



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

**SEMIRARA MINING CORPORATION**

Company's Full Name

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

**888-3550 to 888-3565**

Telephone Number

**For the Period Ending June 30, 2013**

Period Ended

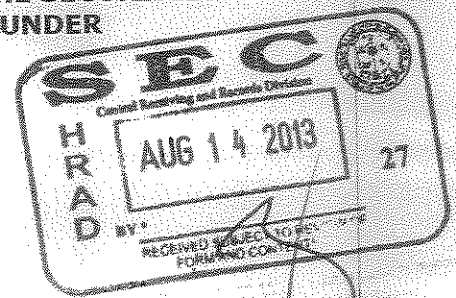
QUARTERLY REPORT FORM 17-Q

Form Type

**SEC FORM 17-Q**

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

1. For the quarter period ended **June 30, 2013**
2. Commission Identification Number **91447**
3. BIR Tax Identification No. **000-190-324-000**



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

**SEMIRARA MINING CORPORATION**

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

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

7. Address of issuer's principal office Postal Code  
**2nd Floor, DMCI Plaza, 1231**  
**2281 Chino Roces Avenue, Makati City**

8. Registrants telephone Number, including area code:  
**+63 2 8883550 to +63 2 8883565**

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

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

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

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

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

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

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## SEMIRARA MINING CORPORATION AND SUBSIDIARY

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

As of June 30, 2013

	(Unaudited) June 30, 2013	(Audited) December 31, 2012
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents	3,584,552,355	534,390,774
Receivables - net	3,109,382,685	3,581,843,715
Inventories - net	5,702,415,156	5,659,589,353
Other current assets	2,241,553,869	1,935,930,078
<b>Total Current Assets</b>	<b>14,637,904,065</b>	<b>11,711,753,920</b>
Noncurrent Assets		
Property, plant and equipment - net	23,686,619,255	22,724,754,817
Investments and advances	514,160,153	508,041,189
Deferred tax assets	1,538,038	1,538,038
Other noncurrent assets	1,601,535,344	1,240,033,021
<b>Total Noncurrent Assets</b>	<b>25,803,852,790</b>	<b>24,474,367,065</b>
<b>TOTAL ASSETS</b>	<b>40,441,756,855</b>	<b>36,186,120,985</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current Liabilities		
Trade and other payables	6,291,598,576	6,813,145,215
Short-term loans	2,337,921,856	175,646,271
Current portion of long-term debt	5,330,771,089	5,182,961,376
<b>Total Current Liabilities</b>	<b>13,960,291,521</b>	<b>12,171,752,862</b>
Noncurrent liabilities		
Long-term debt - net of current portion	10,106,807,697	6,996,312,300
Provision for decommissioning and site rehabilitation	62,448,101	62,448,101
Pension liabilities	6,898,915	5,847,126
Other noncurrent liabilities	108,170,913	57,938,954
<b>Total Noncurrent Liabilities</b>	<b>10,284,325,626</b>	<b>7,122,546,481</b>
<b>Total Liabilities</b>	<b>24,244,617,147</b>	<b>19,294,299,343</b>
Stockholders' Equity		
Capital Stock	356,250,000	356,250,000
Additional paid-in capital	6,675,527,411	6,675,527,411
Retained earnings	9,165,362,296	9,860,044,231
<b>Total Stockholders' Equity</b>	<b>16,197,139,707</b>	<b>16,891,821,642</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS EQUITY</b>	<b>40,441,756,855</b>	<b>36,186,120,985</b>

## SEMIRARA MINING CORPORATION AND SUBSIDIARY

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

For the Period Ending June 30, 2013 and 2012

For the Quarter Ending June 30, 2013 and 2012

	(Unaudited) For the Period		(Unaudited) For the Quarter	
	2013	2012	2013	2012
<b>REVENUE</b>				
Coal	5,142,051,099	9,423,790,091	2,463,147,854	5,087,943,095
Power	6,316,300,801	3,910,763,493	3,319,420,493	1,885,171,713
	<u>11,458,351,900</u>	<u>13,334,553,584</u>	<u>5,782,568,347</u>	<u>6,973,114,808</u>
<b>COST OF SALES</b>				
Coal	3,643,097,035	5,578,198,445	1,185,185,687	2,800,131,514
Power	2,678,296,290	2,361,441,099	1,089,067,599	1,185,561,194
	<u>6,321,393,325</u>	<u>7,939,639,544</u>	<u>2,274,253,286</u>	<u>3,985,692,708</u>
<b>GROSS PROFIT</b>	<u>5,136,958,575</u>	<u>5,394,914,040</u>	<u>3,508,315,061</u>	<u>2,987,422,100</u>
<b>OPERATING EXPENSES</b>	(1,237,260,054)	(1,876,344,330)	(561,341,321)	(1,078,404,650)
<b>FINANCE INCOME (COSTS)</b>	(140,357,009)	(216,247,517)	(75,381,315)	(142,874,709)
<b>FOREIGN EXCHANGE GAINS (LOSSES)</b>	(290,845,715)	169,915,068	(359,170,646)	95,258,422
<b>OTHER INCOME</b>	114,724,542	164,538,342	59,897,090	39,538,315
	<u>(1,553,738,236)</u>	<u>(1,758,138,437)</u>	<u>(935,996,192)</u>	<u>(1,086,482,622)</u>
<b>INCOME BEFORE INCOME TAX</b>	3,583,220,339	3,636,775,603	2,572,318,869	1,900,939,478
<b>PROVISION FOR INCOME TAX</b>	2,902,274	2,779,561	1,524,105	(2,994,204)
<b>NET INCOME</b>	3,580,318,065	3,633,996,042	2,570,794,764	1,903,933,682
<b>TOTAL COMPREHENSIVE INCOME</b>	<u>3,580,318,065</u>	<u>3,633,996,042</u>	<u>2,570,794,764</u>	<u>1,903,933,682</u>
<b>Basic / Diluted Earnings per Share</b>	<u>10.05</u>	<u>10.20</u>	<u>7.22</u>	<u>5.34</u>
Basis of EPS :				
EPS = NET INCOME (LOSS) FOR THE PERIOD/NO. OF OUTSTANDING SHARES				
Wherein :				
Wtd Average Outstanding Shares	356,250,000	(as of June 30, 2013)		
Wtd Average Outstanding Shares	356,250,000	(as of June 30, 2012)		

SEMIRARA MINING CORPORATION AND SUBSIDIARY

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

As of June 30, 2013 and 2012

	Common Stock	Additional Paid-In Capital	Deposit for Future Stock Subscriptions	Unappropriated Retained Earnings	Appropriated Retained Earnings	Total	Cost of Shares Held in Treasury	Grand Total
At January 1, 2013	356,250,000	6,675,527,411	-	9,160,044,230	700,000,000	16,891,821,641	-	16,891,821,641
Net Income for the period				3,580,318,065		3,580,318,065		3,580,318,065
Dividends				(4,275,000,000)		(4,275,000,000)		(4,275,000,000)
At June 30, 2013	356,250,000	6,675,527,411	-	8,465,362,295	700,000,000	16,197,139,706	-	16,197,139,706
At January 1, 2012	356,250,000	6,675,527,411	-	7,076,762,346	700,000,000	14,808,539,757	-	14,808,539,757
Net Income for the period				3,633,996,042		3,633,996,042		3,633,996,042
Dividends				(4,275,000,000)		(4,275,000,000)		(4,275,000,000)
At June 30, 2012	356,250,000	6,675,527,411	-	6,435,758,388	700,000,000	14,167,535,799	-	14,167,535,799

## SEMIRARA MINING CORPORATION AND SUBSIDIARY

**CONSOLIDATED STATEMENTS OF CASH FLOW**

As of June 30, 2013 and 2012

(Unaudited)

	2013	2012
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income before income tax	3,583,220,339	3,636,775,603
Adjustments for:		
Depreciation and amortization	1,419,942,818	1,377,453,882
Finance costs and revenues	140,134,896	199,947,865
Gain on sale of equipment	(19,800)	(109,183,193)
Net unrealized foreign exchange gains	323,153,162	(108,844,612)
Pension expense	1,501,247	1,501,247
Operating income before changes in working capital	5,467,932,663	4,997,650,792
Decrease (increase) in:		
Receivables	778,145,950	(463,948,640)
Inventories	(350,262,790)	(757,448,140)
Other current assets	(388,846,702)	125,104,846
Increase (decrease) in:		
Trade and other payables	(956,247,140)	(612,035,997)
Cash generated from (used in) operations	4,550,721,981	3,289,322,861
Interest received	15,543,278	28,580,702
Income tax paid	(191,761)	(2,779,561)
Interest paid	(156,475,443)	(223,566,117)
Net cash provided by (used in) operating activities	4,409,598,055	3,091,557,885
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Decrease (increase) in other noncurrent assets	(344,548,032)	(15,145,738)
Proceeds from sale of equipment	19,800	109,183,193
Additions to Sinking Fund	(6,118,964)	
Additions to property, plant and equipment	(2,074,585,078)	(4,771,701,265)
Net cash used in investing activities	(2,425,232,275)	(4,677,663,810)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Loan Availments	7,862,166,150	3,356,935,800
Payment of dividend	(4,275,000,000)	(4,275,000,000)
Loan Repayment	(2,521,370,354)	(1,118,498,310)
Increase (decrease) in payable to related parties		(55,484,820)
Net cash provided by (used in) financing activities	1,065,795,796	(2,092,047,330)
NET INCREASE IN CASH AND CASH EQUIVALENTS	3,050,161,576	(3,678,153,255)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	534,390,778	5,005,240,274
CASH AND CASH EQUIVALENTS AT END OF YEAR	3,584,552,355	1,327,087,019



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## **1. Summary of Significant Accounting policies**

### Basis of Preparation

The consolidated financial statements have been prepared using the historical cost basis. The consolidated financial statements are prepared in Philippine Peso, which **is the Group's functional currency**. All amounts are rounded off to the nearest peso unless otherwise indicated.

