The Prospectus is being displayed on the website to make the Prospectus accessible to more investors. The Philippine Stock Exchange ("PSE" or the "Stock Exchange") assumes no responsibility for the correctness of any of the statements made or opinions or reports expressed in the Prospectus. Furthermore, the Stock Exchange makes no representation as to the completeness of the Prospectus and disclaims any liability whatsoever for any loss arising from or in reliance in whole or in part on the contents of the Prospectus.

SEMIRARA MINING CORPORATION
(A corporation organized and existing under Philippine Laws)

2/F DMCI Plaza Building
2281 Don Chino Roces Avenue, 1231 Makati City
Telephone No. +63 2 867 3377; Fax No. +63 2 888 3553

One for Five Rights Issue of
Rights Shares at P74.00 per Offer Share

Each shareholder holding at least five common shares as of Record Date will be entitled to subscribe to one Rights Share at an Offer Price of P74.00 per Offer Share.

This Prospectus is dated June 10, 2010.

THE SECURITIES AND EXCHANGE COMMISSION HAS NOT APPROVED THESE SECURITIES OR DETERMINED IF THIS PROSPECTUS IS ACCURATE OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE AND SHOULD BE REPORTED IMMEDIATELY TO THE SECURITIES AND EXCHANGE COMMISSION.

PROSPECTUS **June 10, 2010**

SEMIRARA MINING CORPORATION

2/F DMCI Plaza Building
2281 Don Chino Roces Avenue, 1231 Makati City
Telephone No. +63 2 867 3377; Fax No. +63 2 888 3553

PROSPECTUS RELATING TO THE OFFER OF 59,375,000 COMMON SHARES
WITH A PAR VALUE OF ₱1.00 PER SHARE
THROUGH A STOCK RIGHTS OFFERING OF
ONE RIGHTS SHARE FOR EVERY FIVE SHARES HELD AS OF RECORD DATE
AT AN OFFER PRICE OF ₱74.00 PER OFFER SHARE
TO BE LISTED AND TRADED ON THE PHILIPPINE STOCK EXCHANGE, INC.

This Prospectus relates to the offering for subscription of 59,375,000 common shares (the "Rights Shares", the "Offer" or the "Offer Shares"), with a par value of ₱1.00 per share of Semirara Mining Corporation ("SCC" or the "Company" or the "Issuer") by way of a pre-emptive rights offering to eligible existing common shareholders of SCC at the proportion of one Rights Share for every five existing Common Shares held as of Record Date at an Offer price of ₱74.00 per Offer Share (the "Offer Price"). Any fractional shares will be disregarded in the computation of the Rights Share entitlement of each shareholder.

The authorized capital stock of the Company is 1,000,000,000 common shares, with a par value of ₱1.00 per share. As of the date of this Prospectus, 296,875,000 common shares have been issued and are outstanding. After the completion of the Offer, the issued and outstanding Common Shares of the Company will be 356,250,000 Common Shares, assuming all the Offer Shares are subscribed.

All common shares of the Company issued or to be issued pursuant to the Offer (collectively, the "Common Shares"), or upon issuance, will have identical rights and privileges. The Philippine Constitution and laws limit foreign ownership in the Company to a maximum of 40% of its capital, since it is engaged in the business of exploring, extracting, and utilizing a natural resource.

BDO
Capital & Investment Corporation
Issue Manager and Underwriter

To be listed and traded on the Philippine Stock Exchange, Inc.

THE SECURITIES AND EXCHANGE COMMISSION HAS NOT APPROVED THESE SECURITIES OR DETERMINED IF THIS PROSPECTUS IS ACCURATE OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE AND SHOULD BE REPORTED IMMEDIATELY TO THE SECURITIES AND EXCHANGE COMMISSION.

The Company is allowed to declare dividends from its surplus profits at such times and in such percentage as the Board of Directors may deem proper. The Company adopts a minimum of 20% of net profit after taxes starting from the period ending December 31, 2005 as its payout ratio; provided however that the Board of Directors will have the option to declare more than 20%, if there is excess cash and less than 20%, if insufficient cash is available. No dividend will be declared that will impair the capital of the Company. Stock dividends will be declared in accordance with law. The Company's dividend policy and dividend payment history is discussed in "Description of the Company – Dividends and Dividend Policy" on page 74 of this Prospectus.

The Company expects to raise gross proceeds of approximately ₱4,393,750,000 from the Offer. After deducting the registration and licensing fees, listing fees, taxes, other fees and expenses related to the Offer, the net proceeds from the Offer is estimated to be ₱4,383,383,237. The Company intends to use the net proceeds from the Offer to: (i) invest in SEM-Calaca for the partial financing of the acquisition cost of the Power Plant; (ii) repay debt obligations; (iii) fund capital expenditures; and (iv) general corporate purposes (see “Use of Proceeds” on page 31 of this Prospectus).

The information contained in this Prospectus is publicly available and has been supplied by the Company solely for the purpose of the Offer. The Company accepts full responsibility for the accuracy and completeness of the information contained herein. The Company confirms that, after having made all reasonable inquiries, and to the best of its knowledge and belief, there are no material facts, the omission of which would make any statement in this Prospectus misleading in any material respect. Neither the delivery of this Prospectus nor any sale made hereunder will, under any circumstance, create any implication that the information contained herein is correct as of any time subsequent to the date hereof.

BDO Capital & Investment Corporation (“BDO Capital”) will act as Underwriter of the Offer but no underwriting fees will be collected with respect to the Offer. Any unsold Rights Shares will be taken up and distributed by BDO Capital. Certain shareholders of the Company, namely, DMCI Holdings, Inc. (“DMCI-HI”), Dacon Corporation (“Dacon”) and DFC Holdings, Inc. (“DFC Holdings”), have committed not only to subscribe to their own respective entitlements of Rights Shares, but also to subscribe, collectively or singly, to any Rights Shares that will not otherwise be taken up by other qualified shareholders (the “Unsubscribed Rights Shares”). DMCI-HI contributed on November 27, 2009 and December 1, 2009 the amounts of ₱1.5 billion and ₱3.0 billion, respectively totaling ₱4.5 billion, by way of deposits for future subscription, which will be applied wholly or partially to DMCI-HI’s subscription for the Rights Shares. Dacon contributed on December 1, 2009 the amount of ₱902.12 million, by way of deposits for future subscription, which will be applied wholly or partially to Dacon’s subscription for the Rights Shares. Details regarding the engagement of the Underwriter can be found under “Plan of Distribution” on page 33 of this Prospectus.

Prospective investors to the Offer Shares must conduct their own evaluation of the Company, and the terms and conditions of the Offer, including the merits and risks involved. The price of securities can and does fluctuate, and any individual security may experience upward or downward movements, and may even become valueless. There is an inherent risk that losses may be incurred rather than profit made as a result of buying and selling securities. An investment in the Rights Shares, as described in this Prospectus, involves a certain degree of risk. Please refer to the Risk Factors discussed on page 22 of this Prospectus. The readers of this Prospectus are further enjoined to consult their financial advisers, tax consultants, and other professional advisers with respect to the acquisition, holding, or disposal of the Offer Shares described herein. The Offer is being made on the basis of this Prospectus only.

Market and certain industry data used throughout this Prospectus were obtained from market research, publicly available information, and industry publications. Industry publications generally state that the information contained therein has been obtained from sources believed to be reliable, but that the accuracy and completeness of such information are not guaranteed. Similarly, industry forecasts, market research, and information sourced from the DOE and Philippine Chamber of Coal Mines, Inc., while believed to be reliable, have not been independently verified, and the Company does not make any representation as to the accuracy of such information. The Underwriter assumes no liability for any information contained in this Prospectus and does not make any representation or warranty, express or implied, as to the accuracy or completeness of the information contained in this Prospectus. Unless otherwise indicated, all information in this Prospectus is as of the date of this Prospectus.

This Prospectus contains certain "forward-looking statements". These forward-looking statements can generally be identified by use of statements that include words or phrases such as SCC or its management "believes", "expects", "anticipates", "intends", "plans", "projects", "foresees", and other words or phrases of similar import. Similarly, statements that describe SCC's objectives, plans, and goals are also forward-looking statements. All forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those contemplated in the relevant forward-looking statements. Nothing in this Prospectus is, or should be relied upon as a promise or representation as to the future. The forward-looking statements included herein are made only as of the date of this Prospectus, and SCC undertakes no obligation to update such forward-looking statements publicly to reflect subsequent events or circumstances.

The Company's Common Shares are listed at the Philippine Stock Exchange, Inc. ("PSE") under the symbol "SCC". On June 10, 2010, the closing price of SCC was ₱77.00.

On May 21, 2010, the Securities and Exchange Commission ("SEC") issued a Confirmation of Exempt Transaction covering the Common Shares to be issued relative to the offer of the Rights Shares, pursuant to Section 10.1 (e) of the Securities Regulation Code ("SRC") under which the exemption[1] is based.

The Company filed its application for the listing and trading of the Rights Shares with the PSE on February 5, 2010. The PSE approved the application to list the Rights Shares on June 9, 2010.

The PSE assumes no responsibility for the correctness of any of the statements, opinions, and reports made or expressed in this Prospectus. The listing of the Rights Shares of the Company is subject to the approval of the PSE Board of Directors. Such approval for listing, however, is permissive only and does not constitute a recommendation or endorsement of the Offer Shares by the PSE.

This Prospectus will not constitute an offer to sell or the solicitation of an offer to buy any securities other than those described herein, nor does it constitute an offer to sell or a solicitation of an offer to buy the shares described herein in any jurisdiction in which such offer or solicitation or sale is not authorized, or to any person to whom it is unlawful to make such offer or solicitation or sale. No dealer, salesperson, or other person has been authorized to give information or make any representation not contained in this Prospectus, and if given or made, may not be relied upon as having been authorized by the Company.

SCC is organized under the laws of the Philippines. Its principal address is at 2nd floor, DMCI Plaza Building, 2281 Don Chino Roces Avenue, 1231 Makati City with Telephone No. +63 2 867 3377 and Fax No. +63 2 888 3553.

ALL REGISTRATION REQUIREMENTS HAVE BEEN MET AND ALL INFORMATION CONTAINED HEREIN ARE TRUE AND CORRECT.

[1] "Sec. 10. Exempt Transactions – 10.1 The requirement of registration under Subsection 8.1 shall not apply to the sale of any security in any of the following transactions:

(e) The sale of capital stock of a corporation to its own stockholders exclusively, where no commission or other remuneration is paid or given directly or indirectly in connection with the sale of such capital stock."

SEMIRARA MINING CORPORATION

By:

VICTOR A. CONSUNJI
President and Chief Operating Officer

SUBSCRIBED AND SWORN to before me this 10th of June, 2010, in Makati City, Philippines, affiant exhibiting to me his Philippine passport no. XX0792809, issued on March 25, 2008 and expiring on March 24, 2013.

Doc. No. 459
Page No. 99
Book No. LXIII
Series of 2010.

ATTY. BASILIO D. GASCON, JR.
NOTARY PUBLIC FOR MAKATI CITY
UNTIL DECEMBER 31, 2011
NOTARY PUBLIC APPOINTMENT NO. M-57
ROLL OF ATTORNEY NO. 51653
MCLE COMPLIANCE NO. II-00902/APRIL 23, 2008
IBP NO. 767703 / JAN. 05/2010 / ZAMBALES CHAPTER
PTR NO. 2037658/JANUARY 04, 2010
2/F DMCI HOMES CORPORATE CENTRE
1321 APOLINARIO STREET/ BANGKAL
MAKATI CITY/METRO MANILA

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Glossary of Terms

In this Prospectus, unless the context otherwise requires, the following terms will have the meanings set out below.

Adjoining Properties Parcels of land (i) underlying, adjoining, adjacent to or in the vicinity of the Power Plant and (ii) which are used or may be used in the operation of the Power Plant, which are not listed in the LLA as comprising the leased premises.

