5.48 million loan (USD) with interest payable in arrears, to be repriced every three (3) months	2,187,257	2,187,257	243,520,053	–	–	247,894,567
$17.62 million deferred purchase payment at 4% interest p.a. over the rate 180 days	15,507,539	15,507,539	783,130,726	–	–	814,145,804
₱9.60 billion mortgage payable at PDST-F benchmark yield for 3-month treasury securities +1.75%	493,510,409	889,111,096	1,752,277,703	1,709,598,558	5,653,301,175	10,497,798,941
	4,443,232,706	926,169,112	4,580,945,991	1,709,598,558	5,653,301,175	17,313,247,542
	₱2,845,925,880	(₱926,169,112)	(₱4,580,945,991)	(₱1,709,598,558)	(₱5,651,801,175)	(₱10,022,588,956)

*excludes advances for liquidation
**excludes statutory liabilities

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 Group manages this risk by matching receipts and payments in the same currency and monitoring. Approximately, 27.74% and 38.98% of the Group's sales in 2011 and 2010, respectively, were denominated in US$ whereas approximately 24.65% and 20.38% of debts as of December 31, 2011 and 2010, respectively, were denominated in US$.

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

	December 31, 2011		December 31, 2010	
	U.S. Dollar	**Peso Equivalent**	U.S. Dollar	Peso Equivalent
Assets				
Cash and cash equivalents	**$27,878,828**	**1,222,207,823**	$47,358,433	2,076,193,708
Trade receivables	**2,472,940**	**108,413,708**	13,278,530	582,130,755
Liabilities				
Trade payables	**(1,023,013)**	**(44,848,885)**	(10,304,844)	(451,764,348)
Short-term loans	**(23,054,106)**	**(1,010,692,002)**	(10,261,067)	(449,845,179)
Long-term debt (including current portion)	**(93,436,089)**	**(4,096,238,127)**	(63,812,979)	(2,797,561,000)
Net foreign currency denominated liabilities	**($87,161,440)**	**(₱3,821,157,483)**	($23,741,927)	(₱1,040,846,064)

The spot exchange rates used in 2011 and 2010 43.84 to US$1.

The following table demonstrates the sensitivity to a reasonably possible change in foreign exchange rates, with all variables held constant, of the Group's income before tax (due to changes in the fair value of monetary assets and liabilities) on December 31, 2011 and 2010.

Reasonably possible change in the Philippine peso-US dollar exchange rate	**Increase (decrease) in profit before tax**	
	2011	2010
₱2	**(₱174,322,880)**	(₱47,483,853)
(₱2)	**174,322,880**	47,483,853

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 movement in dollar average exchange rates.

The Group recognized ₱38.32 million net foreign exchange loss and ₱199.49 million net foreign exchange gain for the years ended December 31, 2011 and 2010, respectively, arising from the translation of the Group's cash and cash equivalents, trade receivables, trade payables and long-term debt.

Credit risk

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

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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 to credit risk equal to the carrying amount of the financial assets as of reporting date. The Group does not hold any collateral or other credit enhancement that will mitigate credit risk exposure. The Group transacts only with institutions or banks and third parties that have proven track record in financial soundness.

The credit risk is concentrated to the following markets:

	2011	2010
Trade receivables:		
Electricity sales	**62.48%**	61.52%
Local sales	**30.61**	28.84
Due from related parties	**6.41**	4.64
Others	**0.50**	5.00
	100.00%	100.00%

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

	Gross Maximum Exposure	
	2011	2010
Cash and cash equivalents	**₱4,989,794,059**	₱3,804,596,734
Receivables:		
Trade:		
Electricity sales	**1,939,851,128**	1,598,431,667
Local coal sales	**950,455,290**	749,328,994
Due from related parties	**199,110,601**	120,628,995
Others	**15,197,273**	129,640,823
Security deposits*	**–**	304,400,611
Environmental guarantee fund**	**1,500,000**	1,500,000
Total credit risk exposure	**₱8,095,908,351**	₱6,708,527,824