### Statement of Compliance

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

### Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Group as at June 30, 2013 and for the year then ended. A subsidiary is an entity over which the Parent Company has the power to govern the financial and operating policies of the entity. The subsidiary is fully consolidated from the date of incorporation, being the date on which the Parent Company obtains control, and continues to be consolidated until the date that such control ceases. The results of subsidiaries acquired or disposed of during the year are included in the consolidated statements of comprehensive income from the date of acquisition or up to the date of the disposal, as appropriate.

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

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

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

### Changes in Accounting Policies

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those of the previous financial year except for the following new and amended Philippine Financial Reporting Standards (PFRS) which were adopted as of January 1, 2012. 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***

- PFRS 7, ***Financial Instruments : Disclosures – Transfers of Financial Assets*** (Amendments)

The amendments require additional disclosures about financial assets that have been transferred but not derecognized to enhance the understanding of the relationship between those assets that have not been derecognized and their associated liabilities. In addition, the amendments require disclosures about continuing involvement in derecognized assets to enable users of

financial statements to evaluate the nature of, and risks associated with, the **entity's continuing involvement in those derecognized assets.**

- PAS 12, *Income Taxes – Deferred Tax : Recovery of Underlying Assets (Amendment)*

This amendment to PAS 12 clarifies the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that the carrying amount of investment property measured using the fair value model in PAS 40, *Investment Property*, will be recovered through sale and, accordingly, requires that any related deferred property is depreciable and it is held within a business model whose objective is to consume substantially all of the economic benefits in the investment **property over time ('use' basis), rather than through sale.** Furthermore, the amendment introduces the requirement that deferred tax on non-depreciable assets measured using the revaluation model in PAS 16, *Property, Plant and Equipment*, always be measured on a sale basis of the asset. The amendments are effective for periods beginning on or after January 1, 2012.

#### New Standards Issued but not yet Effective

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

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

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

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

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

- a) The gross amounts of those recognized financial assets and recognized financial liabilities;

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

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

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

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

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

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

- PFRS 13, *Fair Value Measurement*  
PFRS 13 establishes a single source of guidance under PFRSs for all fair value measurements. PFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under PFRS when fair value is required or permitted. This standard should be applied prospectively as of the beginning of the annual period in which it is initially applied. Its disclosure requirements need not be applied in comparative information provided for periods before initial application of PFRS 13. The standard becomes effective for annual periods beginning on or after January 1, 2013. The Group does not anticipate that the adoption of this standard will have a significant impact on its financial position and performance.

- PAS 19, *Employee Benefits* (Revised)  
Amendments to PAS 19 range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and rewording. The revised standard also requires new disclosures such as, among others, a sensitivity analysis for each significant actuarial assumption, information on asset-liability matching strategies, duration of the defined benefit obligation, and disaggregation of plan assets by nature and risk. The amendments become effective for annual periods beginning on or after January 1, 2013. Once effective, the Group has to apply the amendments retroactively to the earliest period presented.

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

- PAS 27, *Separate Financial Statements* (as revised in 2011)  
As a consequence of the issuance of the new PFRS 10, *Consolidated Financial Statements*, and PFRS 12, *Disclosure of Interests in Other Entities*, what remains of PAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in the separate financial statements. The adoption of the amended PAS 27 will not have a significant impact on the separate financial statements of the entities in the Group. The amendment becomes effective for annual periods beginning on or after January 1, 2013.
- PAS 28, *Investments in Associates and Joint Ventures* (as revised in 2011)  
As a consequence of the issuance of the new PFRS 11, *Joint Arrangements*, and PFRS 12, *Disclosures of Interests in Other Entities*, PAS 28 has been renamed PAS 28, *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment becomes effective for annual periods beginning on or after January 1, 2013. The Group does not anticipate that the adoption of this standard will have a significant impact on its financial

position and performance.

- PAS 32, *Financial Instruments : Presentation – Offsetting Financial Assets and Financial Liabilities* (Amendments)

The amendments clarify the meaning of “currently has a legally enforceable right to set-off” and also clarify the application of PAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments affect presentation only and have no impact on the Group’s financial position or performance. The amendments to PAS 32 are to be retrospectively applied for annual periods beginning on or after January 1 2014.

- PFRS 9, *Financial Instruments*

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

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

- Philippine Interpretation IFRC 15, *Agreements for the Construction of Real Estate*

This interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The Securities and Exchange Commission (SEC) and the

Financial Reporting Standards Council (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. Adoption of the interpretation when it becomes effective will not have any impact on the financial statements of the Group.

- Philippine Interpretation IFRIC 20, ***Stripping Costs in the Production Phase of a Surface Mine***

This interpretation applies to waste removal (stripping) costs that are incurred in surface mining activity during the production phase of the mine. The interpretation addresses the accounting for the benefit from the stripping activity. The interpretation is effective for annual periods beginning on or after January 1, 2013. The Parent Company will move its activities to the North Panian area in 2013, and assess the impact of this new area in its stripping operations. This may have an impact on the application of this Interpretation.

#### ***Annual Improvements to PFRSs (2009-2011 cycle)***

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

- PFRS 1, ***First Time Adoption of PFRS – Borrowing Costs***  
The amendment clarifies that, upon the adoption of PFRS, an entity that capitalized borrowing costs in accordance with its previous generally accepted accounting principles, may carry forward, without any adjustment, the amount previously capitalized in its opening statement of financial position at the date of transition. Subsequent to the adoption of PFRS, borrowing costs are recognized in accordance with PAS 23, ***Borrowing Costs***. The amendment does not apply to the Group as it is not a first-time adopter of PFRS.
- PAS 1, ***Presentation of Financial Statements – Clarification of the requirements for comparative information***  
The amendments clarify the requirements for comparative information that are disclosed voluntarily and those that are mandatory due to retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The additional comparative period does not need to contain a complete set of financial statements. On the other hand, supporting notes for the third balance sheet (mandatory when there is a retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements) are not required. The amendments affect disclosures only **and have no impact on the Group's financial position or performance.**

- PAS 16, *Property, Plant and Equipment – Classification of servicing equipment*  
The amendment clarifies that spare parts, stand-by equipment and servicing equipment should be recognized as property, plant and equipment when they meet the definition of property, plant and equipment and should be recognized as inventory if otherwise. The amendment will not have any significant impact on the Group's financial position or performance.
- PAS 32, *Financial Instruments : Presentation – Tax effect of distribution to holders of equity instruments*  
The amendment clarifies that income taxes relating to distributions to equity holders and to transaction costs of an equity transaction are accounted for in accordance with PAS 12, *Income Taxes*. The Group expects that this amendment will not have any impact on its financial position or performance.
- PAS 34, *Interim Financial Reporting – Interim financial reporting and segment information for total assets and liabilities*  
The amendment clarifies that the total assets and liabilities for a particular reportable segment need to be disclosed only when the amounts are regularly provided to the chief operating decision maker and there has been a material change **from the amount disclosed in the entity's previous annual financial statements** for that reportable segment. The amendment has no impact on **the Group's financial position or performance**.

#### Financial Assets and Financial Liabilities

##### ***Date of recognition***

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

##### ***Initial recognition of financial instruments***

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

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

### ***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"** and **"Receivables"**, **"Investment in Sinking Fund"** and **certain other noncurrent assets**.

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



## ***Financial liabilities***

### Other financial liabilities

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

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

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

### Deferred Financing Costs

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

### Impairment of Financial Assets

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

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

### ***Loans and receivables***

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

impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment for impairment.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of such credit risk characteristics as industry, customer type, customer location, past-due status and term. Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the 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 consolidated statements of comprehensive income during the period in which it arises. Interest income continues to be recognized based on the original EIR of the asset. Receivables, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery has been realized and all collateral has been realized or has been transferred to the Group.

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

#### Derecognition of Financial Assets and Liabilities

##### ***Financial Assets***

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

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third

- party **under a “pass through” arrangement; or**  
the Group has transferred its rights to receive cash flows from the asset and either: (i) has transferred substantially all the risks and rewards of the asset, or (ii) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

### ***Financial Liabilities***

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

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

### Offsetting of Financial Instruments

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

### Inventories

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

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

Spare parts and supplies are usually carried as inventories and are recognized in the consolidated statements of income when consumed. Inventories transferred to property, plant and equipment are used as a component of self constructed property, plant and equipment and are recognized as expense during useful life of

that asset. Transfers of inventories to property, plant and equipment do not change the carrying amount of the inventories.