APA The Asset Purchase Agreement with effective date of August 3, 2009 between PSALM and DMCI-HI setting forth the terms and conditions for the acquisition of the Power Plant

Articles of Incorporation The articles of incorporation of SCC, as amended to date

BCM Bank cubic meters

BIR Bureau of Internal Revenue

BOI Board of Investments

BSP Bangko Sentral ng Pilipinas**,** the Philippine central bank

Board of Directors The Board of Directors of SCC

Business or Banking Day A day (except Saturdays, Sundays and holidays) on which facilities of the Philippine banking system are open and available for clearing and banks are generally open for the transaction of business in the city of Makati

By-laws The by-laws of SCC, as amended to date

COC or Coal Operating Contract The coal operating contract between the DOE and the Company, which is effective until July 14, 2027

Common Shares The common shares constituting the authorized, issued and outstanding capital stock of the Company at any time, as the context may require, each with a par value of ₱1.00

Company or the Issuer or SCC Semirara Mining Corporation

Contestable Customer Customer with an average monthly consumption of at least 1 MW

Corporation Code Batas Pambansa Bilang 68

CSA The Company's coal supply agreement with the NPC for the supply of coal to the Power Plant, effective from July 1, 1995, which was amended on January 15, 2001 and January 1, 2002. The CSA is effective for 15 years and will expire on June 30, 2010.

Dacon Dacon Corporation

DENR Department of Environment and Natural Resources

DFC Holdings	DFC Holdings, Inc.
DMCI-HI	DMCI Holdings, Inc.
DOE	The Philippine Department of Energy
DU	Distribution Utility as defined under EPIRA
ECC	Environmental Compliance Certificate issued by the DENR
EPIRA	Republic Act No. 9136 otherwise known as the Electric Power Industry Reform Act of 2001
ERC	Energy Regulatory Commission
Ex-date	June 25, 2010
GDP	Gross domestic product
Government	The government of the Republic of the Philippines
IPP	Independent power producer
IPPA	IPP Administrator as defined under the EPIRA
Km	Kilometers
Leased Premises	Parcels of land listed in the LLA as that on which the Power Plant is built and subject of the lease under the LLA
Listing Date	July 19, 2010
LLA	The Land Lease Agreement with effective date of August 3, 2009 between PSALM and DMCI-HI, setting forth the terms and conditions of the lease and, as applicable, the purchase of the parcels of land on which the Power Plant is built
Local Government Code	Republic Act No. 7160
MW	Megawatt, or one million watts
MWh	Megawatt-hour, or 1,000 kilowatt-hours, or 0.001 gigawatt-hours
MT	Metric tons
NDC	National Development Corporation
NPC	National Power Corporation
Offer	The offering for subscription to existing shareholders of the Issuer of the Offer Shares subject to the terms and conditions stated in this Prospectus and in the Application to Subscribe

Offer Period The period commencing on July 5, 2010 and ending on 12:00 noon of July 9, 2010

Offer Price or Rights Offer Price ₱74.00 per Offer Share, representing the 15-day VWAP of the Company’s Common Shares from the period May 20 to June 9, 2010

Offer Shares or Rights Shares The 59,375,000 Rights Shares to be issued by the Company in line with the Offer

Option SEM-Calaca’s option to purchase the Optioned Assets

Option Price Under the LLA, a one-time payment of $319,000 as consideration for the Option to purchase the Optioned Assets, payable to PSALM upon PSALM's written notice to SEM-Calaca of the existence of the Optioned Assets

Optioned Assets The parcels of land identified under the LLA and as PSALM may, from time to time, determine as subject to SEM-Calaca's Option

PDTC Philippine Depository and Trust Corporation

PEMC Philippine Electricity Market Corporation

Peso, Pesos or ₱ Philippine pesos, the lawful currency of the Republic of the Philippines

PFRS Philippine Financial Reporting Standards

PMRC Philippine Mineral Reporting Code

Power Plant The 2 x 300 MW Batangas Coal-Fired Thermal Power Plant, including its ancillary facilities, located in Calaca, Batangas

Pricing Date June 10, 2010

PSE The Philippine Stock Exchange, Inc.

PSALM Power Sector Assets and Liabilities Management Corporation

PSRE Philippine Standards on Review Engagements

Purchase Orders Purchase orders listed in the APA for parts and services for the Power Plant totaling $7.2 million paid by SEM-Calaca to PSALM on December 2, 2009

Purchase Price $351.0 million, representing the amount in full due to PSALM under the APA, as payment for the Power Plant

Record Date July 1, 2010

Rentals $3.19 million, representing the full rental paid up-front by SEM-Calaca on December 2, 2009 to PSALM for the 25-year lease of the Leased Premises

RES	Retail Electricity Supplier
Rights Shares	59,375,000 Common Shares of the Company to be issued in line with the Offer
ROM	Run-of-mine, or the quantity of coal extracted at the mine prior to beneficiation or washing
Saleable coal	TPC less coal feed to the Company's power plant used in its mining operations
SEC	The Philippine Securities and Exchange Commission
SEM-Calaca	SEM-Calaca Power Corporation, a wholly-owned subsidiary of the Company, which is the current operator of the Power Plant. SEM-Calaca holds the right to acquire the Power Plant from PSALM and is the lessee under the LLA
SMCLU	Semirara Mining Corporation Labor Union
Strip Ratio	Ratio of the total waste materials moved in BCM to the ROM coal in MT
Stock Transfer Agent	Rizal Commercial Banking Corporation – Trust and Investment Division
TPC	Total product coal
TRANSCO	National Transmission Corporation
Underwriter	BDO Capital & Investment Corporation or BDO Capital
Unsubscribed Rights Shares	All Rights Shares which will not otherwise be subscribed by other qualified shareholders of the Company
US Dollar, Dollars, or $	U.S. dollars, the lawful currency of the United States of America
VAT	Value Added Tax
VWAP	Volume Weighted Average Price of the Company's Common Shares traded in the PSE for the 15 trading day period immediately preceding the Pricing Date
WESM	Wholesale Electricity Spot Market

Executive Summary

The following summary is qualified in its entirety by the more detailed information, including the Company's financial statements and the notes relating thereto, appearing elsewhere in this Prospectus. Prospective purchasers of the Common Shares must read the entire Prospectus carefully, including the section on "Risk Factors" on page 22. Capitalized terms not defined in this summary are defined in the section "Definition of Terms" on page 7.

OVERVIEW

The Company is the largest coal producer in the Philippines and is engaged in surface open cut mining of thermal coal from its Panian mine on Semirara Island, in Antique province. The Company's share of domestic coal production is discussed in "Description of the Company – Overview" on page 38 of this Prospectus. Semirara Island covers an area of 55 square km and is located 350 km south of Manila. Proclamation No. 649 dated November 20, 1940, was issued by President Manuel L. Quezon proclaiming the islands of Semirara, Sibay and Caluya province of Antique as coal mining reservations. Coal resources have been discovered at three separate sites on Semirara Island, namely: Panian, Himalian and Unong. The Company operates one mine at Panian. Operations at Unong mine ceased in 2000 after 17 years of extraction. The Company's coal is characterized as sub-bituminous-B and is appropriate for use in a wide range of combustion facilities. Taking advantage of the Company's strategic location and the Company's position as the largest producer of coal in the Philippines, the Company's coal is sold domestically to power plants, cement plants, paper mills, textile dying plants, canneries, food factories, a sugar mill, and a fertilizer plant. In 2007, the Company made its maiden shipment to China that signified its successful foray into the export market. Since then, the Company further expanded its market base and is now selling its coal to China, India, Hong Kong, Japan, Taiwan, and Thailand.

In compliance with the listing requirements of the PSE, in February 2010, the Company engaged a third-party mining engineer, Engr. Rufino B. Bomasang, to prepare a competent person's report in accordance with the PMRC to estimate the remaining coal reserves at the Panian Deposit. In his coal reserve report dated April 30, 2010, Engr. Bomasang estimates the remaining mineable reserves and recoverable reserves at Panian at 47.12 million MT and 42.41 million MT, respectively. At a mining capacity of 6 million MT a year, the remaining mineable reserves at Panian Deposit are good for the next 7.07 years. The report prepared by Engr. Bomasang is attached as Annex C to this Prospectus.

Background of CP

Engr. Rufino B. Bomasang is duly accredited by the Philippine Society of Mining Engineers as a competent person on coal mining. He finished Mining Engineering from the University of the Philippines in 1963 and topped the Mining Engineering Board Examination in January 1964. He also obtained a Master in Business Economics from the Center for Research and Communication in 1985. From August 1976 to September 2004, Engr. Bomasang had continuously served as a senior official in the Philippine public energy sector, his last position held was as President/CEO of PNOC Exploration Corp. from June 1996 to September 2004. Since retiring from the public energy sector, Engr. Bomasang has worked as a consultant and senior advisor to various private energy and mining companies involved in developing indigenous energy resources. Currently, he is Chairman of NorAsian Energy Limited, Preferred Energy Inc., and PhilCarbon Inc. Since 1998, he has been a member of the Board of Examiners for Mining Engineers under the Professional Regulations Commission.

Scope of Work

Pursuant to the requirements of the PSE, the third-party mining engineer was engaged to undertake the following services:

a. Appraise coal resources to identify parameters relevant to the conversion of resources to reserves and factors that may increase or decrease mineable reserves;
b. Conduct detailed review of existing mining conditions (i.e. hydrogeology, Strip Ratio, slope stability, coal transport system, etc.), as well as all existing mining data and information;
c. Review coal processing system and logistical network from mine to pier;
d. Review current mining method and validate its applicability to the mining of remaining coal reserves; and
e. Prepare report on reserves that can be mined commercially.

Valuation Methodology

The Company has successfully operated the Panian deposit for the last ten years and has already established well defined mining parameters (i.e. pit slope at 25 degrees, bench height of 10 meters, bench width of 15 meters, etc.). SCC considers these parameters as optimal from the standpoints of both safety and economics. Thus, in considering the technical mineability of the remaining resources, the same parameters have been adopted by Engr. Bomasang.

Key Assumptions to Valuation Methodology

Coal Seam Modelling and Measured Coal Resources

Engr. Bomasang digitized all the data from the 383 holes drilled at a grid spacing of 62.5 meter. From the digitized data, a 3D model of the coal seams intercepted by the drill holes has been successfully generated, from which, the in-situ coal resources have been delineated. As only the coal seams delineated by the closely spaced drilling were considered, the resources delineated are well within what the DOE considers “Positive Reserves". These therefore have been considered Measured Resources, which can be converted to proven reserves by applying modifying factors.

Applying Modifying Factors

The Measured Resources are first modified by superimposing the existing pit to establish what has already been mined out. A new pit designed to maximize the mining of the coal resources in the 3D model is then superimposed on said model. The difference between the Measured Resources within the new pit and the existing pit is the remaining Proved Reserves, or Mineable Reserves. By further applying a recovery factor of 90%, which is slightly higher than the 85% being used by the Company, the Recoverable Reserves are estimated. This is the quantity ultimately sold to the market and is the basis for computing the revenues and determining overall profitability.

Overall Strip Ratio

Within the proposed Panian pit extension, there is an estimated total of 409.94 bank cubic meters of waste that has to be excavated and moved in order to mine the remaining coal reserves, resulting in an overall Strip Ratio of 9.67 to 1.

Mine Profitability

On the basis of a coal price of $52.00 per ton ex-Semirara port, a financial analysis using actual costs shows annual operating profit of ₱3.3 billion, for a discounted cash flow rate of return (DCFROR) of 31%, after deducting annual government share (3% of gross revenues) of ₱449.28 million and annual income tax of ₱866.85 million, based on an exchange rate of ₱48 to $1. Furthermore, a sensitivity analysis shows that the profitability of Panian coal is most sensitive to coal prices and forex rates; production cost is one controllable factor which also impacts greatly on profitability, as well as its Strip Ratio. The mine remains profitable even if the price of coal goes down to $46.20 per ton, assuming a hurdle rate of 15%.

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

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

On November 12, 2009, the COC was amended further, expanding its contract area to include portions of Caluya and Sibay islands, Antique, covering an additional area of 3,095 and 4,096 hectares, respectively.

In return for the mining rights granted to the Company, the Government is entitled to receive annual royalty payments consisting of the balance of the gross income after deducting operating expenses, operator’s fee and special allowance. If the Company incurs a loss in any year, the Company will request the DOE for a deferral of payment of the share of the Government to the extent of loss incurred by the Company in said year. The COC does not provide a penalty in case of failure to remit the annual royalty payments. The parties may renew the COC upon such terms and conditions as they may agree upon.