*Included under "Other current assets"
**Included under "Other noncurrent assets"

As of December 31, 2011 and 2010, the credit quality per class of financial assets is as follows:

	2011				
	Neither Past Due nor Impaired		**Substandard**	**Past due or Individually**	
	Grade A	**Grade B**	**Grade**	**Impaired**	**Total**
Cash and cash equivalents	**₱4,989,794,059**	**₱–**	**₱–**	**₱–**	**₱4,989,794,059**
Receivables:					
Trade:					
Electricity sales	**1,560,491,505**	**379,359,622**	**–**	**53,523,802**	**1,993,374,929**
Local coal sales	**839,947,873**	**91,602,242**	**–**	**18,905,175**	**950,455,290**
Export coal sales	**108,413,708**	**–**	**–**	**–**	**108,413,708**
Due from related parties	**199,110,601**	**–**	**–**	**–**	**199,110,601**
Others	**9,317,074**	**1,186,119**	**–**	**15,944,364**	**26,447,557**
Environmental guarantee fund	**1,500,000**	**–**	**–**	**–**	**1,500,000**
Total	**₱7,708,574,820**	**₱472,147,983**	**₱–**	**₱88,373,341**	**₱8,269,096,144**

	2010				
	Neither Past Due nor Impaired		Substandard	Past due or Individually	
	Grade A	Grade B	Grade	Impaired	Total
Cash and cash equivalents	₱3,804,596,734	₱–	₱–	₱–	₱3,804,596,734
Receivables:					
Trade					
Electricity sales	1,598,182,785	–	–	53,772,684	1,651,955,469
Local coal sales	296,162,508	347,712,843	–	113,345,986	757,221,337
Export coal sales	582,130,762	–	–	–	582,130,762
Due from related parties	120,628,995	–	–	–	120,628,995
Others	–	113,991,886	–	21,894,710	135,886,596
Security deposits	304,400,611	–	–	–	304,400,611
Environmental guarantee fund	1,500,000	–	–	–	1,500,000
Total	₱6,707,602,395	₱461,704,729	₱–	₱189,013,380	₱7,358,320,504

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

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

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

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

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

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

As of December 31, 2011 and 2010, the aging analysis of the Group's receivables presented per class is as follows:

	2011			
	Past Due but not Impaired		**Impaired Financial**	
	<45 days	**45-135 days**	**Assets**	**Total**
Receivables				
Trade:				
Electricity sales	**₱–**	**₱–**	**₱53,523,802**	**₱53,523,802**
Local coal sales	**10,647,130**	**8,258,045**	**–**	**18,905,175**
Others	**–**	**4,694,080**	**11,250,284**	**15,944,364**
Total	**₱10,647,129**	**₱12,952,125**	**₱64,774,086**	**₱88,373,341**

	2010			
	Past Due but not Impaired		Impaired Financial	
	<45 days	45-135 days	Assets	Total
Receivables				
Trade:				
Electricity sales	₱248,882	₱–	₱53,523,802	₱53,772,684
Local coal sales	91,602,243	13,851,400	7,892,343	113,345,986
Others	6,606,977	9,041,960	6,245,773	21,894,710
Total	₱98,458,102	₱22,893,360	₱67,661,918	₱189,013,380

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 Group manages its capital using Debt-to-Equity ratio, which is interest-bearing loans divided by equity, and EPS. The following table shows the Group's capital ratios as of December 31, 2011 and 2010.

	2011	2010
Interest-bearing loans	**₱12,461,810,894**	₱12,292,718,274
Total equity	**14,808,539,757**	12,339,903,182
Debt-to-Equity ratio	**84.15%**	99.62%
EPS	**₱16.93**	₱12.10

The aggressive expansion and investment strategies of the Group resulted to higher Debt-to-Equity ratio in 2011 and 2010. The Debt-to-Equity ratio is carefully matched with the strength of the Group's financial position, such that when a good opportunity presents itself, the Group can afford further leverage.