#### Exploration and Evaluation Costs

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

#### Mining Reserves

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

#### Property, Plant and Equipment

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

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

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

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

cost. Equipment in transit includes the acquisition cost of mining equipment and other direct costs.

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

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

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

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

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

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

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

#### Computer Software

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

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

#### Business Combinations and Goodwill

##### ***Business Combinations on 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 Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

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

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

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

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

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

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

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

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

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

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

#### Impairment of Nonfinancial Assets

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

#### ***Property, plant and equipment and computer software***

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

An assessment is made at each reporting date 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. For property, plant and equipment, reversal is recognized in the consolidated statements of comprehensive income unless the asset is carried at revalued amount, in which case, the reversal is treated as revaluation increase. After such

reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

### ***Inventories***

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

### **Revenue Recognition**

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

### ***Sale of coal***

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

### ***Contract energy sales***

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

### ***Spot electricity sales***

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

### ***Finance income***

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

### ***Other income***

Other income is recognized when earned.



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

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

### Operating Expenses

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

### Borrowing Costs

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

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

### 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 that shall be recognized in later periods. The value of any asset is restricted to the sum of any past service costs not yet recognized, if any, and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

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

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

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

#### Income Tax

##### ***Current tax***

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

##### ***Deferred tax***

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

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

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

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

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

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

#### Provisions

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

#### ***Provision for decommissioning and site rehabilitation***

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

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

they occur. For closed sites, changes to estimated costs are recognized immediately in the consolidated statement of comprehensive income.

#### Leases

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

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

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

#### ***Group as a lessee***

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

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

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

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

#### Foreign Currency Transactions and Translation

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

### Equity

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

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

### Treasury Shares

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

### Earnings per Share (EPS)

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

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

### Operating Segment

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

### Contingencies

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

### Events after the Reporting Period

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

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## **2. Significant Accounting Estimates, Judgments and Assumptions**

The preparation of the accompanying consolidated financial statements in conformity with PFRS requires management to make judgments, estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The 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:

#### ***Determining functional currency***

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

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

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

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

#### ***Operating lease commitments - the Group as lessee***

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

determining significant risks and benefits of ownership, the Group considered the substance of the transaction rather than the form of the contract.

### ***Contingencies***

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

### **Management's Use of Estimates and Assumptions**

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

### ***Revenue recognition***

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

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

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

### ***Estimating allowance for doubtful accounts on loans and receivables***

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

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

### ***Estimating stock pile inventory quantities***

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

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

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

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

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

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

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

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

### ***Estimating impairment for nonfinancial assets***

The Group assesses impairment on investments and advances, property, plant and equipment and software cost whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.



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

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

As described in the accounting policy, the Group estimates the recoverable amount as the higher of the net selling price and value in use.

In determining the present value of estimated future cash flows expected to be generated from the continued use of the assets, the Group is required to make estimates and assumptions that can materially affect the consolidated financial statements.

There has been no existing indicator of impairment as of June 30, 2013 and December 31, 2012.

#### ***Deferred tax assets***

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

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

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

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

### I. PRODUCTION – COMPARATIVE REPORT H1 2013 vs. H1 2012

#### Coal

Coal mining operations ramped up overburden stripping and coal production in Q2, producing three times the coal produced in Q1 of the current year.

On 5 March 2013, the receipt of the DOE clearance to continue preparatory activities at North Panian gave relief to the halted mine operations which lasted for 20 days, hence, pre-stripping activities and other preparatory works were accelerated resulting to the significantly high strip ratio in Q1 at 18.79 : 1. The subsequent receipt of clearance to resume normal operations on 19 April 2013 gave the mine an opportunity to intensify coal production which registered at 2.40 million metric tons for barely two months of coal extraction in Q2. This is 8% higher compared to coal production in Q2 last year.

As a result of the temporary stop operations in Q1, total materials moved dropped by 5% YoY at 39.58 million bank cubic meters (bcm) in H1 this year from 41.58 million bcm last year. With the resumption of normal operations, average strip ratio for H1 stabilized to 11.56 : 1. This is however 20% higher than H1 2012 strip ratio of 9.61 : 1. Correspondingly, run-of-mine (ROM) coal dropped by 20% YoY at 3.22 million metric tons (MTs) from 4.03 million MTs in 2012; while total product coal dropped by 16% at 3.16 million MTs from 3.74 million MTs in 2012. Sem-Calaca Power Corporation (SCPC), the Company's power assets, blended unwashed coal with regular coal for fuel in the current period, resulting to a significant 50% YoY drop in washable coal at 337 thousand MTs from 678 thousand MTs last year. Recovery from washable coal was maintained at 60%.

Total volume sold declined by 10% YoY at 3.36 million MTs from 3.73 million MTs last year. Ending inventory closed at 1.14 million MTs, 18% higher than H1 2012 of 963 thousand MTs.

The table below shows the comparative production data for H1 2013 and H1 2012.

<b>COMPARATIVE PRODUCTION DATA</b> <i>(in '000, except Strip Ratio)</i>							
	<b>Q1 '13</b>	<b>Q2 '13</b>	<b>H1 '13</b>	<b>Q1 '12</b>	<b>Q2 '12</b>	<b>H1 '12</b>	<b>%Inc (Dec)</b>
<b>Total Materials (bcm)</b>	16,001	23,575	39,576	22,303	19,273	41,576	-5%
<b>ROM Coal (MT)</b>	820	2,403	3,224	1,805	2,220	4,025	-20%
<b>Strip Ratio</b>	18.79:1	9.10:1	11.56:1	11.64:1	7.97:1	9.61:1	20%
<b>Net TPC (MT)</b>	880	2,278	3,158	1,651	2,089	3,740	-16%
<b>COAL WASHING</b>							
<b>Washable Coal (MTs)</b>	83	254	337	344	334	678	-50%
<b>Washed Coal (MTs)</b>	50	153	202	206	200	407	-50%
<b>%recovery</b>	60%	60%	60%	60%	60%	60%	
<b>Beg. Inventory (MTs)</b>	1,383	460	992	992	950	992	0%
<b>End Inventory (MTs)</b>	460	1,137	1,137	950	963	963	18%

## **Power**

With both power plant running, plant performance in H1 2013 hit the target with **total gross generation of 1,699,853 MWh. Total plant's average load reached 499 MW**, posting a 79% YoY from 245 MW last year. This is attributed to Unit 2's improved average load of 269MW from 245MW. Moreover, Unit 1 is running this year after it was shut down for rehab last year. Average load of Unit 1 registered at 230MW, post rehab as against 165MW prior to rehab, using 100% Semirara coal. Q2 energy generation is 8% higher at 884 GWh compared to 816 GWh in Q1 due to higher availability of both units. In Q1, Unit 2 was down for almost whole month of January for preventive maintenance.

### **Unit One**

Gross generation of Unit 1 in H1 2013 was recorded at 823,990 MWh. After its rehabilitation, the unit went online beginning August 2012. Average load was at 230MW using 100% Semirara coal. Capacity factor stayed in the range of 63% with 748 forced outage hours. Unit 1 load is steady at 240MW when it tripped on 8 May due to transmission problem in the Calaca substation of NGCP and went online in May 10. Load was increasing to 250MW with the use of higher quality Semirara coal, but the unit tripped due to condenser pitting corrosion and was down from May 18 until end of the month.

### **Unit Two**

Gross generation of Unit 2 for H1 2013 was 875,863 MWh. This is lower than same period last year due to less operating hours brought by the preventive maintenance outage between December to January 2013. However, while gross generation is lower, its average load factor is higher at 269MW or 10% improvement from same period last year. Moreover, there a total of 236 forced outage hours recorded after the scheduled shutdown due to the 8 May incident. Unit 2 was running at 280MW when the transmission line tripped. Tests were done to the unit to prove that the disturbance was not from Unit 2. The latter went online on May 16.

Unit load was restricted to 280MW because of the leaking high pressure heaters 7 and 8. The replacement for heaters 6, 7 and 8 were delivered in September 2012. Heaters 7 and 8 were scheduled for replacement in December 2012 planned outage, but this was postponed since the replacement units were found to be defective. The new units are expected to arrive in time for the scheduled maintenance shutdown in December this year.

The table below shows the comparative production data for H1 2013 and H1 2012.

<b>COMPARATIVE PLANT PERFORMANCE DATA</b>							
<i>H1'13 vs H1'12</i>							
	<b>Q1'13</b>	<b>Q2 '13</b>	<b>H1'13</b>	<b>Q1 '12</b>	<b>Q2'12</b>	<b>H1'12</b>	<b>%Inc (Dec)</b>
<b>Gross Generation, Gwh</b>							
Unit 1	466	358	824	-	-	-	
Unit 2	351	525	876	473	478	951	-8%
<b>Total Plant</b>	<b>816</b>	<b>884</b>	<b>1,700</b>	<b>473</b>	<b>478</b>	<b>951</b>	<b>79%</b>
<b>%Availability</b>							
Unit 1	95%	70%	82%	0%	0%	0%	
Unit 2	63%	86%	75%	88%	88%	88%	-16%
<b>Total Plant</b>	<b>79%</b>	<b>78%</b>	<b>78%</b>	<b>44%</b>	<b>44%</b>	<b>44%</b>	<b>77%</b>
<b>Capacity Factor</b>							
Unit 1	72%	54%	63%	0%	0%	0%	
Unit 2	54%	79%	67%	72%	72%	72%	-7%
<b>Total Plant</b>	<b>63%</b>	<b>67%</b>	<b>65%</b>	<b>36%</b>	<b>36%</b>	<b>36%</b>	<b>80%</b>

## II. MARKETING – COMPARATIVE REPORT Q1 2013 vs. Q1 2012

### Coal

Coal sales volume decreased by 10% YoY at 3.36 million MTs from 3.73 million MTs last year.