Based on the 2009 PhilCoal Report on coal production, importation, and consumption, the Company accounted for approximately 86.4% of domestic coal production in the year ended December 31, 2008. In the years ended December 31, 2008 and 2009, the Company produced 3.73 million MT and 5.14 million MT of ROM coal, respectively. In the years ended December 31, 2008 and 2009, respectively, the Company had total sales of ₱8.49 billion and ₱11.94 billion; its net income was ₱796.40 million and ₱1.81 billion, respectively. As at December 31, 2008 and 2009, the Company had total assets of ₱6.11 billion, and ₱23.83 billion respectively.

In the three months ended March 31, 2009 and 2010, the Company produced 0.83 million MT and 1.85 million MT of ROM coal, respectively. For the same periods, the Company had total sales of ₱3.21 billion and ₱4.30 billion, respectively, and net income of ₱0.30 billion and ₱0.59 billion, respectively. As at March 31, 2009 and 2010, the Company had total assets of ₱7.16 billion and ₱25.42 billion, respectively.

In the year ended December 31, 2008, domestic demand for coal in the Philippines amounted to 12.235 million MT and the Company supplied 19% of all coal used in the Philippines in that period. Pursuant to the 2007 Philippine Energy Plan released by the DOE (the “PEP”), the DOE has set for the Philippine energy sector a self-sufficiency target of 60% beyond 2010 from its 2006 level of 55.6%. In addition, a number of new power plants have been designed to use domestically produced coal. As the largest coal producer in the Philippines, the Company will benefit from an increase in demand for domestically produced coal. The Company is continuing the process of increasing its production capacity in order to meet this growth in demand.

On December 2, 2009, the Company's wholly-owned subsidiary, SEM-Calaca, successfully achieved closing under the APA for the acquisition of the Power Plant. SEM-Calaca paid the following amounts to PSALM: 1) ₱6,617,332,800 representing the Peso equivalent of the 40% down payment for the Purchase Price; 2) $10,390,000 as Rentals and the amount of the Purchase Orders; and 3) ₱4,293,301.75 as pro-rated premium for insurance on the Power Plant, corresponding to the period from December 2 to 31, 2009.

From January to February 2010, SEM-Calaca prepaid a total of ₱6.85 billion of its outstanding debt for the Power Plant to PSALM. On March 5, 2010, SEM-Calaca paid the amount of ₱2.39 billion to PSALM, representing the final prepayment for the purchase price of the Power Plant. On May 5, 2010, PSALM and SEM-Calaca signed a deed of absolute sale transferring ownership of the Power Plant to SEM-Calaca. Aside from the deposit for future subscriptions, SEM-Calaca secured a term loan of ₱9.6 billion from a syndicate of Philippine banks on May 24, 2010 and its internally generated funds to fully prepay the debt to PSALM.

The registered and principal office of the Company is at 2/F DMCI Plaza, 2281 Don Chino Roces Ave., Makati City, Philippines.

The Company's common stock is listed on the Philippine Stock Exchange under the symbol "SCC".

STRATEGY

The Company seeks to maintain its leading position in the Philippines' coal mining industry, with almost 80% share in local coal production, and capture a higher proportion of the margins available in coal production and utilization through:

- Forward integration
- Assuring continuing off-take of coal by a major domestic customer
- Increasing coal production
- Increasing the quality and marketability of its coal
- Reducing production costs

RISKS OF INVESTING

Investors should carefully consider all the information contained in this Prospectus, including the risk factors described below, before deciding to invest in the Offer Shares.

RISKS RELATING TO THE COMPANY'S BUSINESS

- The Company's profits are subject to coal price volatility and competition
- The Company's business is subject to operational risks and the Company is not insured against all potential losses
- The interests of the Company's major shareholder, DMCI-HI, may not be the same as those of other holders of the Common Shares
- Exploratory surveying involves numerous risks, including the risk that the Company will encounter no commercially productive coal resources
- If the Company fails to acquire or find and develop additional coal resources, the Company's coal reserves will decline at the rate of production and it will not be able to sustain its mining business The Company's development projects involve many uncertainties and operating risks that can prevent it from realizing profits and can cause substantial losses
- The coal reserve data in this Prospectus are only estimates and have been prepared in accordance with PMRC. The Company's actual production, revenues and expenditures with respect to its reserves may differ materially from these estimates. The Company may incur material costs to comply with, or as a result of, health, safety and environmental laws and regulations

RISKS RELATING TO THE POWER PLANT

- The Company's acquisition of the Power Plant will not guarantee a successful takeover and operation of the Power Plant
- Certain Governmental permits and authorizations relating to the Power Plant are still to be secured
- The operation of power generation facilities is subject to many hazards and the Company or its subsidiary may not be able to obtain or maintain adequate insurance which may have a material adverse effect on the its business, financial condition and results of operations.
- Power generation facilities are also subject to mechanical failure and equipment shutdowns.
- The Company's ability to increase revenues from power offtakers depends on the existence of transmission infrastructure with sufficient capacity to transmit the generating capacity of its existing and future power projects and power plants

RISKS RELATING TO MATERIAL AGREEMENTS

- The expiration or termination of the COC would adversely affect the Company
- Coal sale to the Power Plant contributes a significant portion to the Company's revenues
- The termination of the LLA would adversely affect the Company and SEM-Calaca

RISKS RELATING TO THE COMPANY'S RIGHTS SHARES

- There can be no guarantee that the Rights Shares will be listed on the PSE
- There may be no liquidity in the market for the Offer Shares and the prices of these may fall
- The Company's Common Shares are subject to Philippine foreign ownership limitations

RISKS RELATING TO THE PHILIPPINES

- Political or social instability could adversely affect the financial results of the Company
- A slowdown in the Philippine economy could adversely affect the Company

Please refer to the section "Risk Factors" found on page 22 of this Prospectus for a discussion of the risks that must be considered in connection with the Offer. SCC has enumerated these risk factors in what it believes to be the order of importance to SCC's business and operations at this time.

Summary of Financial Information

The following presents a summary of financial information for the Company and should be read in conjunction with the Auditors' Report, the Financial Statements and notes thereto, and the section "Management Discussion and Analysis of Financial Condition and Results of Operations". The summary financial information presented below for three years ended December 31, 2009, 2008, and 2007 were derived from the Company's audited financial statements. Summary financial information for the first three months of 2010 and 2009 are derived from the Company's unaudited interim condensed financial statements. The financial statements are prepared in accordance with the PFRS.

INCOME STATEMENT

(In Million Pesos)	**Unaudited**		**Audited**		
	For the three months ended March 31		For the years ended December 31		
	2010	**2009**	**2009**	**2008**	**2007**
Sales and services	6,093	3,231	11,943	8,490	6,467
Cost of sales and services	4,246	2,577	9,362	6,944	5,194
Gross profit	1,847	654	2,581	1,546	1,273
Operating expenses	1,028	317	(749)	(459)	(324)
Finance costs	202	10	(112)	(101)	(140)
Finance revenue	(1)	(1)	52	77	40
Foreign exchange gains (losses)	(1)	8	47	(83)	103
Equity in losses of affiliates	(11)	1	(39)	(2)	
Other income	8	(30)	92	54	9
Net income before income tax	621	350	1,872	1,033	961
Provision for income tax	27	52			
Current	-	52	5	(291)	(334)
Deferred	27	-	58	53	6
Net income	594	299	1,809	796	633

BALANCE SHEET

(In Million Pesos)	**Unaudited**	**Audited**		
	As of March 31	For the years ended December 31		
	2010	**2009**	**2008**	**2007**
ASSETS				
Current assets				
Cash and cash equivalents	1,077	112	27	237
Short-term cash investment	-	370	986	1,413
Receivables – net	2,433	1,254	1,877	1,252
Inventories	2,358	3,085	1,383	1,453
Other current assets	521	760	226	206
Total Current Assets	6,319	5,581	4,498	4,561
Noncurrent assets				
Property, plant and equipment	18,299	17,819	1,106	1,904
Investments and advances	245	244	223	81
Deferred tax assets	-	-	-	12
Other noncurrent assets	169	184	284	-
Total noncurrent assets	18,714	18,247	1,613	1,997
Total Assets	25,105	23,828	6,111	6,558

BALANCE SHEET
(In Million Pesos)

	Unaudited	Audited		
	As of March 31	For the years ended December 31		
	2010	**2009**	**2008**	**2007**
LIABILITIES AND EQUITY				
Current liabilities				
Trade and other payables	5,136	2,858	1,143	670
Notes payable	7,886	793	-	-
Current portion of long-term debt	111	1,866	389	730
Income tax payable	-	-	58	40
Payable to related parties	-	792	46	13
Customers' deposits		1	1	9
Total Current Liabilities	13,134	5,517	1,637	1,462
Noncurrent liabilities				
Long-term debt - net of current portion	1,429	8,364	137	398
Deferred tax liabilities	72	72	14	68
Provision for decommissioning and site rehabilitation	14	15	13	13
Pension liability	13	13	9	5
Total non-current liabilities	1,530	8,464	174	482
Total liabilities	14,664	13,981	1,811	1,944
Equity				
Capital stock	296	297	297	297
Additional paid-in capital	1,577	1,577	1,577	1,577
Deposit for future stock subscriptions	5,402	5,402		
Retained earnings	3,694	3,100	2,956	3,270
Cost of shares held in treasury	(529)	(529)	(529)	(529)
Total equity	10,441	9,847	4,301	4,615
Total Liabilities and Equity	**25,416**	23,828	6,111	6,558

CASH FLOWS
(In Million Pesos)

	Unaudited		Audited		
	For the three months ended March 31		For the years ended December 31		
	2010	**2009**	**2009**	**2008**	**2007**
Cash flows from operating activities	2,412	1,329	4,146	1,735	2,174
Cash flows from investing activities	(840)	(1,318)	(9,311)	(590)	(41)
Cash flows from financing activities	(1,239)	(128)	4,635	(1,784)	(992)
Net increase (decrease) in cash and cash equivalents	595	(141)	(530)	(638)	1,140
Cash and cash equivalents, beginning	481	1,012	1,012	1,651	510
Cash and cash equivalents, ending	1,077	871	482	1,012	1,651

The Offer

The Company is offering for subscription 59,375,000 Rights Shares to eligible existing common shareholders at the Offer Price of ₱74.00 per share. The Rights Shares will be issued from the Company's authorized but unissued capital stock. Each eligible stockholder is entitled to subscribe to one Rights Share for every five Common Shares held as of the Record Date at an Offer Price of ₱74.00 per Rights Share.

Fractions of the Rights Shares will not be allotted to existing shareholders and fractional entitlement will be rounded down to the nearest whole number of the Rights Shares. Such fractions will be aggregated and sold for the benefit of the Company. The Offer Shares may be subscribed by the stockholders of record of the Company as of the Record Date. Below are the tentative key dates of the Offer.

Pricing Date	June 10, 2010
Ex-Date	June 25, 2010
Record Date	July 1, 2010
Offer Period	July 5, 2010 to July 9, 2010
Listing Date	July 19, 2010

BDO Capital has been engaged as underwriter for the Offer. No underwriting fees will be collected with respect to the Offer. To ensure 100% subscription, shareholders are allowed to apply for additional subscription, which will be granted on a pro-rata basis. Certain shareholders of the Company, namely, DMCI Holdings, Inc. ("DMCI-HI"), Dacon Corporation ("Dacon") and DFC Holdings, Inc. ("DFC Holdings"), have committed not only to subscribe to their own respective entitlements of Rights Shares, but also to subscribe, collectively or singly, to any Unsubscribed Rights Shares. DMCI-HI contributed on November 27, 2009 and December 1, 2009 the amounts of ₱1.5 billion and ₱3.0 billion, respectively totaling ₱4.5 billion, by way of deposits for future subscription, which will be applied wholly or partially to DMCI-HI's subscription for the Rights Shares. Dacon contributed on December 1, 2009 the amount of ₱902.12 million, by way of deposits for future subscription, which will be applied wholly or partially to Dacon's subscription for the Rights Shares.