The following table shows the component of the Group's capital as of December 31, 2011 and 2010:

	2011	2010
Total paid-up capital	**₱7,031,777,411**	₱7,031,777,411
Retained earnings - unappropriated	**7,076,762,346**	4,608,125,771
Retained earnings - appropriated	**700,000,000**	700,000,000
	₱14,808,539,757	₱12,339,903,182

29. **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 December 31, 2011 and 2010.

	2011		2010	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Financial Assets				
Loans and receivables:				
Cash and cash equivalents	**₱4,989,794,059**	**₱4,989,794,059**	₱3,804,596,734	₱3,804,596,734
Receivables:				
Trade:				
Electricity sales	**1,939,851,128**	**1,939,851,128**	₱1,598,431,667	₱1,598,431,667
Local sales	**950,455,290**	**950,455,290**	749,328,994	749,328,994
Export sales	**108,413,708**	**108,413,708**	582,130,762	582,130,762
Due from related parties	**199,110,601**	**199,110,601**	120,628,995	120,628,995
Others	**15,197,273**	**15,197,273**	129,640,823	129,640,823
Security deposits	**–**	**–**	304,400,611	304,400,611
Environmental guarantee fund	**1,500,000**	**1,500,000**	1,500,000	1,500,000
Total	**₱8,204,322,059**	**₱8,204,322,059**	₱7,290,658,586	₱7,290,658,586
Financial Liabilities				
Other financial liabilities:				
Trade:				
Payable to suppliers and contractors	**₱5,010,829,635**	**₱5,010,829,635**	₱3,681,704,251	₱3,681,704,251
Due to related parties	**238,222,442**	**238,222,442**	200,090,262	200,090,262
Accrued expenses and other payables	**142,497,137**	**142,497,137**	163,027,683	163,027,683
Short term loans	**1,010,692,002**	**1,010,692,002**	449,845,179	449,845,179
Long-term debt	**12,461,810,894**	**12,461,810,894**	12,292,718,274	12,292,718,274
Total	**₱19,769,060,838**	**₱19,769,060,838**	₱17,800,425,592	₱17,800,425,592

Notes To Consolidated Financial Statements

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.

The fair values of security deposits are calculated by discounting expected future cash flows at applicable rates for similar instruments using the remaining terms to maturity. The discount rate use ranged from 5.08% to 7.89% in 2010.

Financial liabilities
Trade and other payables
The fair values of trade payables, accrued expenses and other payables, and short-term loans 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. mothly, quarterly, semi-annual or annual basis) based on current market conditions. As of December 31, 2011 and 2010, interest rate ranges from 1.01% to 1.82% and 1.01% to 4.00%, respectively.

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 December 31, 2011 and 2010, the Group does not have financial instruments measured at fair value.

30. Lease Commitments

Equipment Rental Agreement
On various dates in 2009 and 2008, the Group entered into Equipment Rental Agreement (the Agreement) with Banco de Oro Rental, Inc. (the Lessor) for the rental of various equipments for a period of twenty (20) months starting on various dates. The Agreement requires for the payment of a fixed monthly rental. The Agreement also requires the Group to pay security deposit which shall be held by the lessor as security for the faithful and timely performance by the Group of all its obligations. Upon termination of the Agreement, the lessor shall return to the Group the security deposit after deducting any unpaid rental and/or other amounts due to lessor (see Note 10). The equipment is, at all times, shall be and remain, the sole and exclusive equipment of the lessor, and no title shall pass to the Group.