The table below shows the comparative sales volume data for H1 2013 and H1 2012.

<b>COMPARATIVE SALES VOLUME DATA</b>									
<i>(in '000 MTs)</i>									
<b>CUSTOMER</b>	<b>Q1 '13</b>	<b>Q2 '13</b>	<b>H1 '13</b>	<b>%</b>	<b>Q1 '12</b>	<b>Q1 '12</b>	<b>H1 '12</b>	<b>%</b>	<b>%Inc (Dec)</b>
<b>Power Plants</b>									
Calaca	608	523	1,131	34%	205	285	490	13%	131%
Other PPs	256	216	472	14%	325	382	708	19%	-33%
<b>TOTAL PPs</b>	<b>864</b>	<b>739</b>	<b>1,603</b>	<b>68%</b>	<b>531</b>	<b>667</b>	<b>1,198</b>	<b>60%</b>	<b>34%</b>
<b>Other Industries</b>									
Cement	361	196	558	17%	271	338	608	16%	-8%
Others	92	89	181	5%	99	105	204	5%	-11%
<b>Total Others</b>	<b>454</b>	<b>285</b>	<b>739</b>	<b>22%</b>	<b>370</b>	<b>443</b>	<b>813</b>	<b>22%</b>	<b>-9%</b>
<b>TOTAL LOCAL</b>	<b>1,318</b>	<b>1,024</b>	<b>2,342</b>	<b>70%</b>	<b>901</b>	<b>1,110</b>	<b>2,011</b>	<b>54%</b>	<b>16%</b>
<b>EXPORT</b>	<b>461</b>	<b>556</b>	<b>1,017</b>	<b>30%</b>	<b>771</b>	<b>946</b>	<b>1,717</b>	<b>46%</b>	<b>-41%</b>
<b>GRAND TOTAL</b>	<b>1,778</b>	<b>1,581</b>	<b>3,359</b>	<b>100%</b>	<b>1,672</b>	<b>2,056</b>	<b>3,728</b>	<b>100%</b>	<b>-10%</b>

SCPC increased its offtake by 131% YoY at 1.13 million MTs from 490 thousand MTs last year. This is due to the increased capacity and availability of both power units after they have been rehabilitated.

Conversely, sales to other power plants dropped by 33% at 472 thousand MTs from 708 thousand MTs last year. Global coal prices have significantly dropped this year and some customers took advantage of importing cheap coal from offshore market.

Sales to cement plants slightly dropped by 8% YoY at 558 thousand MTs from 608 thousand MTs. This is due to decrease in offtake by a few customers, which was partially offset by increased deliveries to the rest of the cement plants.

Sales to other industries likewise dropped by 11% YoY at 181 thousand MTs from 204 thousand MTs due to decrease in offtake by two customers.

Strong offtake by SCPC offset the decline in deliveries to other customers, such that total sales to domestic markets increased by 16% at 2.34 million MTs from 2.01 million MTs last year. Conversely, export sales dropped by 41% at 1.02 million MTs from 1.72 million MTs last year. Local customers were given priority in coal deliveries after the temporary suspension of coal production resulting from the **February incident in order to fulfill the Company's contractual commitments**. Export contracts are arranged on spot basis after resumption of the coal mining operation in April.

The decline in global coal prices adversely impacted on this period's composite average FOB price per MT which dropped by 23% decline YoY at PHP2,206 from PHP2,847 last year.

## **Power**

**SCPC's recorded sales for H1 2013 increased by 74% YoY to 1,657GWh from 916GWh in 2012.** This is attributed to the higher energy generation of the rehabilitated power plant.

Of the total energy sold, 96% or 1,589GWh were sold to bilateral contracts and the remaining 4% to the spot market.

**SCPC's sales to bilateral contracts went up by 74% YoY to 1,589 GWh from 916GWh in H1 2012.** The improvement was due to the increase of contract quantities for MERALCO from the initial 210 MW to 420 MW starting 31 January 2013 and the additional 15MW non-firm contract capacity for TRANS-ASIA, on top of its existing 30MW firm contracted capacity. The non-firm additional contract capacity arrangement with Trans-Asia which is effective starting 16 February 2013, enables SCPC to sell its excess capacity at any given time.

MERALCO maintained to be the biggest customer of SCPC comprising 84% share of the total energy sales for SCPC's bilateral contracts, followed by Trans-Asia and Batelec I at 6% and 5.5% shares, respectively.

Spot Market Sales is higher at 67GWh against 1.44 GWh in H1 2012.

Of the total energy sold, 99% was sourced from own generation and 1% was purchased from the spot market. SCPC procured power from the spot market during hour intervals when power units were down, or were running at a de-rated capacity, in order to be able to supply committed capacity to some of its customers. Contracts with some of its customers still cover the supply of replacement power under a "pass-thru" cost arrangement.

SCPC bilateral contracts yielded lower prices at an average price of 3.87 P/KWh compared to the 4.22 P/KWh of same period of 2012. This is due to lower prices of pass-thru coal fuel indexed to the declining Newcastle prices in 2013.

The table below shows the comparative sales volume data for H1 2013 and H1 2012.

<b>COMPARATIVE SALES VOLUME DATA</b>							
<i>(in GWh)</i>							
<b>CUSTOMER</b>	<b>Q1 '13</b>	<b>Q2 '13</b>	<b>H1'13</b>	<b>Q1 '12</b>	<b>Q2'12</b>	<b>H1'12</b>	<b>%Inc (Dec)</b>
Bilateral Contracts	751	838	1,589	489	427	916	74%
Spot Sales	20	47	67	1	1	1	4564%
<b>GRAND TOTAL</b>	<b>771</b>	<b>886</b>	<b>1,657</b>	<b>489</b>	<b>428</b>	<b>917</b>	<b>81%</b>
<b>Composit Ave Price</b>	<b>3.89</b>	<b>3.75</b>	<b>3.81</b>	<b>4.14</b>	<b>4.41</b>	<b>4.26</b>	<b>-11%</b>

### **III. FINANCE**

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

Consolidated Revenues, net of eliminating entries, posted a 14% drop YoY at PHP11.46 billion in the current semester versus PHP13.34 billion last year. Coal Revenues, before elimination, decreased by 30% at PHP7.41 billion this period from PHP6.94 billion last year. The is mainly due to lower coal prices this year. On the other hand, the 81% increase in energy sales volume compensated for the 11% decrease in average price per KWh, resulting to a 62% increase in energy Revenues at PHP6.32 billion from PHP3.40 billion last year.

Consolidated Cost of Sales decreased by 20% YoY at PHP6.32 billion from PHP7.94 billion last year. Coal Cost of Sales before elimination dropped by 25% at PHP5.40 billion from PHP6.89 billion last year. Strip ratio went back to almost normal level as at the end of the current period from a historical high in Q1 which was a consequence of the accident at the pit that temporarily stopped coal extraction. The Company implemented some cost-saving measures to counter the drop in coal prices. Moreover, 29 mining units were retired, thus decreasing fuel and materials expenses. Shorter hauling distance in North Panian and in-pit dumping also contributed to the lower cost, as the mine area is still concentrated at upper level.

These are the factors that brought down Cost of Coal Sales this year. Net of elimination, Cost of Coal Sold likewise dropped by 35% YoY at PHP3.64 billion from PHP5.58 billion. Cost of Coal Sold per MT decreased by 13% at PHP1,612 from PHP1,861 last year.

Meanwhile, power Cost of Sales before elimination increased by 35% at PHP3.19 billion from PHP2.36 billion last year; and 13% after elimination at PHP2.68 billion from PHP2.36 billion last year. Increase in volume sold accounted for the increase in total cost. However, Cost of Sales per KWh decreased by 26% at PHP1.87 from PHP2.53 last year due to minimal spot purchases for replacement power and lower coal fuel average cost this year.

The resulting consolidated Gross Profit decreased by 5% YoY at PHP5.14 billion, with the coal and power segments each contributing PHP1.50 billion and PHP3.64 billion, respectively. Last year's consolidated Gross Profit stood at PHP5.40 billion, PHP3.85 billion from coal and PHP1.55 billion from power. Consolidated Gross profit margin improved by 11% at 45% from 40% last year.