DMCI-HI is a shareholder of the Company and, as of April 30, 2010, has direct and indirect ownership of 55.05% or 163,432,385 issued and outstanding Common Shares of the Company.

Dacon is a shareholder of the Company and, as of April 30, 2010 has direct and indirect ownership of 5.40% or 16,030,085 issued and outstanding Common Shares of the Company.

DFC Holdings is a shareholder of the Company and, as of April 30, 2010, has direct and indirect ownership of 0.10% or 285,000 issued and outstanding Common Shares of the Company.

Terms and Conditions of the Offer Shares

Issuer

Semirara Mining Corporation (“SCC” or the “Company”)

Offer Shares

Common shares with par value of ₱1.00 per share from the unissued shares of the Company’s authorized capital stock. The Rights Shares will be considered issued and will rank equally in all respects with existing Common Shares, including the right to receive all dividends or distributions made, paid or declared after a valid subscription agreement is perfected between the Company and a buyer as evidenced by the written acceptance by SCC of the application to subscribe (the “Application to Subscribe” or the “Application”) of the buyer and full payment for the Offer Shares is made by the buyer.

Number of Rights Shares

59,375,000 Common Shares of the Company. The Rights Shares will be issued from the unissued shares of the Company’s authorized capital stock.

Offer Price

₱74.00 per share, representing the 15-day VWAP of the Company’s Common Shares covering the period May 20 – June 9, 2010 for the 15 trading day period immediately preceding the Pricing Date

Eligible Investors

The Offer Shares may be subscribed to by the stockholders of record of the Company as of the Record Date. However, due to the constitutional limit on foreign ownership applicable to the Company, the foreign shareholdings in the Company cannot exceed 40% of its capital stock thereof. The Company reserves the right to reject/scale down Applications by foreign applicants if acceptance of such Applications will result in a violation of the Company’s foreign ownership restrictions.

Rights Entitlement

Each eligible stockholder is entitled to subscribe to one Rights Share for every five Common Shares held as of the Record Date (“Entitlement Share”). Fractions of Rights Shares will not be allotted to existing shareholders and fractional entitlements will be rounded down to the nearest whole number of Rights Shares. Such fractions will be aggregated and sold for the benefit of the Company.

Additional Subscription

If an eligible stockholder (the “Applicant”) fully subscribes to his Rights Shares entitlement and subject to the availability of Unsubscribed Rights Shares arising from the failure of the other eligible stockholders to fully exercise their Rights Shares entitlement, the Applicant may simultaneously apply for an additional subscription of Unsubscribed Rights Shares (“Additional Offer Shares”); provided that the number of Additional Offer Shares to which he is entitled to subscribe will be in proportion to the Applicant’s original shareholdings as of the Record Date; provided further that, due to the constitutional limit on foreign ownership applicable to the Company, the subscription to the Additional Offer Shares will not result in the foreign shareholdings in the Company exceeding 40% of its capital.

Payment of Shares

The Offer Price for both the Entitlement Shares and the Additional Offer Shares applied for will be payable in full upon submission of the Application.

Payments should be made by cash or check drawn against a BSP authorized agent bank in Metro Manila to the order of “SCC - Offer.” The check payment for the Offer Shares must be dated as of the date of the Application, and crossed “For Payee’s Account Only.” The Application to Subscribe will be submitted to Rizal Commercial Banking Corporation – Trust and Investments Division on or before 12 noon of July 9, 2010.

The Offer Shares will be non-transferable and not acceptable for trading until the Offer Shares are fully paid.

Ex-Date

June 25, 2010

Record Date

July 1, 2010

Pricing Date

June 10, 2010

Offer Period

July 5, 2010 up to 12:00 noon of July 9, 2010

Tentative Listing/Trade Date

The Rights Shares offered pursuant to the Offer are not listed and are non-tradable and non-transferable. The Rights Shares are expected to be listed in the PSE on July 19, 2010.

Documentary Stamp Tax

All documentary stamp taxes applicable to the issuance of the Rights Shares will be for the account of the Company.

Acceptance/Rejection of Applications

The Company reserves the right to reject all or a portion of any Application that does not comply with the terms of the Offer.

An Application, once accepted, will constitute the subscription agreement between the Eligible Investor and the Company for subscription of the Offer Shares, in the manner and subject to the conditions set forth therein.

Notwithstanding the acceptance of any Application by the Company, the actual subscription and sale of the Offer Shares to the Eligible Investor will become effective only upon the listing of the Rights Shares on the PSE and full payment having been made by the Eligible Investor to the Company.

Refunds

Payment for any Application not accepted will be, without interest, refunded via check payable to the relevant Applicant not later than five (5) Banking Days after the end of the Offer Period. Such refund check will be made available for pickup at the offices of the Stock Transfer Agent at the 9/F Yuchengco Tower 1, RCBC Plaza, 6819 Ayala Avenue, Makati City 0727. Refund checks that remain unclaimed after 30 days from the date such checks are made available for pickup will be mailed at the Applicant's risk to the address indicated in the Application.

Application

Applications to subscribe to the Offer Shares must be received by the Stock Transfer Agent not later than 12:00 noon of July 9, 2010. The Applications must be accompanied by the payment and the required attachments mentioned in the Application to Subscribe.

Registration and Lodgment

The Offer Shares are required to be lodged with the PDTC. The Applicants must provide the required information in the space provided in the Application to effect the lodgment. The Offer Shares will be listed at the PSE and processed for lodgment by the PDTC at least two trading days prior to the Listing Date.

The Applicant may request for the upliftment of his Offer Shares and to receive stock certificates evidencing his investment in the Offer Shares through his broker after the Listing Date. Any expense to be incurred in connection with such issuance of certificates will be borne by the Applicant.

Risk Factors

An investment in the Common Shares, as described in this Prospectus, involves a certain number of risks. The price of securities can and does fluctuate, and any individual security may experience upward or downward movements and may even become valueless. There is an inherent risk that losses may be incurred rather than profit made, as a result of buying and selling securities. Past performance is not a guide to future performance and there may be a large difference between the buying price and the selling price of these securities. An investor deals in a range of investments, each of which may carry a different level of risk.

Prior to making any investment decision, prospective investors should carefully consider all of the information in this Prospectus, including the risk factors described below before deciding to invest in the Common Shares.

This section entitled "Risk Factors" does not purport to disclose all of the risks and other significant aspects of investing in these securities. The occurrence of any of the events discussed below and any additional risks and uncertainties not presently known to the Company or that are currently considered immaterial could have a material adverse effect on the Company's business, results of operations, financial condition and prospects and on the Common Shares and the investors may lose all or part of their investment. Prospective investors may request publicly available information on the Common Shares and the Company from the SEC. Prospective investors should undertake independent research and study the trading of these securities before commencing any trading activity. Prospective investors should seek professional advice if he or she is uncertain of, or has not understood any aspect of the Offer or the nature of risks involved in purchasing, holding and trading the Common Shares. Each potential investor should consult its own counsel, accountant and other advisors as to legal, tax, business, financial and related aspects of an investment in the Common Shares.

The risk factors discussed in this section are separated into categories for ease of reference, and within each category, are discussed in order of importance.

RISKS RELATING TO THE COMPANY'S BUSINESS

The Company's profits are subject to coal price volatility and competition.

The price that the Company can charge for its coal is directly and indirectly related to the price of coal in the world coal market. The CSA allows for the price of coal to the Power Plant to be set on a quarterly basis according to the average landed U.S. dollar import price for all coal imports by NPC from Indonesia. In addition, as the Company is not subject to domestic competition in the Philippines, the pricing of all of its other coal sales is linked to the price of imported coal. World thermal coal prices are affected by numerous factors outside the Company's control, including the demand from customers which is influenced by their overall performance and demand for electricity. Prices are also affected by changes in the world supply of coal and may be affected by the price of alternative fuel supplies, availability of shipping vessels as well as shipping costs. As the coal price is reset on a periodic basis under the CSA and the Company's other coal supply agreements, this may increase its exposure to short-term coal price volatility. The term of the CSA will expire on June 30, 2010. Under Amendment No. 3 to the CSA, dated October 16, 2007, the Company and NPC agreed that in the event of the privatization of the Power Plant, the provisions of the CSA may be reviewed and amended by the Company and the new owner or operator of the Power Plant.

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

To mitigate this risk, the Company continues to improve the quality of its coal and find new markets outside the power industry as well as tap the export market. As of December 31, 2009, the Company's coal sales to the domestic market (excluding those to the Power Plant) and to the export market accounted for 25.1% and 50.7% respectively, of its total sales volume.

The Company's business is subject to operational risks and the Company is not insured against all potential losses.

The success of the Company's business is subject to numerous operating risks which are largely outside of the Company's control. These risks include unexpected geological features or unexpected seismic activity, climatic conditions such as flooding or drought, interruptions to power supplies, industrial action, environmental hazards, technical failures, equipment shortages, fires, explosions and other accidents at the mine site or the port. These risks could result in damage to, or destruction of, properties or equipment, may cause production to be reduced or cease at the mine, may result in personal injury, environmental damage, business interruption and possible legal liability and may cause actual production to differ from estimates of production, including those contained in this Prospectus.

The most significant operational risks to the Company's business are flooding and equipment shortages. Flooding may be caused by heavy rainfall or unanticipated seepage which may result in reduced production levels and destabilization of the mine wall. The Company estimates that it typically operates at full production capacity for six months of the year with heavy rainfall reducing production capacity for the remaining months. The Company purchases a significant amount of its equipment from companies outside of the Philippines and it may be unable to obtain replacements or spare parts when they are required. A reduction in production levels may have an adverse effect on the Company's business, in particular, if it is unable to supply the contracted volumes to its customers.

Although the Company maintains insurance against various risks, its insurance does not cover every potential risk associated with its operations including business interruptions and certain types of environmental hazards. The occurrence of a significant adverse event, the risks of which are not fully covered by insurance, could have a material adverse effect on the results of operations or financial condition of the Company.

The interests of the Company's major shareholder, DMCI-HI, may not be the same as those of other holders of the Common Shares.

As at the date of this Prospectus, DMCI-HI holds 55.05% of the Company's outstanding common shares. There can be no assurance that DMCI-HI will have interests which are consistent to the interests of other holders of the common shares, or that DMCI-HI will take positions that the Company or the other holders of the Common Shares will agree with. In addition, while the Company has no reason to believe that DMCI-HI would divest its shareholdings, no assurance to such effect can be given.

There can also be no assurance that DMCI-HI and the related parties will continue to provide financing to the Company or assist the Company in obtaining financing from third parties. If they do not, the Company may be unable to obtain financing on the same terms or at all.

Exploratory surveying involves numerous risks, including the risk that the Company will encounter no commercially productive coal resources.

The Company is continuing the exploration of Semirara Island for new resources of coal. The cost of surveying, completing and operating a mine is often uncertain. As a result, the Company may incur cost overruns or may be required to curtail, delay or cancel surveying operations. The Company's surveying within a particular project area may be unsuccessful in that the Company may not find commercially productive resources.

In order to minimize such risk, the Company carefully examines geological data and implements proper analysis and assessment of geoscientific information before undergoing mine exploration and development activities.

If the Company fails to acquire or find and develop additional coal resources, the Company's coal reserves will decline at the rate of production and it will not be able to sustain its mining business.

Except to the extent the Company conducts successful exploration and development activities or acquires properties containing measured resources, or both, the Company's measured resources will decline as coal is extracted and reserves are depleted. As per the report of Engr. Bomasang, the remaining mineable reserves and recoverable reserves at Panian stands at 47.12 million MT and 42.41 million MT, respectively, as of April 30, 2010.Additional work like confirmatory drilling will have to be undertaken before a final mining feasibility assessment can be made to develop a strategy to make mining the deposit viable.

There can be no assurance that the reserves at Himalian will be of the same quality as the reserves at Panian or that mining operations there will be economically viable. The Company's sustainable production in the long-term is highly dependent upon its success of finding or acquiring and developing additional reserves. If the Company is unsuccessful, it may not meet its production targets, and its total measured reserves and production will decline, which could adversely affect its marketing and financial condition.