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

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

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

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

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

31. Notes to Consolidated Statements of Cash Flow

Supplemental disclosure of noncash investing and financing activities follows:

	2011	2010	2009
Transfers from inventory	**₱1,607,455,720**	₱529,047,775	₱9,065,739
Conversion of deposit on future stock subscriptions to common shares	–	5,402,125,985	–
Acquisition of conventional and other mining equipment on account (Notes 12 and 13)	–	759,899,010	474,363,625
Acquisition of business (Note 33)	–	–	9,571,202,577
Assignment of APA and LLA (Note 33)	–	–	54,343,156

As of December 31, 2011 and 2010, total cost incurred in the rehabilitation of the power plant and other facilities under construction amounted to ₱1.61 billion and ₱0.53 billion, respectively. These were initially recognized as part of the inventories and were capitalized in the "Construction in progress" account upon issuance (see Note 8).

32. Operating Segments

Segment Information
For management purposes, the Group is organized into business units based on their products and activities and has two reportable operating segments as follows:

- The coal mining segment is engaged in surface open cut mining of thermal coal; and
- The power generation segment involved in generation of energy available for sale thru electricity markets and trading.

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

The chief operating decision maker (CODM) monitors the operating results of the Group for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on revenue, operating profit and pretax income which are measured similarly in the consolidated financial statements.

Notes To Consolidated Financial Statements

Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

	2011 (In thousands)			
	Mining	**Power**	**Adjustments and Eliminations**	**Consolidated**
Revenue				
Sales to external customers	**₱16,201,880**	**₱9,611,704**	**₱–**	**₱25,813,584**
Inter-segment sales	**3,861,843**	**–**	**(3,861,843)**	–
	20,063,723	**9,611,704**	**(3,861,843)**	**25,813,584**
Cost of sales	**(11,920,123)**	**(5,620,494)**	**879,998**	**(16,660,619)**
Depreciation	**(2,086,783)**	**(776,589)**	**2,863,372**	–
Gross profit	**6,056,817**	**3,214,621**	**(118,473)**	**9,152,965**
Operating expenses	**(1,837,902)**	**(1,019,272)**	–	**(2,857,174)**
Operating profit	**4,218,916**	**2,195,349**	**(118,474)**	**6,295,791**
Other income	**1,299,905**	**–**	**(1,200,000)**	**99,905**
Finance income	**79,447**	**55,429**	**–**	**134,877**
Foreign exchange gain	**(26,011)**	**(12,307)**	**–**	**(38,318)**
Finance costs	**(104,932)**	**(378,356)**	**–**	**(483,288)**
Provision for income tax	**16,428**	**5,741**	**–**	**22,169**
Net income	**₱5,483,753**	**₱1,865,857**	**(₱1,318,474)**	**₱6,031,137**
Operating assets	**₱22,193,762**	**₱22,662,959**	**(₱9,736,701)**	**₱35,120,021**
Deferred tax assets	**–**	**17,409**	**–**	**17,409**
Investments and advances	**–**	**490,789**	**–**	**490,789**
	₱22,193,762	**₱23,171,157**	**(₱9,736,701)**	**₱35,628,219**
Operating liabilities	**₱5,316,671**	**₱3,826,450**	**(₱833,401)**	**₱8,309,720**
Long-term debt	**4,140,133**	**8,369,261**	**–**	**12,509,394**
Deferred tax liability	**565**	**–**	**–**	**565**
	₱9,457,369	**₱12,195,711**	**(₱833,401)**	**₱20,819,679**
Other disclosures				
Capital expenditures	**₱2,130,050**	**₱324,326**	**₱–**	**₱2,454,376**