Consolidated Operating Expenses dropped by 34% at PHP1.24 billion from PHP1.88 billion last year. **Net of eliminating entries, the coal segment's Operating Expenses** dropped by 48% YoY at PHP734.48 million from last year's **PHP1.41 billion as lower coal Revenues decreased Government Share by 51%** at PHP588.50 million from PHP1.20 billion last year. Meanwhile, the power segment's Operating Expenses after elimination increased by 12% YoY at PHP497.67 million from PHP442.90 million last year due to full year payment of real property tax to avail of discount. The pre-operating Southwest Luzon Power Generation Corp. (SLPGC), a wholly-owned subsidiary of the Company incorporated to expand its power capacity with the construction of 2 x 150 MW power plants, incurred PHP4.98 million pre-operating expenses, representing salaries and other administrative expenses incurred during the period. Other subsidiaries, Sem-Cal Industrial Park Developers, Inc. (SCIP) and Semirara Claystone Inc. (SCI) also incurred Pre-operating Expenses of PHP51 thousand and PHP71 thousand for the period, respectively.

Due to the strengthening of the USD against the PHP during the current period, the Company registered consolidated Forex Losses of PHP290.85 million as against Gains of PHP169.92 million last year. Since most of its loans are USD-denominated, bulk of the current period's Forex Losses is attributed to the coal segment which recorded PHP288.99 million versus last year's gains of PHP168.84 million. Of this amount, PHP321.23 million is booked as unrealized losses. Meanwhile, with minimal Forex exposure, the power segment incurred Forex Losses of PHP1.86 million as against Gains of PHP1.08 million last year.

Lower placement interest rates and lower free cash resulted to the decrease in consolidated Finance Income by 45% YoY at PHP15.56 million from PHP28.41 million last year. **The coal segment's investible funds reduced after using most of its cash to pay off debts toward the end of 2012, thus its Finance Income decreased by 89% at PHP1.09 million from PHP9.48 million last year. The power segment's Finance Income likewise decreased by 24% at PHP14.45 million from PHP18.93 million last year after using its cash to pay dividends of PHP2.5 billion during the the period.**

Consolidated Finance Costs decreased by 36% at PHP155.92 million from **PHP244.65 million last year. Despite the 12% increase YoY in coal segment's** interest-bearing loans which closed at PHP6.54 billion from PHP5.82 billion last year, coal Finance Costs remained almost the same at PHP53.21 million from PHP53.30 million last year due to lower borrowing rates. Meanwhile, the power segment's long-term loan balance dropped to PHP6.1 billion from PHP7.6 billion last year. However, it availed of short-term loans with closing balance of PHP1.7 billion. Due to lower interest rates this year, power Finance Cost dropped by 47% at PHP102.16 million from PHP191.36 million last year. SLPGC incurred Finance Cost of 541 thousand.

Consolidated Other Income decreased by 30% at PHP114.72 million from PHP164.54 million last year. Bulk of last year's Other Income came from gain on sale of retired assets of the coal segment. Notably, the power segment's Other Income increased by 132% at PHP112.06 million from PHP48.28 million last year. Power Unit 2 used more unwashed coal this year, thus producing more fly ash which is sold to a cement company at a higher price after the supply contract was renegotiated on February 2012.

The resulting consolidated Net Income Before Tax (NIBT) remained at almost the same level, recording a 1.6% drop YoY at PHP3.58 billion from last year's PHP3.64 billion. Bulk of the current quarter's NIBT is attributed to SCPC, contributing PHP3.16 billion after elimination. Also net of eliminating entries, the coal segment generated NIBT of PHP426.03 million, while the pre-operating SLPGC, SCI, and Semirara Energy Utilities, Inc. (SEU), a company incorporated to serve the franchise area in Semirara island as a qualified third party (QTP), incurred losses of PHP5.50 million, PHP51 thousand, and PHP71 , respectively. Before eliminations, power and coal recorded NIBT of PHP934.76 million and PHP2.65 million, respectively.

Both operating business units enjoy Income Tax Holidays (ITH) as Board of Investments-registered companies. With these tax holidays, consolidated Provision for Income Tax remained minimal at PHP2.90 million this year, posting a minimal 4% increase from last year's PHP2.78 million.

The resulting consolidated Net Income After Tax (NIAT) dropped by 1% YoY at PHP3.58 billion from PHP3.63 billion last year. Before eliminations, power and coal recorded NIAT of PHP934.78 million and PHP2.65 million, respectively. Meanwhile, after eliminations, the coal and power segments generated NIAT of PHP 425.84 million and PHP3.16 billion, respectively. SLPGC, SCI and SEU incurred losses of PHP5.50 million, PHP51 thousand and PHP71 thousand, respectively. Correspondingly, Earnings per Share (EPS) decreased by 1% at PHP10.05 from PHP10.20 last year.

## **B. Solvency and Liquidity**

Consolidated net cash provided by operating activities in the the first semester this year amounted to PHP4.41 billion. Consolidated loan availments amounted to



PHP7.86 billion, inclusive of SLPGC's second loan drawdown of PHP2.89 billion. Meanwhile, sale of assets during the year generated PHP20 thousand. With beginning Cash of PHP534.39 million, total consolidated Cash available after loan availments during the period stood at PHP12.81 billion.

Of the available cash, PHP2.08 million was used to fund major CAPEX, PHP923 million for coal segment, and PHP1.16 million for the power segment.

Meanwhile, loan repayments amounted to PHP2.52 billion, 653 million and PHP 1.87 billion for coal and power, respectively.

The Company declared and paid cash dividends during the period amounting to PHP4.28 billion.

Other investing activities during the period also utilized cash, namely, additions to sinking fund amounting to PHP6.12 million and increase in other non-current assets of PHP345 million, representing deferred development and surface stripping cost at Bobog Mine, the new mine where the Company has started some development activities from the start of the year until the incident at the mine last February.

Consolidated net cash generated during the period amounted to PHP3.05 billion. With a beginning balance of PHP534.39 million, consolidated Ending Cash closed at PHP3.59 billion, recording a 70% increase YoY from H1 last year's ending cash level of PHP2.26 billion. The significant increase is mainly attributed to the scheduled loan drawdown of SLPGC which is not yet totally spent.

Current ratio closed at 1.05x from 1.02x in H1 2012 as power expansion activities which used the Company's cash are already in full scale starting second quarter of 2012.

### **C. Financial Condition**

Consolidated Total Assets stood at PHP40.44 billion, increasing by 12% from beginning balance of PHP36.18 billion. After eliminations, the coal and power **segments' Total** Assets closed at PHP11.645 billion and PHP21.88 billion, respectively. SLPGC, SCI, SEU and SCIP recorded Total Assets of PHP6.90 billion, PHP8.22 million, PHP3.13 million and PHP2.57 million, respectively.

Consolidated Current Assets closed at PHP14.64 billion, 25% higher than beginning balance of PHP11.72 billion. Coal, power, SLPGC, SCI, SEU and SCIP accounted for , PHP4.70 billion, PHP2.43 billion, PHP8.20 million, PHP 3.13 million, and PHP2.57 million, respectively.

Consolidated Cash and Cash Equivalents increased by 571% at PHP3.59 billion from PHP534.39 million beginning. The increase in Cash is mainly attributed to loan drawdown by SLPGC and cash generation from operations of the power segment.

Conversely, Consolidated net Receivables decreased by 13% at PHP3.11 billion from PHP3.58 billion beginning balance primarily due to the lower coal sales this year . The coal and power segments Receivables of PHP977.76 million and PHP2.06 billion, respectively, are mainly trade related, while SLPGC's recorded receivables from employees of PHP53 thousand .

Meanwhile, consolidated Net Inventories posted a slight 1% increase at PHP5.70 **billion from PHP5.66 billion as at the end of 2012.** The coal segment's ending Inventory of PHP4.39 billion is mainly comprised of cost of ending coal inventory **and materials, fuel and other supplies, while the power segment's Inventory of** PHP1.32 billion is mainly comprised of coal inventory and spareparts inventory for corrective, preventive and predictive maintenance program.

Consolidated Other Current Assets increased by 16% at PHP2.24 billion from **PHP1.94 billion beginning balance.** The coal segment's Other Current Assets of PHP1.76 billion is mainly comprised of creditable withholding taxes, advances to suppliers, and pre-paid insurance. The power segment's Other Current Assets of PHP418.26 million mainly accounted for advances to suppliers and pre-paid insurance. SLPGC and SCI account for PHP54.75 million and PHP5.70 million of Other Current Assets.

Consolidated Non-Current Assets increased by 5% at PHP25.80 billion from PHP24.47 billion beginning balance. Coal, power, SLPGC and SCI accounted for PHP4.15 billion, PHP17.19 billion, PHP4.47 billion, and PHP19 thousand, respectively.

Consolidated net PPE increased by 4% at PHP23.69 billion from PHP22.73 billion as at end of 2012. The increase is due to new acquisitions, partially offset by depreciation. The equipment involved in the incident at Panian west wall were all fully depreciated. Coal, power, and SLPGC accounted for net PPE of PHP3.68 billion, PHP16.58 billion, and PHP3.43 billion, respectively.

Sinking Fund of the power segment posted a minimal 1% increase at PHP514.16 million from PHP508.04 million beginning balance. This represents interest income earned for the equivalent of one quarter repayment posted in the debt service reserve account which is restricted in nature and placed overnight as provided for in the loan agreement covering the long-term loan of the power segment.