In view of this risk, the Company is conducting extensive confirmatory drillings at Himalian site to upgrade the level of confidence on the data about coal reserve orientation, coal overburden and in-situ coal quality. Initially, the drilling of 58 holes is targeted to be completed over a period of two years. Of these, the drilling of 26 holes has already been completed to date in order to provide concrete basis to conclude that the Himalian mine is economically viable. Likewise, extensive drillings are also on-going beyond the Panian pit limit to validate or confirm extension of mineable coal reserves. There is a continuous drilling program initiated by the Company to discover more coal resources apart from what is known and declared.

On November 12, 2009, the Company's COC was amended, expanding its contract area to search and explore coal deposits in Caluya and Sibay islands, Antique, covering an additional area of 3,095 and 4,096 hectares, respectively.

At the present excavating capacity, the remaining life of Panian mine is about seven years. The strategic mine plan of the company is tailored fit to the weather season, such that during rainy season, waste stripping activities may slow down without significant negative impact on coal production targets.

The Company's development projects involve many uncertainties and operating risks that can prevent it from realizing profits and can cause substantial losses.

The Company's development projects may be delayed or unsuccessful for many reasons, including cost overruns, lower coal prices, equipment shortages and mechanical difficulties. These projects will also often require the use of new and advanced technologies, which can be expensive to develop, purchase and implement, and may not function as expected. In addition, unusually severe weather conditions could impede the Company's development plans for its fields and facilities and otherwise negatively affect its results of operations.

The coal reserve data in this Prospectus are only estimates and have been prepared in accordance with PMRC. The Company's actual production, revenues and expenditures with respect to its reserves may differ materially from these estimates.

The coal reserve data on the Panian mine included elsewhere in this Prospectus are only estimates based primarily on reports prepared by Engr. Rufino B. Bomasang, independent consultant.

Calculating coal reserves is a subjective process of estimating underground accumulations of coal that cannot be measured in an exact manner. Estimates of the quantity of recoverable coal reserve and rates of production necessarily depend upon a number of variable factors and assumptions, including the following:

a) Historical production from the area compared with production from other comparable producing areas;
b) Interpretation of geological and geophysical data;
c) The assumed effects of regulations by governmental agencies;

Many of the factors, assumptions and variables involved in estimating reserves are beyond the Company's control and may prove to be incorrect over time. This is especially true in relation to countries such as the Philippines, where there is political and economic uncertainty. Results of drilling, testing and production after the date of the estimates, may require substantial upward or downward revisions in the Company's reserves data. Furthermore, different technical consultants may make different estimates of reserves based on the same available data. Actual production with respect to reserves will vary from estimates and the variances may be material. Any downward adjustment could lead to lower future production and thus adversely affect the Company's financial condition, future prospects and market value.

The Company may incur material costs to comply with, or as a result of, health, safety and environmental laws and regulations.

Maintaining compliance with environmental laws and regulations in the Philippines could materially increase the Company's costs. The Company incurs and expects to continue to incur, substantial capital and operating costs to comply with laws and regulations covering the protection of the environment and human health and safety. These include costs to reduce certain types of air emissions and discharges to the sea and rivers and to remediate contamination at facilities where the Company's products or wastes have been handled or disposed.

Many of these environmental laws and regulations are also becoming increasingly stringent and compliance with them is becoming increasingly complex and expensive. The Company could incur substantial costs, including clean-up costs, fines and civil or criminal sanctions, third-party property damage or personal injury claims and capital expenditures for equipment upgrades, as a result of non-compliance with, violations of or liabilities under environmental laws applicable to its operations. The Company expects that the nature of its operations will continue to subject it to increasingly stringent environmental laws and regulations that may increase the costs of its operations above currently projected levels and may require future capital expenditures. The Company expects to incur significant costs to achieve and maintain compliance with the requirements imposed by these regulations. In addition, the Company cannot predict what environmental or health and safety legislation or regulations will be amended or enacted in the future, how existing or future laws or regulations will be enforced, administered or interpreted, or the amount of future expenditures that may be required to comply with these environmental or health and safety laws or regulations or to respond to environmental claims.

RISKS RELATING TO THE POWER PLANT

SEM-Calaca's acquisition of the Power Plant will not guarantee a successful operation of the Power Plant.

SEM-Calaca successfully took over operations of the Power Plant on December 2, 2009. However, a successful turnover of the Power Plant will not ensure success in operations. Following the turnover, SEM-Calaca may face a hostile work force or the local government where the Power Plant is located may impose restrictions, as well as high taxes and charges on the Power Plant subject to limitations of the Local Government Code. PSALM sold the Power Plant on an "as is where is basis." PSALM has not completed registration of titles over certain parcels of the land where portions of the Power Plant are located and there is a risk that third parties may claim ownership over the said parcels, adversely affecting the

Company's possession of the same and its ability to operate the Power Plant. However, PSALM undertakes to clean up, for its own expense, any environmental contamination established to have occurred prior to turnover on the premises leased from PSALM under the LLA; provided, any such clean-up must commence not later than one year after turnover on December 2, 2009. PSALM also warrants the right of SEM-Calaca to occupy the foreshore area. PSALM warrants SEM-Calaca's possession of the Leased Premises. Upon exercise of the Option, PSALM will transfer ownership to SEM-Calaca of the Optioned Assets.

If SEM-Calaca undertakes the rehabilitation and upgrade of the Power Plant, such activities may disrupt the operation of the Power Plant, which may result in SEM-Calaca failing to meet the performance level, schedule and budget for the Power Plant as estimated during the pre-bidding phase. With respect to the planned rehabilitation and upgrade, SEM-Calaca has conducted a detailed and comprehensive study before implementation in order to minimize disruption to the operation of the Power Plant resulting from these activities.

In order to address the foregoing risks, SEM-Calaca has conducted a comprehensive technical, financial and legal due diligence review of the Power Plant in order to determine, to the extent reasonably practicable, the risks and issues affecting it. Such due diligence has been undertaken by a team composed of experienced in-house personnel and complemented by third party consultants with proven track records.

Certain Governmental permits and authorizations relating to the Power Plant are still to be secured.

The following permits and authorizations relevant to the operation of the Power Plant are either defective, have lapsed or are not in place:

Permits and Authorizations	Estimated Timetable for Filing Applications
Water Rights	December 2010
Priority Chemical List Compliance Certificates	December 2010
DOLE Registration and Permit	December 2010
Foreshore Lease Contract	June 2012
Certificate of Registration of Port Facilities	December 2010

Water Rights Permit

Under the Water Code of the Philippines, no person may appropriate water directly from a natural source without a water right which is evidenced by a water permit. There are four water rights permits issued in favor of NPC, allowing the latter to draw water by means of deep well pumps and by diverting water from the Dacanlao River. However, upon the turnover of the Power Plant, SEM-Calaca has no right to draw water from a natural source for use in the operation of the Power Plant. NPC's water permits, or NPC's rights thereunder may not be transferred to SEM-Calaca without the prior approval of the National Water Resources Board and only after due proceedings.

PSALM has assured SEM-Calaca continuous and sufficient supply of water required for the operation of the Power Plant after its turnover. SEM-Calaca intends to apply for water permits with the NWRB.

Priority Chemical List (PCL) Compliance Certificates

The Priority Chemical List (PCL) Compliance Certificates issued in favor of NPC for Cadmium, Chloroform and Benzene lapsed on July 19, 2009, July 19, 2009 and July 13, 2009, respectively. Under R.A. No. 6969, as implemented by DENR Administrative Order No. 23, series of 2007, all importer-distributors and importer-user-manufacturer/ user-manufacturer of chemicals listed under the Revised Priority Chemical List (PCL) are required to secure the PCL Compliance Certificate from the DENR through the Environmental Management Bureau – Central Office. Under R.A. No. 6969, the penalty of imprisonment and fine will be imposed upon any person who will knowingly use a chemical substance or mixture which is imported, manufactured, processed or distributed in violation of R.A. No. 6969 or its implementing rules and regulations or orders and will not be covered by the Probation Law. SEM-Calaca intends to apply for PCL certifications.

DOLE Registration and Permits

SEM-Calaca must obtain the following applicable DOLE permits: 1) permit to operate internal combustion engines; 2) permit to operate boiler and pressure vessels; 3) permit to operate pressurized water heaters; 4) electrical safety certification; and 5) permit to operate an elevator. The penalty of imprisonment or fine will be imposed upon any person who will fail to register with the DOLE and to secure the relevant permits. The DOLE may also order stoppage of work or suspension of operations if the non-compliance with the law or implementing rule and regulations poses grave and imminent danger to the health and safety of the workers. SEM-Calaca intends to apply for issuance of applicable DOLE permits.

Foreshore Lease Contract

There is no valid and existing foreshore lease agreement over the foreshore area of about 411,121 square meters (the “Foreshore Area”) on which a part of the Power Plant facilities is located. Foreshore land may be occupied only by a lease granted by the DENR.

NPC’s application for a foreshore lease over the Foreshore Area is currently pending with the DENR – Community Environment and Natural Resources Office (“CENRO”) at Calaca, Batangas. In a letter dated August 14, 2006, DENR – CENRO confirmed that an order of award of foreshore lease for the Foreshore Area has been issued in favor of NPC and that upon submission of certain documents, a foreshore lease agreement will be executed with respect to the Foreshore Area. PSALM has undertaken to acquire, within seven years from turnover of the Power Plant, the right to occupy or use the Foreshore Area that is transferrable to SEM- Calaca. PSALM further undertook to defend SEM-Calaca against any legal proceeding that will disturb its possession and use of the Foreshore Area until the earlier of PSALM acquiring a transferrable right over the Foreshore Area or the lapse of the aforementioned seven-year period. SEM-Calaca is qualified under law to lease the Foreshore Area. If for any reason, a foreshore lease that is transferable to SEM-Calaca cannot be promptly granted to NPC under its pending application, SEM-Calaca may initiate its own application for a foreshore lease.

Certificate of Registration of Port Facilities

Under Presidential Decree No. 857 as amended, a permit must be obtained from the Philippine Ports Authority (“PPA”) for the construction and operation of a jetty. The Certificate of Registration No. 241 dated March 18, 1988 issued by the PPA in favor of the NPC is, by its express terms, technically defective because a foreshore lease has not been issued in favor of the NPC for the Foreshore Area on which the jetty was constructed.

PSALM has confirmed that at the time of the issuance of the Certificate of Registration No. 241 dated March 18, 1988, PPA exempted NPC from the requirement of securing an approved foreshore lease agreement. The issuance of a foreshore lease agreement should regularize the Certificate of Registration No. 241 dated March 18, 1988.

In response to DMCI-HI's request for transfer of NPC's Certificate of Registration No. 241, the PPA required on November 9, 2009 that DMCI-HI or its successor-in-interest or assignee submit the following: 1) Articles of Incorporation and By-Laws; 2) BIR registration; 3) Social Security System registration; 4) proper corporate resolution for filing the application; 5) copy of APA and LLA; 6) proof of turnover of the Power Plant; and 7) Calaca Mayor's Permit. SEM-Calaca intends to make its submission to the PPA as soon as it obtains its Calaca Mayor's Permit.

The operation of power generation facilities is subject to many hazards and the Company or its subsidiary may not be able to obtain or maintain adequate insurance which may have a material adverse effect on the its business, financial condition and results of operations.

The generation of electricity involves many significant hazards that could result in fires, explosions, spills, discharges, leaks, release of hazardous materials, and other unexpected or dangerous conditions, accidents and environmental risks. Many of these events may cause personal injury and loss of life, severe damage to or destruction of the Company's or its subsidiary's properties and the properties of others and environmental pollution, and may result in suspension of operations and the imposition of civil or criminal penalties. In addition, the exploration, development, and production of energy resources are subject to risks and uncertainties. Any occurrence of these or other uncertainties could materially and adversely impact the Company or its subsidiary.

There can be no assurance that insurance proceeds received under policies maintained by the Company would adequately cover all liabilities that may be incurred or any direct or indirect costs and losses suffered, including liabilities to and losses claimed by third parties.

In addition, insurance policies for the Company are subject to periodic renewal, and numerous factors outside the Company's control can affect market conditions, which in turn can affect the availability of insurance coverage as well as premiums for such policies. If the availability of insurance coverage is reduced significantly, the Company's operations may become exposed to certain risks which are not and/or cannot be insured.