	2010 (In thousands)			
	Mining	Power	Adjustments and Eliminations	Consolidated
Revenue				
Sales to external customers	₱14,242,225	₱8,655,623	₱–	₱22,897,848
Inter-segment sales	2,511,722	2,330	(2,514,052)	-
Equity in net earnings (loss) of an associate	89,175	(12,349)		76,826
	16,843,122	8,645,604	(2,514,052)	22,974,674
Cost of sales	(11,060,316)	(4,975,609)	45,891	(15,990,034)
Depreciation	(1,672,139)	(794,128)	2,466,267	0
Gross profit	4,110,667	2,875,867	(1,894)	6,984,640
Operating expenses	(1,739,144)	(982,091)		(2,721,235)
Operating profit	2,371,523	1,893,776	(1,894)	4,263,405
Other income	65,427.01	–	–	65,427
Finance income	30,021	27,647	–	57,668
Foreign exchange gain	235,801	(36,313)	–	199,488
Finance costs	(177,807)	(490,634)	–	(668,441)
Provision for income tax	4,691	30,471	–	35,162
Net income	₱2,529,656	₱1,424,946	₱–	₱3,952,708
Operating assets	₱18,779,152	₱20,109,279	(₱8,703,952)	₱30,184,479
Investments and advances	–	310,230	–	310,230
	₱18,779,152	₱20,419,509	(₱8,703,952)	₱30,494,709
Operating liabilities	4,688,519	1,423,863	(728,226)	5,384,156
Long-term debt	3,247,406	9,495,157		12,742,563
Deferred tax liability	28,087			28,087
	₱7,964,012	₱10,919,020	(₱728,226)	₱18,154,806
Other disclosures				
Capital expenditures	₱3,291,597	₱16,152	₱–	₱3,307,749

Notes To Consolidated Financial Statements

	2009 (In thousands)			
	Mining	Power	Adjustments and Eliminations	Consolidated
Revenue				
Sales to external customers	₱11,500,193	₱443,493	₱–	₱11,943,686
Inter-segment sales	175,039	956	(175,995)	-
Equity in net loss of an associate	(21,990)	(17,359)	–	(39,349.00)
	11,653,242	427,090	(175,995)	11,904,337
Cost of sales	(8,056,999)	(345,066)	(945,990)	(9,348,055)
Depreciation	(1,021,209)	(75,339)	1,096,548	0
Gross profit	2,575,034	6,685	(25,437)	2,556,282
Operating expenses	(716,857)	(25,656)	(688)	(743,201)
Operating profit	1,858,177	(18,971)	(26,125)	1,813,081
Other income	91,764	16,171	–	107,935.22
Finance income	52,736	17	–	52,752.90
Foreign exchange gain	(152,249)	199,952	–	47,703.02
Finance costs	(33,438)	(78,755)	–	(112,193)
Provision for income tax	(27,144)	(36,150)	–	(63,294)
Net income	₱177,398	₱82,263	(₱10,261)	₱1,845,985
Operating assets	13,615,842	17,776,293	(7,373,293)	24,018,842
Investments and advances	87,912	156,521	–	244,433
	₱13,703,754	₱17,932,814	(₱7,373,293)	₱24,263,275
Operating liabilities	2,577,891	905,620	(199,332)	3,284,179
Long-term debt	1,452,263	9,571,203		11,023,466
Deferred tax liability	35,910	36,147		72,057
	₱4,066,064	₱10,512,970	(₱199,332)	₱14,379,702
Other disclosures				
Capital expenditures	₱2,853,553	₱16,211,800	₱–	₱19,065,353
Investment in associates	87,912	156,521	–	244,433

1. Inter-segment revenues are eliminated on consolidation.
2. Cost of sales does not include depreciation and amortization expense charged during production.
3. Segment asset include investment in associates accounted for by the equity method.
4. Segment assets exclude deferred tax assets amounting to ₱17.41 million in 2011.
5. Segment liabilities exclude deferred tax liabilities amounting to ₱0.57 million, ₱28.09 million, and ₱72.06 million in 2011, 2010 and 2009, respectively. Long term bank loans are no longer included as these are managed on a group basis.
6. Capital expenditures consist of additions of property, plant and equipment including assets from the acquisition of business.
7. All non-current assets other than financial instruments are located in the Philippines.