Consolidated Deferred Tax Assets of PHP1.54 million accounted for the power segment's provision for decommissioning and site rehabilitation of PHP1.52 million and PHP19.36 thousand NOLCO of Semirara Claystone, Inc., another subsidiary of the Company. No movement in the account was recorded recorded during the period.

Consolidated Other Non-Current Assets increased by 29% to PHP1.60 billion from PHP1.24 billion as at end of in 2012. This is mainly comprised of input VAT withheld, advances for long-term construction contracts and deferred development and striping costs for Bobog mine. Coal, power, and SLPGC accounted for Other Non-Current Assets of PHP466.00 million, PHP94.42 million, and PHP1.04 billion, respectively.

Consolidated Total Liabilities increased by 26% at PHP24.25 billion from PHP19.29 billion beginning balance. Coal, power, SLPGC, SCI, SEU and SCIP accounted for PHP10.56 billion, PHP10.08 billion, PHP3.60 billion, PHP8 thousand, and PHP34 thousand, respectively.

Consolidated Total Current Liabilities increased by 15% at PHP13.96 billion from PHP12.17 billion beginning balance. Coal, power, SLPGC, SEU, and SCIP accounted for PHP9.17 billion, PHP4.74 billion, PHP54.1 million, PHP8 thousand, and PHP34 thousand, respectively.

Consolidated Trade and Other Payables decreased by 8% at PHP6.29 billion from PHP6.81 billion beginning balance. The decrease is mainly attributed to settlements of trade payables. Coal, power, SLPGC, SEU and SCIP accounted for PHP3.49 billion, PHP1.65 billion, PHP54.14 million, PHP8 million, and PHP34 million, respectively.

Short-term loans increased by 1,231% at PHP2.34 billion from PHP175.65 million beginning balance due to availment by the coal and power segments of short-term working capital loans during the period.

Consolidated Current Portion of Long-Term Debt increased by 3% at PHP5.33 billion from PHP5.18 billion beginning balance due to debt service of maturing loan amortization. Coal and power segments accounted for PHP4.56 billion and PHP768 million, respectively.

Consolidated Total Non-Current Liabilities increased by 44% at PHP10.28 billion from PHP7.12 billion beginning balance due to increase in long-term debt net of current portion. Coal, power, and SLPGC accounted for PHP1.40 billion, PHP5.34 billion and PHP3.55 billion, respectively.

Consolidated Long-Term Debt increased by 44% at PHP10.11 billion from PHP7.00 billion beginning balance. This is due to the drawdown from its project financing facility amounting to PHP2.89 billion in Q2 and loan availments of medium-term loans by the coal segment to fund for additional mining equipment. Coal, power, and SLPGC accounted for PHP1.34 billion, PHP5.33 billion and PHP3.44 billion, respectively.

Provision for Decommissioning and Site Rehabilitation of PHP62.45 million accounted for coal and power's provisions for PHP52.70 million and PHP9.75 million, respectively.

**Other non-current liabilities which accounted for SLPGC's long term retention payable** increased by 87% from PHP58 million from beginning balance of PHP108 million. Provision for pension liability increased by 18% to PHP6.9 million.

After accounting for income generation of PHP3.58 billion and payment of cash **dividends of PHP4.28 billion during the period, consolidated Stockholders' Equity** decreased by 4% at PHP16.20 billion from PHP16.89 billion beginning balance.

With additional loan availments, Debt-to-Equity ratio increased by 31% at 1.50:1 from 1.14:1 as at the start of the year.

## **IV. PERFORMANCE INDICATORS**

**1. Earnings per Share** – Despite the challenges the coal segment faces during the year, first the drop in global coal prices, then the accident at the pit in February, consolidated EPS still remains strong at PHP10.05 as against PHP10.20 in H1 2012. This is due to the impressive performance of the power segment, complemented by cost cutting measures implemented by the coal segment.

**2. Debt-to-Equity Ratio** – The Company's healthy balance sheet, as reflected by a stable DE ratio allows it to enjoy competitive borrowing rates. As a result, it is able to expand its operations to take advantage of opportunities in the power industry.

**3. Business Expansion** – The decline in coal profits has been offset by the income generation of the power segment in the current period. This validates the wisdom of the Company's decision to expand to the power sector. More growth opportunities are available to the Company with the growth forecast of the power industry.

**4. Expanded Market** – Continued efforts to tap new local markets for coal cushioned the drop in sales to some customers who took advantage of low global coal prices to import their fuel during the period. The Company is also actively creating new markets by expanding its power capacity by building new coal-fired plants.

Meanwhile, the power supply contract with Meralco creates a reliable and stable market for the power segment being a base load plant. Moreover, the open access regime for electricity began commercial operation in June. This will provide the power segment alternative distribution outlets, such as the Retail Electricity Suppliers (RES) or large power consumers.

**5. Improved coal quality** – Careful implementation of coal quality improvement measures enables the Company to augment its export revenues starting Q2. Higher quality coal is exported to take advantage of its premium over low grade coal, thus realizing a higher FOB price/MT for exports. Meanwhile, the successful rehabilitation of the power units and proper planning enable the power plants to use unwashed coal. This improves recovery of coal reserves.

## **PART II OTHER INFORMATION**

### **Other disclosures:**

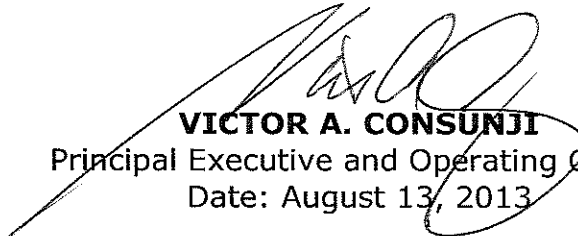
- a. **The Group's** operation is not cyclical in nature or seasonal. Mining activities is continuous throughout the year;
- b. There were no issuances, repurchases, and repayments of debt in equity securities which transpired during the quarter;
- c. There are no subsequent events, that came to our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

**PART III SIGNATURES**

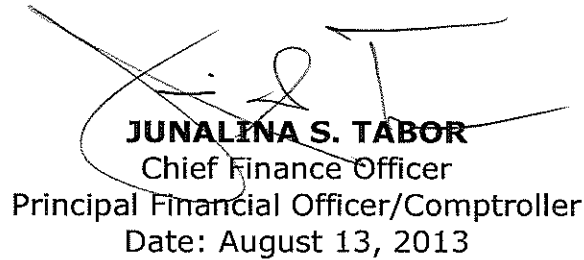
Pursuant to the requirement of the Revised Securities **Code**, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Issuer: **SEMIRARA MINING CORPORATION**

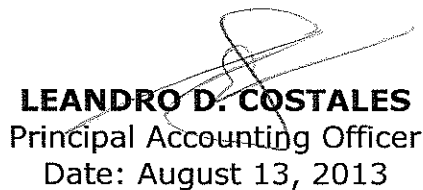
**Signature and Title:**



**VICTOR A. CONSUNJI**  
Principal Executive and Operating Officer  
Date: August 13, 2013



**JUNALINA S. TABOR**  
Chief Finance Officer  
Principal Financial Officer/Comptroller  
Date: August 13, 2013



**LEANDRO D. COSTALES**  
Principal Accounting Officer  
Date: August 13, 2013

<b>PART IV - ANNEX A</b>						
SEMIRARA MINING CORPORATION						
AGING OF ACCOUNTS RECEIVABLE						
(in Php000)	TOTAL	Current	2 - 3 Mon	4 - 6 Mon	7 Mon - 1 Yr	Allow for DA
<b>A. AR TRADE RECEIVABLES</b>						
COAL						
PNOG	17,463	17,463	-	-	-	-
CCC	128,905	128,905	-	-	-	-
APO	40,810	10,347	30,463	-	-	-
JPC	22,879	22,879	-	-	-	-
SOLID	41,462	41,462	-	-	-	-
EXPORT	267,302	237,559	-	29,743	-	-
HOLCIM	83,456	75,482	7,974	-	-	-
CEDC	40,651	40,651	-	-	-	-
PEDC	81,525	81,525	-	-	-	-
ECC	21,548	21,548	-	-	-	-
PETRON	126,842	126,842	-	-	-	-
RCC/LRI	62,808	62,808	-	-	-	-
PPFC	10,550	-	5,511	5,040	-	-
UPPC	10,534	10,512	22	-	-	-
POWER						
POZZOLANIC	18,149	14,253	-	-	3,896	(53,524)
CAVITE ECOZONE	3,373	-	-	-	3,373	-
ECSCO	2,434	2,419	-	-	15	-
JORAM	1,318	1,270	-	-	48	-
MERALCO	1,557,278	1,236,047	-	67,660	253,571	-
PUYAT STEEL	5,322	5,135	-	-	186	-
STEEL CORP	4,139	4,149	-	-	(10)	-
BATELEC	68,824	68,824	-	-	(0)	-
PSALM	25,940	-	-	-	25,940	-
PEMC	321,652	76,244	-	1,120	244,288	-
TRANS-ASIA OIL & ENERGY	100,356	100,356	-	-	(0)	-
	-	-	-	-	-	-
	<b>3,065,521</b>	<b>2,386,681</b>	<b>43,970</b>	<b>103,563</b>	<b>531,307</b>	<b>(53,524)</b>
Less: Allowance for doubtful account	53,524					
	<b>3,011,997</b>					
<b>B. NON - TRADE RECEIVABLES</b>						
COAL						
Advances-Officers	436	436	-	-	-	(5,815)
Advances-Employees	699	699	-	-	-	-
Advances-Contractors	11,898	11,898	-	-	-	-
Advances-For liquidation	5,978	5,978	-	-	-	-
Advances-SSS Claims	540	540	-	-	-	-
Advances-Others	409	409	-	-	-	-
Advances-Medical Accounts	3,138	3,138	-	-	-	-
POWER						
Advances-Officers	18	18	-	-	-	-
Advances-Employees	325	325	-	-	-	-
Advances-For liquidation	2,646	2,646	-	-	-	-
Advances-SSS Claims	2	2	-	-	-	-
Adv.for Govt Institutions	2,211	2,211	-	-	-	-
	<b>28,299</b>	<b>28,299</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(5,815)</b>
Less: Allowance for D/A-AR Others	5,815					
Net NON - TRADE RECEIVABLE	<b>22,484</b>					
<b>C. DUE FROM AFFILIATED COMPANIES</b>						
	74,902					
<b>NET RECEIVABLES ( A + B + C )</b>	<b>3,109,382</b>					