Power generation facilities are also subject to mechanical failure and equipment shutdowns.

In such situations, undamaged units may depend on or interact with damaged sections or units and, accordingly, are also subject to being shut down. If such events occur, the ability of the SEM-Calaca to supply replacement power at economically viable prices to its offtakers may be materially and adversely impacted. In the event any power facility is significantly damaged or forced to shut down for a significant period of time, it would have a material adverse effect on the Company's and SEM-Calaca business, financial condition and results of operation.

In consideration of this risk, SEM-Calaca intends to enter into a replacement power arrangement with an IPP wherein the cost of replacement power will be pre-agreed and will be delivered to its offtakers in the event of the Power Plant's shutdown. This replacement power arrangement with an IPP shields the Company from power price risk in times of mechanical failure and equipment shutdowns.

The Company's ability to increase revenues from power offtakers depends on the existence of transmission infrastructure with sufficient capacity to transmit the generating capacity of its existing and future power projects and power plants.

The transmission infrastructure in the Philippines has experienced constraints on the amount of electricity that can be wheeled from power plants to offtakers. Improvements in transmission infrastructure are the responsibility of National Grid Corporation of the Philippines ("NGCP") and the Company has no influence on NGCP's transmission improvement programs.

If these transmission constraints occur, the ability of offtakers such as Meralco to request dispatch from IPPs such as those owned by the Company, will be adversely affected. This could adversely affect the Company's business and growth of its revenues from the sale of electricity.

Subsequent to the transfer of the transmission infrastructure's operations to NGCP in January 2009, it is expected that NGCP will undertake the necessary investments to further improve the transmission system and infrastructure in the Philippines.

RISKS RELATING TO MATERIAL AGREEMENTS

The expiration or termination of the COC would adversely affect the Company.

Substantially all of the Company's revenues are derived from its COC with the DOE, which gives the Company exclusive rights to conduct exploration, development and coal-mining operations on Semirara Island until July 14, 2027. See "Description of the Company – Material Agreements" for further details. Termination or adverse modification of the COC could materially affect the Company, its business, operations, financial condition and prospects.

There can be no assurance that a new coal operating contract will be granted upon the current COC's termination on terms acceptable to the Company.

In relation to the foregoing, the Company closely monitors its timely compliance to the terms and conditions of the COC.

Coal sale to the Power Plant contributes a significant portion to the Company's revenues.

In the years prior to 2006, approximately 68% of the Company's revenue streams were generated from the NPC Calaca Power Plant. The concentration of sales to a single customer exposes the Company to adverse financial results in case of cancellation of the NPC's CSA or if NPC encounters delay or is unable to pay its coal purchases from the Company.

To address this risk, the Company started selling its coal to the cement industry and other small industrial plants and in 2007, Semirara coal was tested by the export market. In 2007, NPC's share in volume and value of the Corporation's sales went down to 38% and 45%, respectively, from 63% to 68% in 2006. In 2008, NPC share in volume and value further dropped to 24%and 40%, respectively, due to steady increase in total volume sold resulting from increase in domestic sales to other power plants and industries and export sales as well. As of December 31, 2009, export sales accounted for 51% and 37% in terms of volume and value while sales to domestic customers (excluding NPC) in terms of volume and value accounted for 49% and 63%, respectively.

The termination of the LLA would adversely affect the Company and SEM-Calaca.

If the LLA is terminated in accordance with its terms, SEM-Calaca will lose its right to occupy the premises which are leased from PSALM and on which the Power Plant is built.

In order to address this risk, the Company, through SEM-Calaca, is presently complying with all its obligations under the LLA and continues to closely monitor its compliance with the LLA through SEM-Calaca's management and technical team. Prior to the Power Plant's turnover to SEM-Calaca on December 2, 2009, the Company had already constituted a full management and technical team to oversee the turnover of the Power Plant and which immediately assumed full control upon its turnover.

RISKS RELATING TO THE COMPANY’S RIGHTS SHARES

There can be no guarantee that the Rights Shares will be listed on the PSE.

Although the PSE has approved the Company’s application to list the Rights Shares, because the Listing Date is scheduled after the Offer Period, there can be no guarantee that listing will occur on the anticipated Listing Date or at all. Delays in the admission and the commencement of trading in shares on the PSE have occurred in the past. If the PSE does not admit the Rights Shares for listing on the PSE, the market for these will be illiquid and holders may not be able to trade the Rights Shares. However, they would be able to sell these by negotiated sale. This may materially and adversely affect the value of the Rights Shares.

There may be no liquidity in the market for the Rights Shares and the prices of these may fall.

The Rights Shares will be listed on the PSE where trading volumes have historically been remarkably smaller than on major securities markets in more developed countries and have also been highly volatile. There can be no assurance that an active market for the Rights Shares will develop following the Offer or, if developed, that such market will be sustained. The price at which the Common Shares will be traded on the PSE at any point in time after the Offer may vary significantly from the Offer Price.

The Company’s Common Shares are subject to Philippine foreign ownership limitations.

Since the Company is engaged in extraction of natural resources, the Philippine Constitution and related statutes limit foreign ownership to a maximum of 40% of the Company’s capital. The Company cannot allow the issuance or the transfer of shares to foreign nationals if such issuance or transfer would breach the maximum 40% foreign ownership. This restriction may adversely affect the liquidity and market price of the Offer Shares to the extent that international investors are restricted from purchasing these in normal secondary transactions.

RISKS RELATING TO THE PHILIPPINES

Political or social instability could adversely affect the financial results of the Company.

The Philippines has from time to time experienced political, social and military instability and no assurance can be given that the future political environment in the Philippines will be stable. Political instability in the Philippines could negatively affect the general economic conditions and operating environment in the Philippines, which could have a material impact on the Company’s business, financial condition and results of operation.

A slowdown in the Philippine economy could adversely affect the Company.

Results of operations of the Company are generally influenced by the performance of the Philippine economy. Any deterioration in the economic conditions in the Philippines may adversely affect consumer sentiment. There can be no assurance that current or future Governments will adopt economic policies conducive to sustaining economic growth.

Use of Proceeds

At a Rights Offer Price of ₱74.00, equivalent to the 15-day VWAP of the Company’s common shares covering the period May 20 to June 9, 2010, the Company expects to receive net proceeds of approximately ₱4,383,383,237 from the Offer.

Gross Proceeds	₱4,393,750,000
Estimated Offer expenses:	
PSE listing and processing fees	4,932,200
SEC registration fees and confirmation of exempt transaction fees	4,437,688
Estimated fee of Stock Transfer Agent	200,000
Estimated costs of printing and marketing	500,000
Documentary stamp tax	296,875
Total Offer Expenses	10,366,763
Estimated Net Proceeds	**₱4,383,383,237**

The estimated net proceeds from the Offer at an Offer Price of ₱74.00 is ₱4,383,383,237.

DMCI-HI contributed on November 27, 2009 and December 1, 2009 the amounts of ₱1.5 billion and ₱3.0 billion, respectively totaling ₱4.5 billion, by way of deposits for future subscriptions, which will be applied wholly or partially to DMCI-HI’s subscription for the Rights Shares. Dacon contributed on December 1, 2009 the amount of ₱902.12 million, by way of deposits for future subscriptions, which will be applied wholly or partially to Dacon’s subscription for the Rights Shares.

The Company used ₱2.7 billion of the deposits for future subscriptions to invest as equity in SEM-Calaca to partially finance the acquisition cost of the Power Plant. The balance of the acquisition cost of the Power Plant was sourced from the Company's internally generated funds and a term loan of ₱9.6 billion secured by SEM-Calaca from a syndicate of Philippine banks.

The Company intends to use ₱1.63 billion of the net proceeds from the Offer to pay bank debt. The following are the details of the bank debt to be paid from the proceeds of the Offer:

Creditor	Amounts	Due Date	Purpose
Marubeni Corporation	$32.25 million*	4Q2011 and 1Q2012	Equipment purchase
Bank of the Philippine Islands	₱193.19 million	4Q2010	Working capital

**Converted to ₱ using conversion rate of $1.00 to ₱44.50*

For details of the abovementioned bank loans, see pages 30 and 31 of the notes to the audited financial statements, attached herewith as Annex B.

The foregoing debt will be paid from the proceeds of the Offer as they fall due.

₱890 million of the proceeds of the Offer are also to be used for capital expenditures as follows:

Capital Expenditure	Amounts	Payment Period
Mining equipment	$10.0 million	2Q2012
Tugboats and barges	$10.0 million	2Q2012
	$20.0 million*	

**Converted to ₱ using conversion rate of $1.00 to ₱44.50*

The foregoing discussion represents a best estimate of the use of proceeds of the Offer based on the Company's current plans and anticipated expenditures. Any difference between the intended use of proceeds and the Offer proceeds will be sourced from the Company's internally generated funds, existing credit lines and other potential borrowings. In the event that there is any change in the Company's use of proceeds, the Company may temporarily reallocate the proceeds for other interim purposes, taking into consideration the prevailing business climate and the interests of the Company and the shareholders taken as a whole. In the event of any deviation, adjustment or reallocation in the planned use of proceeds, the Company will secure the approval of its Board of Directors for such and promptly make the appropriate disclosures to the SEC and the PSE.   The Company shall regularly disclose to the PSE through the Online Disclosure System (ODiSy) any disbursements from the proceeds generated from the Offer.

No material amount of proceeds is to be used to reimburse any officer, director and employee, for services rendered, money loaned or advanced.

Capitalization

The following presents a summary of the short-term debt, long-term debt, and capitalization of the Company as of March 31, 2010, and pro-forma to reflect the effects of the future Offer of the Rights Shares, after payment of estimated Offer expenses. This should be read in conjunction with the Company's Unaudited Interim Condensed Financial Statements and the related notes thereto, as reviewed by SGV & Co. in accordance with PSRE 2410 and included in this Prospectus.

	As of March 31, 2010 (Unaudited)	As of March 31, 2010 (Unaudited) (As Adjusted)
Short-term debt		
Trade and other payables	5,448	5,448
Current portion of long-term debt	7,998	7,998
Total short-term debt	13,445	13,445
Long-term debt (net of current portion)		
Long-term debt, net of current portion	1,430	1,430
Other Liabilities	101	101
Total long-term debt	1,531	1,531
Equity		
Common stock	297	356
Additional paid-in capital	1,577	5,673
Deposit for future subscriptions	5,402	1,246[2]
Retained earnings	3,694	3,694
Cost of shares held in treasury[3]	(529)	(529)
Total Equity	10,441	10,441
Total Capitalization	**25,417**	**25,417**

Note: in ₱ Millions

[2] Assumes that DMCI-HI, Dacon and DFC Holdings subscribe to its pro-rata share of the Rights Offer and the pro-rata share of minority shareholders. The entire estimated Offer gross proceeds of ₱4.15 billion was deducted from the deposits for future subscriptions.

[3] On April 8, 2010, the Company sold its 19,302,200 treasury shares at ₱67.00/share

Plan of Distribution

The Offer Shares will be offered on a preemptive rights basis to existing shareholders of the Company as of the Record Date, which will be set after the Board of Directors of the PSE approves the Listing Application for the Rights Shares. Under the PSE's Revised Listing Rules, the Company, subject to the approval of the PSE, will set the Record Date which will not be less than 15 trading days from approval of the PSE Board of Directors. The Offer will be in the proportion of one Rights Share for every five Common Shares held as of the Record Date at a Rights Offer Price of ₱74.00 per Rights Share. The unexercised rights will be offered to those shareholders who had previously exercised their rights and had simultaneously signified their intention via payment of the total Rights Offer Price of the Rights Shares to subscribe in excess of their entitlements (the "Additional Shares") to subscribe to the Unsubscribed Rights Shares in proportion to the Applicant's original shareholdings as of the Record Date. Certain shareholders of the Company, namely, DMCI-HI, Dacon and DFC Holdings, have committed not only to subscribe to their own respective entitlements of Rights Shares, but also to subscribe, collectively or singly, to any Unsubscribed Rights Shares. DMCI-HI contributed on November 27, 2009 and December 1, 2009 the amounts of ₱1.5 billion and ₱3.0 billion, respectively totaling ₱4.5 billion, by way of deposits for future subscription, which will be applied wholly or partially to DMCI-HI's subscription for the Rights Shares. Dacon contributed on December 1, 2009 the amount of ₱902.12 million, by way of deposits for future subscription, which will be applied wholly or partially to Dacon's subscription for the Rights Shares.