Geographic Information

Revenues from external customers

The financial information about the operation of the Group as of December 31, 2011, 2010 and 2009 reviewed by the management follows:

	2011	2010	2009
Revenue:			
Local coal sales	**₱9,041,167,716**	₱5,315,636,853	₱7,252,952,002
Export coal sales	**7,160,712,695**	8,926,587,776	4,247,240,809
	₱16,201,880,411	₱14,242,224,629	₱11,500,192,811

Substantially all revenues from external customer are from open cut mining and sales of thermal coal. Local and export classification above is based on the geographic location of the customer. All non-current assets other than financial instruments are located in the Philippines.

Coal sales to power companies amounted to ₱7.01 billion and ₱2.37 billion for the years ended December 31, 2011 and 2010, respectively.

33. **Business Combination**

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

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

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

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

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

Notes To Consolidated Financial Statements

Below are the significant provisions of the APA:

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

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

Other provision of the Agreement includes:

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

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

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

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

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

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

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

	Fair value recognized on acquisition (Restated)
Property, plant and equipment (Note 8)	₱16,211,370
Materials and supplies (Note 6)	618,340
Coal (Note 6)	273,936
Prepaid rent (Note 10)	150,568
Fuel and diesel (Note 6)	86,705
Net assets acquired	17,340,919
Negative goodwill arising on acquisition	(15,667)
Total cost	₱17,325,252

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

Cash consideration	₱7,104,375
Payable to PSALM (Note 12)	9,770,448
Transaction cost (Note 20)	450,429
Total cost	₱17,325,252

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

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

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

34. Other Matters

a. Electric Power Industry Reform Act (EPIRA)

In June 2001, the Congress of the Philippines approved and passed into law R.A. No. 9136, otherwise known as the EPIRA, providing the mandate and the framework to introduce competition in the electricity market. EPIRA also provides for the privatization of the assets of NPC, including its generation and transmission assets, as well as its contract with Independent Power Producers (IPPs). EPIRA provides that competition in the retail supply of electricity and open access to the transmission and distribution systems would occur within three years from EPIRA's effective date. Prior to June 2002, concerned government agencies were to establish WESM, ensure the unbundling of transmission and distribution wheeling rates and remove existing cross subsidies provided by industrial and commercial users to residential customers. The WESM was officially launched on June 23, 2006 and began commercial operations for Luzon. The ERC has already implemented a cross subsidy removal scheme. The inter-regional grid cross subsidy was fully phased-out in June 2002. ERC has already approved unbundled rates for Transmission Company (TRANSCO) and majority of the distribution utilities.

Notes To Consolidated Financial Statements

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

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

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

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

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

b. Power Supply Agreement with MERALCO

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

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

c. Clean Air Act

On November 25, 2000, the Implementing Rules and Regulations (IRR) of the Philippine Clean Air Act (PCAA) took effect. The IRR contains provisions that have an impact on the industry as a whole and on SCPC in particular, that need to be complied with within 44 months (or until July 2004) from the effectivity date, subject to the approval by DENR. The power plant of SCPC uses thermal coal and uses a facility to test and monitor gas emissions to conform with Ambient and Source Emissions Standards and other provisions of the Clean Air Act and its IRR. Based on SCPC's initial assessment of its power plant's existing facilities, SCPC believes that it is in full compliance with the applicable provisions of the IRR of the PCAA as of December 31, 2011.

d. Contract for the Fly Ash of the Power Plant

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

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

The Government has determined the provision of the Pozzolanic Contract which grants Pozzolanic the exclusive right of first refusal to purchase fly ash from the second unit of the Power Plant and from any coal-fired power plant put up by NPC after the execution of the Pozzolanic Contract as invalid. This is the subject of a case filed by Pozzolanic and pending before the regional trial court of Quezon City as of December 31, 2011.