**SEMIRARA MINING CORPORATION**  
**FINANCIAL RISK MANAGEMENT DISCLOSURES**  
**As of June 30, 2013**

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

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

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

The sensitivity analyses have been prepared on the following basis :

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

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

**Price Risk**

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

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

There can be no assurance that world coal prices will be sustained or that domestic and international competitors will not seek to replace the Group in its relationship with



its key customers by offering higher quality, better prices or larger guaranteed supply volumes, any of which would have a materially adverse effect on the Group's profits.

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

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

	<u>06/30/2013</u>	<u>12/31/2012</u>
Domestic Market	54.35%	35.07%
Export Market	45.65%	44.17%

*as a percentage of total coal sales volume*

The following table shows the effect on income tax should the change in the prices of coal occur based on the inventory of the Group as of June 30, 2013 and 2012 with all other variables held constant. The change in coal prices is based on 1-year historical price movements.

	Effect on income	
	<u>before income tax</u>	
<b><i>Based on ending coal inventory</i></b>	<u>06/30/2013</u>	<u>12/31/2012</u>
Change in coal price		
Increase by 30%	752,288,708	1,017,759,543
Decrease by 30%	(752,288,708)	(1,017,759,543)
<b><i>Based on coal sales volume</i></b>	Effect on income	
	<u>Before income tax</u>	
Change in coal price	<u>06/30/2013</u>	<u>12/31/2012</u>
Increase by 30%	803,670,980	4,335,046,600
Decrease by 30%	(803,670,980)	(4,335,046,600)

## Interest Rate Risk

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

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

<b>June 30, 2013</b>							
	Interest	Within1 year	1-2 years	2-3 years	3-4 years	More than 4 years	Carrying Value
(In Thousands)							
Cash equivalents	1.25% to 4.62%	2,406,051	-	-	-	-	2,406,051
Short-term loan		2,337,922					2,337,922
Foreign Long-term debts at floating rate							
\$7.70 million loan (USD)	1.06% p.a. payable semi-annually, to be repriced every 3 months	-	332,485	-	-	-	332,485
\$5.62 million loan (USD)	1.052% p.a. for 92 days, to be repriced every 30 - 180 days	242,472		-	-	-	242,472
\$78.80 million loan (USD)	1.03 - 1.89 % p.a. to be repriced every 3 months	2,400,287	1,004,402	-	-	-	3,404,690
\$28.77 million loan (USD)	1.13% - 1.40% p.a., payable in 3-4 months; principal to be paid at maturity	1,242,869		-	-	-	1,242,869
\$15.67 million loan (USD)	1.03% - 1.89% p.a., payable in 3-4 months; principal to be paid at maturity	677,143		-	-	-	677,143
Mortgage Payable at floating rate							
	PDST-F benchmark yield for three-month treasury securities + 1.00%	-	-	-	-	3,438,348	3,438,348
	PDST-F benchmark yield for three-month treasury securities + 1.75%	1,517,687	1,523,090	1,528,512	1,530,282	-	6,099,572
		8,418,380	2,859,978	1,528,512	1,530,282	3,438,348	17,775,501
<b>December 31, 2012</b>							
	Interest	Within1 year	1-2 years	2-3 years	3-4 years	More than 4 years	Carrying Value
(In Thousands)							
Cash equivalents	1.25% to 4.62%	0	-	-	-	-	0
Foreign Long-term debts at floating rate							
\$23.08 million loan (USD)	1.32 1.95% p.a. payable semi-annually, to be repriced every 3 months	631,604	315,938	-	-	-	947,542
\$5.62 million loan (USD)	1.80% p.a. for 92 days, to be repriced every 30 - 180 days	-	230,404	-	-	-	230,404
\$62.29 million loan (USD)	1.16 - 1.61% p.a. to be repriced every 3 months	1,996,833	560,028	-	-	-	2,556,861
\$25.34 million loan (USD)	1.03% - 1.10% p.a., payable in 3-4 months; principal to be paid at maturity	1,040,276		-	-	-	1,040,276
Mortgage Payable at floating rate							
	PDST-F benchmark yield for three-month treasury securities + 1.00%	-	-	20,229	81,118	446,147	547,494
	PDST-F benchmark yield for three-month treasury securities + 1.75%	1,514,248	1,519,639	1,525,049	1,530,478	767,281	6,856,695
		5,182,961	2,626,009	1,545,278	1,611,596	1,213,428	12,179,272

## **Liquidity Risk**

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

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

- It has available lines of credit that it can access to answer anticipated shortfall in sales and collection of receivables resulting from timing differences in programmed inflows and outflows.
- It has very diverse funding sources.

It has internal control processes and contingency plans for managing liquidity risk. Cash flow reports and forecasts are reviewed on a weekly basis in order to quickly address liquidity concerns. Outstanding trade receivables are closely monitored to avoid past due collectibles.

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

**The tables below summarize the maturity profile of the Group's financial assets and liabilities as of June 30, 2013 and December 31, 2012 based on undiscounted contractual payments.**

June 30, 2013	Within 6 months	Next 6 months	1-2 years	2-3 years	More than 3 years	Total
<b>Cash and cash equivalents</b>	3,584,552					3,584,552
<b>Receivables</b>						
Trade						
Local sales	689,435					689,435
Export sales	267,302					267,302
Electricity sales	2,055,261					2,055,261
Due from related parties	74,902					74,902
Others	19,675					19,675
<b>Investment in sinking fund</b>					511,631	511,631
<b>Environmental guarantee fund</b>					1,500	1,500
	<u>6,691,126</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>513,131</u>	<u>7,204,257</u>
						7,204,257
<b>Trade and other payables</b>						
Trade	4,155,693	-	-	-	-	4,155,693
Payable to DOE and local government units	-	-	-	-	-	-
Accrued expenses and other payables	441,355	-	-	-	-	441,355
Due to related parties	626,878	-	-	-	-	626,878
<b>Short term loans</b>	2,337,922	-	-	-	-	2,337,922
<b>Long term debt at floating rate</b>	-					-
\$7.70 million loan (USD) with interest payable in arrears	-	332,485	0	-	-	332,485
\$5.62 million loan (USD) with interest payable in arrears	242,472	-	-	-	-	242,472
\$78.80 million loan (USD) with interest payable in arrears	2,369,087.45	193,471	810,931	-	-	3,373,490
\$28.77 million loan (USD) with interest payable in arrears	1,242,869	-	-	-	-	1,242,869
\$15.67 million loan (USD) with interest payable in arrears	677,143	-	-	-	-	677,143
PDST-F benchmark yield for 3-month treasury securities + 1.00%					3,438,348	3,438,348
PDST-F benchmark yield for 3-month treasury securities + 1.75%	798,914	781,962	1,572,611	1,551,380	1,394,704	6,099,572
	<u>12,892,333</u>	<u>1,307,918</u>	<u>2,383,542</u>	<u>1,551,380</u>	<u>4,833,052</u>	<u>22,968,226</u>
	<u>(6,201,207)</u>	<u>(1,307,918)</u>	<u>(2,383,542)</u>	<u>(1,551,380)</u>	<u>(4,319,921)</u>	<u>(15,763,969)</u>
December 31, 2012						
<b>Cash and cash equivalents</b>	520,353					520,353
<b>Receivables</b>						
Trade						
Local sales	628,204	-				628,204
Export sales	620,710					620,710
Electricity sales	1,958,880	186,083				2,144,963
Due from related parties	90,004					90,004
Others	88,601	-				88,601
	-				508,041	508,041
<b>Environmental guarantee fund</b>					1,500	1,500
	<u>3,906,752</u>	<u>186,083</u>	<u>-</u>	<u>-</u>	<u>509,541</u>	<u>4,602,377</u>
<b>Trade and other payables</b>						
Trade	4,417,579	-	-	-	-	4,417,579
Payable to DOE and local government units	-	-	-	-	-	-
Accrued expenses and other payables	117,958	-	-	-	-	117,958
Due to related parties	709,497	-	-	-	-	709,497
<b>Short term loans</b>	175,646	-	-	-	-	175,646
<b>Long term debt at floating rate</b>	-					-
\$23.08 million loan (USD) with interest payable in arrears	636,767	2,625	321,104	-	-	960,496
\$5.62 million loan (USD) with interest payable in arrears	2,074	2,074	234,552	-	-	238,699
\$62.29 million loan (USD) with interest payable in arrears	2,010,661	3,878	567,784	-	-	2,582,323
\$25.34 million loan (USD) with interest payable in arrears	628,402	419,625	-	-	-	1,048,027
PDST-F benchmark yield for 3-month treasury securities + 1.00%	10,313	10,313	20,625	40,095	547,038	628,383
PDST-F benchmark yield for 3-month treasury securities + 1.75%	798,915	781,962	1,572,611	1,551,380	2,324,212	7,029,080
	<u>9,507,811</u>	<u>1,220,476</u>	<u>2,716,676</u>	<u>1,591,476</u>	<u>2,871,250</u>	<u>17,907,688</u>
	<u>(5,601,058)</u>	<u>(1,034,393)</u>	<u>(2,716,676)</u>	<u>(1,591,476)</u>	<u>(2,361,708)</u>	<u>(13,305,312)</u>