Holdings of existing Common Shares in certificated and scripless form will be treated as separate holdings for the purpose of calculating entitlements under the Offer. Fractions of Rights Shares will not be allotted to existing shareholders and fractional entitlements will be rounded down to the nearest whole number of Rights Shares. Such fractions will be aggregated and sold for the benefit of the Company.

BDO Capital will act as Underwriter of the Offer but no underwriting fees will be collected with respect to the Offer, the underwriting being a technical compliance underwriting undertaken pursuant to the requirements of the PSE.

BDO Capital is the wholly-owned investment bank subsidiary of Banco De Oro Unibank, Inc. BDO Capital is a full-service investment house primarily involved in securities underwriting and trading, loan syndication, financial advisory, private placement of debt and equity securities, project finance, and direct equity investment. Incorporated in December 1998, BDO Capital commenced operations in March 1999.

Relationship with the Issuer

No other relationship exists between the Underwriter and the Company, other than as stated in the Underwriting Agreement entered into by both parties. The Underwriter has neither the right to designate nor to nominate a member to the Board of Directors of the Company.

No loan agreement or credit line agreement exists between the Company and the Underwriter.

Dilution

After the completion of the Offer, the Eligible Investors will not, as a consequence of their purchase of the Offer Shares, suffer any dilution in their respective shareholdings in the Company. As of April 30, 2010, the top 20 existing shareholders, own an aggregate of approximately 99% of the Company's outstanding common shares, as follows:

		Immediately Preceding the Offer		Immediately After the Offer	
	Name of Stockholder	**Number of Shares**	**Percentage Ownership**	**Number of Shares**	**Percentage Ownership**
1	DMCI Holdings, Inc.	163,432,385	55.05%	163,432,385	45.88%
2	PCD Nominee Corp. (Non-Filipino)	66,663,953	22.46%	66,663,953	18.71%
3	PCD Nominee Corp.(Filipino)	38,204,040	12.87%	38,204,040	10.72%
4	Dacon Corporation	16,030,085	5.40%	16,030,085	4.50%
5	National Development Corporation	11,364,658	3.83%	11,364,658	3.19%
6	Privatization and Management Office	769,450	0.26%	769,450	0.08%
7	DFC Holdings, Inc.	285,000	0.10%	285,000	0.01%
8	Garcia, Jaime B.	40,030	0.01%	40,030	0.00%
9	Teng, Ching Bun	15,000	0.01%	15,000	0.00%
10	Amatong, Isagani S.	13,900	0.00%	13,900	0.00%
11	Signey III, Victor D.J.	5,600	0.00%	5,600	0.00%
12	Yap, Raymond A.	5,000	0.00%	5,000	0.00%
13	Marana, Miguel De Castro	3,430	0.00%	3,430	0.00%
14	Amatong, Adrian Michael A.	2,700	0.00%	2,700	0.00%
15	Amatong, Antoinette Marie	2,700	0.00%	2,700	0.00%
16	Ranillo, Anna Michelle A.	2,700	0.00%	2,700	0.00%
17	Marana Jr., Cenon Bienvenido	2,700	0.00%	2,700	0.00%
18	Arica, Joseph Santos	2,000	0.00%	2,000	0.00%
19	Marana, Miguel D. C.	1,200	0.00%	1,200	0.00%
20	Garcia, Exequiel	1,020	0.00%	1,020	0.00%
	Others	27,449	0.01%	27,449	0.01%
	Rights Shares	-	-	59,375,000	16.67%
	Total	**296,875,000**	**100.00%**	**356,250,000**	**100.00%**

Note: The dilutive effect of the issuance of the Rights Shares on the abovementioned shareholders prior to the Offer assumes that the other pre-offer shareholders did not subscribe to the Rights Shares. Should they exercise their Offer entitlement, they will not suffer any dilution on their shareholdings in the Company.

The net tangible book value of the Company prior to the Offer is at ₱35.17 per share as of March 31, 2010.

Net tangible book value represents the amount of the Company's total assets less its total liabilities, there being no intangible assets. The Company's net tangible book value per share represents its net tangible book value divided by the number of common shares outstanding.

In the event that the minority shareholders will not subscribe to their pro-rata share in the Offer Shares, the entire Offer will be subscribed by DMCI-HI, Dacon and DFC Holdings. The gross proceeds from the Rights Offer will be deducted from the deposits for future subscriptions and will result to the same amount of net tangible assets post Offer. An additional 59,375,000 new Common Shares arising from the Offer will be issued, resulting to Company's pro-forma net tangible book value of approximately ₱29.30 per share.

This represents an immediate decrease of ₱5.87 per share for existing shareholders and a decrease of ₱44.70 per share to Offer investors.

The calculation of the net tangible assets per share before and after the Offer is presented below:

Net tangible assets as of March 31, 2010 (a)	₱10,440,986,054
Pro-Forma net tangible assets after the Offer	₱10,440,986,054
Issued and outstanding common shares prior to the Offer (b)	296,875,000
Issued and outstanding common shares after the Offer	356,250,000
Net tangible assets per share prior to the Offer (c)[1]	₱35.17
Pro-Forma net tangible assets per Share after the Offer (e)	₱29.30
Offer Price (d)	₱74.00
Decrease per Share to Existing Shareholders attributable to the Offer [2]	₱5.87
Decrease per Share to Offer investors[3]	₱44.70

Note:

(1) Computed by dividing (a) by (b)

(2) Computed by subtracting (c) from (e)

(3) Computed by subtracting (d) from (e)

Determination of the Offer Price

The Offer Shares will be offered to all Eligible Investors at the Offer Price of ₱74.00 per Offer Share, representing the 15-day VWAP of the Company’s Common Shares covering the 15 trading day period immediately preceding the Pricing Date. The Pricing Date is set as the trading day immediately following the PSE approval of the Offer.

Description of the Company

OVERVIEW

The Company is the largest coal producer in the Philippines and is engaged in surface open cut mining of thermal coal from its Panian mine on Semirara Island, in Antique province. Semirara Island covers an area of 55 square km and is located 350 km south of Manila. Proclamation No. 649 dated November 20, 1940, was issued by President Manuel L. Quezon proclaiming the islands of Semirara, Sibay and Caluya province of Antique as coal mining reservation. While coal resources have been discovered at three separate sites on Semirara Island, namely Panian, Himalian and Unong, the Company operates one mine at Panian. Operations at Unong mine ceased in 2000 after 17 years of extraction. The Company's coal is characterized as sub-bituminous-B and is appropriate for use in a wide range of combustion facilities. Taking advantage of the Company's strategic location and the Company's position as the largest producer of coal in the Philippines, the Company's coal is sold domestically to power plants, cement plants, paper mills, textile dying plants, canneries, food factories, a sugar mill, and a fertilizer plant. In 2007, the Company made its maiden shipment to China that signified its successful foray into the export market. Since then, the Company further expanded its market base and is now selling its coal to China, India, Hong Kong, Japan, Taiwan, and Thailand.

The share of the Company's production to total domestic coal production for the years 2004 to 2008 are presented in Table 1.

	2004		2005		2006		2007		2008	
Semirara	2.52	92.4%	2.89	91.3%	2.270	87.7%	3.463	92.7%	3.44	86.4%
Others	0.21	7.6%	0.27	8.7%	0.318	12.3%	0.274	7.3%	0.54	13.6%
Total production	2.73	100.0%	3.16	100.0%	2.588	100.0%	3.74	100.0%	3.98	

Table 1: SCC share of domestic production

Note: in millions, MT of domestic coal produced except percentages

The Company has significant reserves which supplies a growing domestic demand for coal. In his coal reserve report dated April 30, 2010, Engr. Bomasang estimates the remaining mineable reserves and recoverable reserves at Panian at 47.12 million MT and 42.41 million MT, respectively.

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

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

On November 12, 2009, the COC was amended further, expanding its contract area to include portions of Caluya and Sibay islands, Antique, covering an additional area of 3,095 and 4,096 hectares, respectively.

In return for the mining rights granted to the Company, the Government is entitled to receive annual royalty payments consisting of the balance of the gross income after deducting operating expenses, operator's fee and special allowance. If the Company incurs a loss in any year, the Company will request the DOE for a deferral of payment of the share of the Government to the extent of loss incurred by the Company in said year. The COC does not provide a penalty in case of failure to remit the annual royalty payments. The parties may renew the COC upon such terms and conditions as they may agree upon.

The Company accounted for approximately 86.4% of domestic coal production in the year ended December 31, 2008. In the years ended December 31, 2007 and 2008, the Company produced 3.76 million MT and 3.73 million MT of ROM coal, respectively. In the years ended December 31, 2007 and 2008, the Company had total sales of ₱6.47 billion and ₱8.49 billion and its net income was ₱633.28 million and ₱796.40 million, respectively. As at December 31, 2007 and 2008, the Company had total assets of ₱6.56 billion and ₱6.11 billion, respectively.

In the three months ended March 31, 2009 and 2010, the Company produced 0.83 million MT and 1.85 million MT of ROM coal, respectively. For the same periods, the Company had total sales of ₱3.21 billion and ₱4.30 billion, respectively, and net income of ₱0.30 billion and ₱0.59 billion, respectively. As at March 31, 2009 and 2010, the Company had total assets of ₱7.16 billion and ₱25.42 billion, respectively.

In the year ended December 31, 2008, domestic demand for coal in the Philippines amounted to 12.235 million MT and the Company supplied 19% of all coal used in the Philippines in that period. Pursuant to the 2007 Philippine Energy Plan released by the DOE (the "PEP"), the DOE has set for the Philippine energy sector a self-sufficiency target of 60% beyond 2010 from its 2006 level of 55.6%. In addition, a number of new power plants have been designed to use domestically produced coal. As the largest coal producer in the Philippines, the Company will benefit from an increase in demand for domestically produced coal. The Company is continuing the process of increasing its production capacity in order to meet this growth in demand.

On December 2, 2009, the Company's wholly-owned subsidiary, SEM-Calaca, successfully achieved closing under the APA for the acquisition of the Power Plant. SEM-Calaca paid the following amounts to PSALM: 1) ₱6,617,332,800 representing the Peso equivalent of the 40% down payment for the Purchase Price; 2) $10,390,000 as Rentals and the amount of the Purchase Orders; and 3) ₱4,293,301.75 as pro-rated premium for insurance on the Power Plant, corresponding to the period from December 2 to 31, 2009.

From January to February 2010, SEM-Calaca prepaid a total of ₱6.85 billion of its outstanding debt for the Power Plant to PSALM. On March 5, 2010, SEM-Calaca paid the amount of ₱2.39 billion to PSALM, representing the final prepayment for the purchase price of the Power Plant. On May 5, 2010, PSALM and SEM-Calaca signed a deed of absolute sale transferring ownership of the Power Plant to SEM-Calaca.

The registered and principal office of the Company is at 2/F DMCI Plaza, 2281 Don Chino Roces Ave., Makati City, Philippines.

The Company's common stock is listed on the Philippine Stock Exchange under the symbol "SCC".

History

The Company is a BOI-registered enterprise incorporated in the Philippines on February 26, 1980. It commenced commercial operations in 1983.

The Company's COC was originally granted to a consortium formed by three private companies. On incorporation of the Company, these companies subscribed equally to the Company's shares and, in exchange for the shares, they assigned the COC to the Company. As a result of their financial difficulties, two of the three initial shareholders transferred their shares, which had been provided as security for loans from government financial institutions, to the NDC after the lenders had foreclosed on the loans. In order to obtain control of the Company, NDC bought the shares of the third initial shareholder and entered into various share swap arrangements with other shareholders to obtain a 95% interest in the Company.