35. Events After Reporting Period

a. *Execution of deed of assignment for the land owned by the Parent Company in exchange of the SLPGC's common shares*
On February 22, 2012, the Parent Company and SLPGC executed a deed of assignment for the land owned by the Parent Company in exchange of common shares of SLPGC. The land, with an area of 82,740 square meters, more or less, was purchased by the Parent Company from PSALM on July 25, 2011. The current zonal value of the land is ₱1,025.00 per square meter or a total of ₱84.81 million based on the zonal values of properties in Batangas where the land is located. SLPGC has issued ₱84.81 million common shares at a par value of 1.00 per share or a total of ₱84.81 million in exchange of the said land subject to terms and conditions as follow:

- that the SEC filing fee and documentary stamp tax due on the issuance of shares of stocks and other related expenses shall be for the account of the Parent Company;
- that any and all expenses which may be incurred in connection with the transfer of Transfer Certificate of Title (TCT) covering the land shall be for the sole account of the Parent Company;
- that any and all expenses, taxes and costs which may be incurred in the filing with the BIR confirming the transfer of land in favor of the SLPGC in exchange of shares of stocks shall be for the account of the Parent Company; and
- that upon execution of the deed of assignment, SLPGC shall have the right to create any security interest on the land in order to secure any loan which the SLPGC may obtain from certain banks or other financing institutions.

b. *Execution of Omnibus Loan and Security Agreement (the "Omnibus Agreement") between SLPGC and BDO Unibank., BPI, and China Banking Corporation (CBC)*

On February 24, 2012, SLPGC entered into a ₱11.50 billion Omnibus Agreement with BDO, BPI and CBC as Lenders, the Parent Company as the Pledgor, BDO Capital and Investment Corporation as the Lead Arranger and Sole Bookrunner, BPI Capital Corporation and CBC as Co-Lead Arrangers and BDO Unibank, Inc. - Trust and Investments Group as the Facility Agent, Security Trustee, Registrar and Paying Agent.

Breakdown of the syndicated loan follows:

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

The Omnibus Agreement was entered into to finance the engineering, procurement, and construction of a two 150 mega-watt coal-fired power plant located in Calaca, Batangas.

Details of the loan follow:

a. Interest: At a floating rate equivalent to the Philippine Dealing System Treasury-Fixing (PDST-F) plus a spread of 100 basis points (bps) or the Bangko Sentral ng Pilipinas (BSP) overnight rate, provided that, if the BSP Special Deposit Accounts (SDA) rate is 50 bps or more below BPS overnight rate, applicable interest will be 90% of BSP overnight rate, provided however that, if 90% of the BSP overnight rate is lower than the equivalent of PDST-F plus a spread of 100 bps, then the applicable interest rate shall be equivalent to PDST-F plus a spread of 100bps. SLPGC shall have one-time option to shift the floating interest rate to the fixed interest rate provided that the conditions in the Omnibus Agreement are satisfied.

b. Repayment: The principal amount shall be paid in twenty-seven (27) equal consecutive quarterly installments, each such installment to be paid on a principal repayment date, with the last installment to be paid on the final principal repayment date. The loan may be prepaid voluntarily provided that the conditions in the Omnibus Agreement are satisfied.

The advances of each lender shall be evidenced by a promissory note. Each note shall be dated as of the drawdown date and payable to the order of such lender in the amount of the advance evidenced thereby. The first drawdown is expected to be on or before March 25, 2012 in an amount of not less than ₱500.00 million.

As security for the timely payment of the loan and prompt observance and performance of all the provisions of the Omnibus Agreement, the loan was collateralized by first-ranking real estate mortgage on future real assets and first-ranking chattel mortgage on the future chattels. Further, 67% of issued and outstanding shares of SLPGC owned by the Parent Company were also pledged in this loan.

36. Approval of Financial Statements

The consolidated financial statements of Semirara Mining Corporation and its subsidiaries as at December 31, 2011 and 2010 and for each of the three years in the period ended December 31, 2011 were endorsed for approval by the Audit Committee on February 28, 2011 and were authorized for issue by the Executive Committee of the BOD on March 6, 2012.