(in Php000)

## **Foreign Currency Risk**

The Group's foreign exchange risk results primarily from movements of the Philippine Peso (₱) against the US\$. Majority of revenue are generated in Pesos, however, substantially all of capital expenditures are in US\$. Approximately 30.96% and 39.77% of debts as of June 30, 2013 and December 31, 2012, respectively, were denominated in US\$.

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

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

	June 30, 2013		December 31, 2012	
	U.S. Dollar	Peso Equivalent	U.S. Dollar	Peso Equivalent
<b>Assets</b>				
Cash and cash equivalents	\$ 3,041,795	131,405,531	\$ 129,885	5,331,779
Trade receivables	6,187,542	267,301,817	23,010,025	944,561,526
	<b>\$ 9,229,337</b>	<b>398,707,348</b>	23,139,910	949,893,305
<b>Liabilities</b>				
Trade payables	\$ 11,558,034	499,307,061	8,261,231	339,123,523
Short-term loans	12,283,503	530,647,341	4,278,837	175,646,271
Long-term debt (including current portion)	135,843,949	5,868,458,580	116,323,594	4,775,083,533
	<b>\$ 159,685,486</b>	<b>6,898,412,982</b>	128,863,662	5,289,853,327
Net foreign currency denominated assets (liabilities)	<b>\$ (150,456,149)</b>	<b>(6,499,705,634)</b>	<b>\$ (105,723,752)</b>	<b>(4,339,960,022)</b>

*The spot exchange rates used in June 30, 2013 and December 31, 2012 were 43.20 to US\$1 and 41.05 to US\$1, respectively.*

The following table demonstrates the sensitivity to a reasonably possible change in foreign exchange rates, with all **variables held constant, of the Group's income before tax** (due to changes in the fair value of monetary assets and liabilities) on June 30, 2013 and 2012.

Reasonably possible change in foreign exchange rate for every five units of Philippine Peso	Increase (decrease) in profit before tax	
	30-Jun-13	31-Dec-12
2	<b>(300,912,298)</b>	(211,447,504)
(2)	<b>300,912,298</b>	211,447,504

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

## **Credit Risk**

Credit risk is the risk that counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group trades only with recognized, creditworthy third parties, thus there is no requirement for collateral. **It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures.** The Group evaluates the financial condition of the local customers before deliveries are made to them.

On the other hand, export sales are covered by sight letters of credit issued by foreign **banks subject to the Group's approval, hence, mitigating the risk on collection.** In addition, receivable balances are monitored on an ongoing basis with the result that **the Group's exposure to bad debts is not significant.** The Group generally offers 80% of coal delivered payable within 30 days upon receipt of billing and the remaining 20% payable within 15 days after receipt of final billing based on final analysis of coal delivered.

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

The credit risk is concentrated to the following markets:

	<b>06.30.2013</b>	12/31/2012
Trade		
Electricity	<b>72.90%</b>	<b>73.53%</b>
Local sales	<b>23.83%</b>	<b>20.46%</b>
Due from related parties	<b>2.59%</b>	<b>2.93%</b>
Other receivables	<b>0.68%</b>	<b>3.07%</b>
<b>Total</b>	<b>100.00%</b>	100.00%

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

	<b>Gross Maximum Exposure</b>	
	<b>06.30.2013</b>	12/31/2012
Cash and cash equivalents	<b>3,584,552</b>	520,353
Receivables		
Trade		
Local coal sales	<b>689,435</b>	628,204
Electricity sales	<b>267,302</b>	620,710
Due from related parties	<b>2,108,784</b>	2,257,847
Others	<b>74,902</b>	90,004
Investment in sinking fund	<b>19,675</b>	94,416
Environmental Guarantee Fund	<b>514,160</b>	508,041
	<b>1,500</b>	1,500
<b>Total credit risk exposure</b>	<b>7,260,310</b>	4,721,077

## **Capital Management**

The primary objective of the Group's capital management strategy is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value. The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders or issue new shares. There were no changes made in the Group's capital management objectives, policies or processes.

The following table shows the component of the Group's capital as of June 30, 2013 and 2012:

	<b>06.30.2013</b>	<b>12/31/2012</b>
Total paid-up capital	<b>7,031,777</b>	7,031,777
Retained earnings – unappropriated	<b>8,465,362</b>	9,160,044
Retained earnings – appropriated	<b>700,000</b>	700,000
	<b>16,197,140</b>	16,891,822

## **Fair Values**

The following tables set forth the carrying values and estimated fair values of the Group's financial assets and liabilities recognized as of June 30, 2013 and December 31, 2012.

	<b>6/30/2013</b>			
	<b>Carrying Value</b>	<b>Fair Value</b>	Carrying Value	Fair Value
<b>Financial Assets</b>				
Loans and receivables:				
Cash and cash equivalents	<b>3,584,552</b>	<b>3,584,552</b>	520,353	520,353
Trade				
Electricity sale	<b>2,055,261</b>	<b>2,055,261</b>	2,144,963	2,144,963
Local sales	<b>689,435</b>	<b>689,435</b>	628,204	628,204
Export sales	<b>267,302</b>	<b>267,302</b>	620,710	620,710
Due from related parties	<b>74,902</b>	<b>74,902</b>	90,004	90,004
Others	<b>19,675</b>	<b>19,675</b>	88,601	88,601
Investment in sinking fund	<b>511,631</b>	<b>511,631</b>	508,041	508,041
Environmental Guarantee Fund	<b>1,500</b>	<b>1,500</b>	1,500	1,500
<b>Total</b>	<b>7,204,257</b>	<b>7,204,257</b>	<b>4,602,377</b>	<b>4,602,377</b>
	<b>12/31/2012</b>			
	<b>Carrying Value</b>	<b>Fair Value</b>	Carrying Value	Fair Value
<b>Financial Liabilities</b>				
Other financial liabilities:				
Short term notes payable	<b>2,337,922</b>	<b>2,337,922</b>	175,646	175,646
Long-term debt	<b>15,437,579</b>	<b>15,437,579</b>	12,487,008	12,487,008
Trade and other payables				
Trade payables	<b>4,155,693</b>	<b>4,155,693</b>	4,417,579	4,417,579
Accrued expenses and other payables	<b>441,355</b>	<b>441,355</b>	117,958	117,958
Due to related parties	<b>626,878</b>	<b>626,878</b>	709,497	709,497
<b>Total</b>	<b>22,999,426</b>	<b>22,999,426</b>	<b>17,907,688</b>	<b>17,907,688</b>
<i>(in Php000)</i>				

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

***Financial Assets***

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

***Financial Liabilities***

Trade and other payables

The fair values of trade and other payables approximate their carrying amounts as of reporting dates due to the short-term nature of the transactions.

Long-term Debt

The carrying values approximated the fair value because of recent and regular repricing of interest rates (e.g. monthly, quarterly, semi-annual or annual basis) based on market conditions.

Fair Value Hierarchy

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

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

As of June 30, 2013 and December 31, 2012, the Group does not have financial instruments measured at fair value.



**SEMIRARA MINING CORPORATION AND SUBSIDIARIES**  
**COMPARATIVE FINANCIAL SOUNDNESS INDICATORS**  
**AS OF JUNE 30, 2013 AND 2012**

<b>Financial Soundness Indicator</b>	<b>2013</b>	<b>2012</b>
i. Liquidity ratios:		
Current ratio	105%	102%
Quick ratio	64%	59%
ii. Leverage ratios:		
Debt-to-equity ratio	110%	89%
Interest coverage ratio	2298%	1486%
iii. Management ratios:		
Accounts receivable turnover ratio	351%	408%
Return on assets ratio	10%	10%
Return on equity ratio	24%	26%
iv. Asset-to-equity ratio	250%	250%
v. Profitability ratios:		
Gross margin ratio	45%	40%
Net profit margin ratio	31%	27%
vi. Solvency ratios		
Current liabilities to net worth ratio	86%	71%
Total liabilities to net worth ratio	150%	150%