Coal resources were initially discovered at two sites on Semirara Island, at Unong and Panian, with the Hamilian resource remaining undiscovered until a few years afterwards. The development and opening of the first mine at Unong was a turnkey project contracted and funded through a credit facility provided by Voest Alpine, an Austrian state-owned company. All internationally-sourced equipment and services were financed by the credit facility which was denominated in Austrian schillings. The Company had earlier entered into a CSA with the Government-owned NPC to provide coal to the Power Plant and the CSA was used as collateral for the credit facility.

Production at the Unong mine commenced in early 1983 with final acceptance of the project by the Company in 1987 following the resolution of technical issues raised by the Company. The settlement with Voest Alpine included a restructuring of the terms of the loans provided under the facility. However, due largely to lower than anticipated coal prices and an increase in borrowing costs due to the depreciation of the value of the Peso against the Austrian schilling, the Company incurred significant losses. The Company negotiated a second restructuring of the terms of the loans and Voest Alpine also agreed to a partial debt to equity conversion which gave it a 40% interest in the Company's Shares.

In April 1997, DMCI-HI, a PSE-listed holding company for construction and other business in the Philippines, purchased Voest Alpine's 40% interest in the Company's Common Shares together with outstanding loans made by Voest Alpine to the Company amounting to ₱2.5 billion. Following further financial difficulties experienced by the Company, DMCI-HI agreed to a debt to equity conversion in 1998, which gave it a total interest in the Company of 74%.

A new management team consisting of local and expatriate staff was installed by DMCI-HI in August 1999 and the Company continued mining at the Unong mine until coal resources were depleted. In January 2000, as the Unong mine approached the end of its economic life, the Company closed the operation and proceeded with the development of the new Panian mine. Mining operations commenced at Panian in the third quarter of 1999 when the ECC was obtained. The Company had employed a continuous mining system at Unong that relied on bucketwheel excavators supported by smaller equipment. However, a conventional mining system using trucks and shovels was employed at Panian. Given the suitability of this mining technique to the Panian mining conditions, the mining operations proved to be more flexible and cost efficient for the Company. In order to increase production, the 40 ton trucks and relatively small shovels used in opening up the Panian mine were replaced by 90 to 100 ton trucks and 16 cubic meter excavators. The bucketwheel excavators used at Unong are now used only in reclamation operations in the Panian stockyard. In 1999, the new management also installed a coal washing plant, which improved coal quality through lower ash content; consequently, demand for the Company's coal increased.

Coal resources have also been identified at the Himalian site on Semirara Island. While significant detailed geological work and testing drilling has already been performed at Himalian, this site will only be developed if production at Panian falls short of demand or when the resources at Panian are depleted.

From an initial annual product coal production of 806,451 tons ROM coal in the year ended December 31, 1997, the Company produced 3.73 million MT ROM coal in the year ended December 31, 2008 and based on year-to-date unaudited production figures, the Company produced 5.14 million MT ROM coal for the year ended December 31, 2009.

Continuing efforts to uplift quality of operations earned the Company in 2008 three certificates of recognition: conformance to international quality standards covered by ISO 9001:2000 (Quality

Management System), ISO 14001:2004 (Environmental Management System), and OHSAS 18001:2007 (Occupational Health and Safety Management System).

With SEC approval, the Company undertook a capital restructuring on July 2, 2004. The first step of the program was the cancellation of ₱1.63 billion of its outstanding capital in order to eliminate an accumulated deficit of that amount which had accrued as a result of losses in previous years. As part of the capital restructuring, the Company then issued 19,657,388 Common Shares to DMCI-HI, increasing its ownership to 94.53% after all other investors declined to participate in the rights offer. The NDC Common Shares were decreased from 21.27% to 4.55% Common Shares, and other shareholders from 4.3% to 0.94% Common Shares. On October 8, 2004, the Company increased its authorized capital stock from ₱100 million to ₱1 billion and declared a stock dividend of ₱225 million, consisting of 225 million Common Shares with par value of ₱1.00 in favor of all stockholders of record as of November 25, 2004, which was issued on December 3, 2004.

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

STRATEGY

The Company seeks to maintain its leading position in the Philippines' coal mining industry through:

Forward integration

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

The acquisition of the Power Plant is consistent with DMCI-HI's synergistic investment strategy, being a forward integration of its coal mining operations. DMCI-HI's infrastructure and construction businesses could provide the necessary repairs, maintenance and rehabilitation of the Power Plant, while its coal mining business will provide all the local coal requirements of the Power Plant.

Assuring continuing off-take of coal by a major domestic customer

The Company intends to expand its customer base while retaining business relationships with its existing customers. As of March 31, 2010, the Company's sales to the Power Plant accounted for 14% and 16% in terms of sales volume and value, respectively. The Company's acquisition of the Power Plant ensures continuity of its coal supply to a major domestic customer and potentially increases its sales with the anticipated incremental demand for coal as a result of the planned rehabilitation of the Power Plant.

Increasing coal production

The Company is increasing coal production and its economies of scale at the Panian mine in order to take advantage of domestic and regional demand for coal. Pursuant to the PEP, the DOE has set for the Philippine energy sector a self-sufficiency target of 60% beyond 2010 and is also encouraging an increase in domestic coal consumption by existing power plants in the Philippines. In addition, a number of new power plants have been designed to use domestically produced coal. As the largest coal producer in the Philippines, the Company will benefit from an increase in demand for domestically produced coal. In 2004, the Company commenced an expansion program that aimed to increase capacity and production levels. As a result, production increased to 5.14 million MT ROM coal in the year ended December 31, 2009, from

3.73 million MT of product coal in the year ended December 31, 2008. For the year 2010, the Company is targeting production of 6.0 million MT ROM coal.

Improving the quality and marketability of its coal

In order to reduce the ash content and thereby improve the quality of its coal, the Company installed a washing plant in 1999. Ash content is an important characteristic of coal because electricity generating plants must incur the cost of handling and disposing of ash following combustion. Further, ash is considered undesirable as it tends to decrease the total energy content of coal. As there is greater demand for coal with a high energy content, this washing process has resulted in a growth in demand for the Company's coal. The Company installed an additional washing plant in 2008 in order to match the increase in production levels. In May 2004, the Company entered into its first annual coal supply agreement with PNOC Exploration Corporation ("PNOC EC"). PNOC EC or the end customer blends the coal supplied under this agreement with imported coal in order to produce coal with the required specifications. Since 2004, the Company has continuously entered into annual coal supply agreements with PNOC EC.

In 1997, the Company's coal was utilized solely by the power generation industry. As a result of the initiatives described above, the Company has increased its customer base from three in 1997 (which included one trader) to 18 in 2009, inclusive of three local traders who resell the coal to Philippine customers and five international traders (which sell to customers in China, India, Hong Kong, Japan, Thailand, and Taiwan). At present, the Company sells coal to a wider customer-base, including: cement plants, paper mills, textile dying plants, canneries, food factories, a sugar mill, and a fertilizer plant. The Company will continue to review opportunities to increase the marketability of its coal in order to increase its customer base further.

In addition, the Company continues to take advantage of its strategic location by capitalizing on its inherent advantages of lower freight costs and more flexible delivery capabilities.

In the years ended December 31, 2008 and December 31, 2009, sales to the Power Plant accounted for 22.1% and 24.2%, respectively, of the Company's total sales by volume.

Reducing production costs

The Company will continue to look for opportunities to reduce its production costs at its existing mining operations. The small scale continuous mining system in operation at the Unong mine was replaced from 1999 to 2000 by a conventional truck and shovel operation at the Panian mine in order to reduce operating costs and maximize cost efficiency. Moreover, the Company installed two in-pit crushers, the first in 2006 and the second the following year, which crushes the overburden and feeds it onto conveyor belts transporting it from the pit floor of the mine to the overburden stockpile. The conveyor belts are powered by electricity from the Company's own coal burning power plant and significantly reduced dependence on its diesel-powered trucks, resulting in cost savings for the Company. Also, as a further measure to improve cost efficiency, the Company installed in 2009 its own oxygen/acetylene plant for its industrial and laboratory gas requirements.

ORGANIZATIONAL STRUCTURE

Figure 1 sets forth an overview of the organizational structure of the Company.

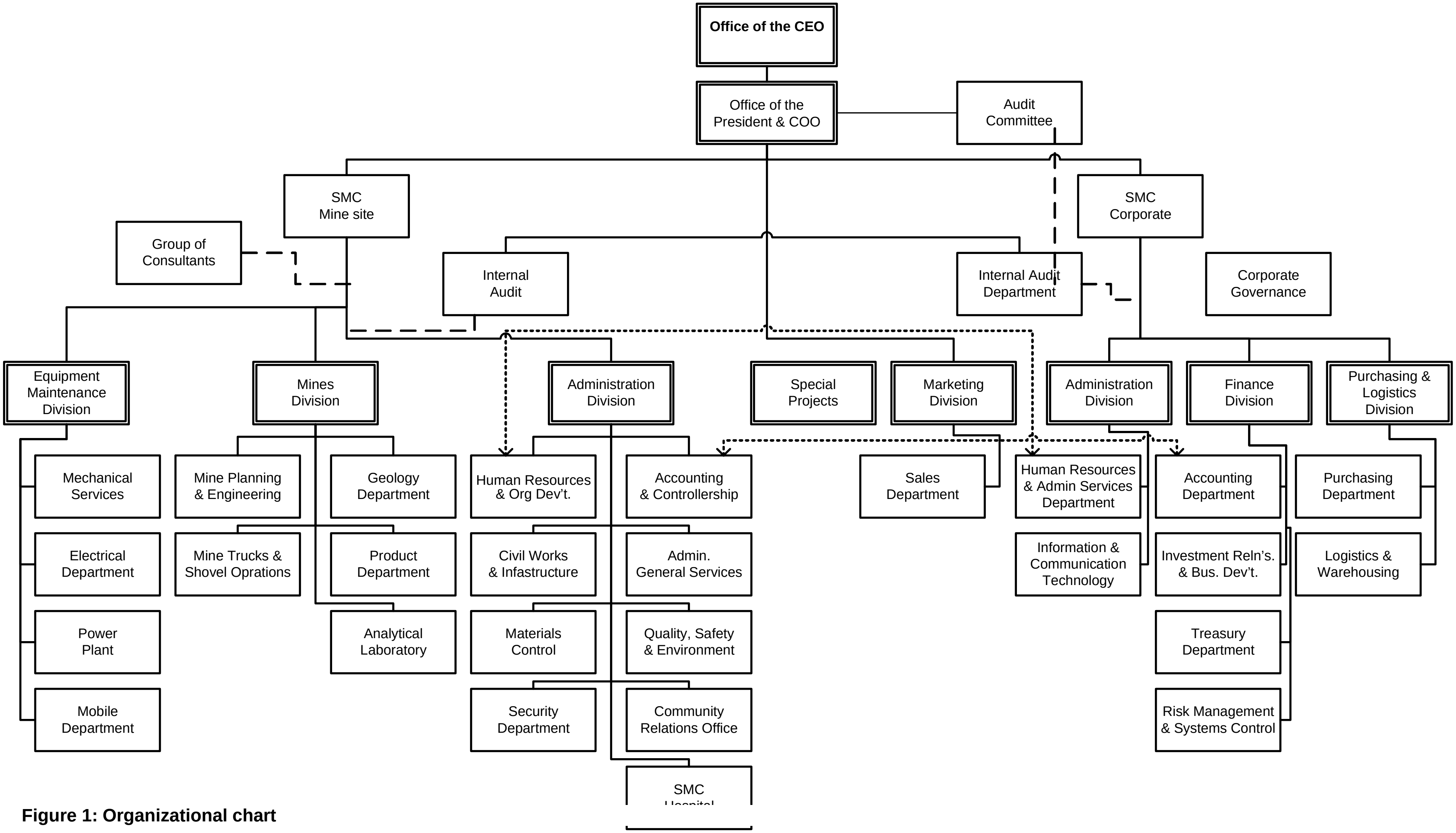

Office of the CEO
Office of the President & COO
Audit Committee
SMC Mine site
SMC Corporate
Group of Consultants
Internal Audit
Internal Audit Department
Corporate Governance
Equipment Maintenance Division
Mines Division
Administration Division
Special Projects
Marketing Division
Administration Division
Finance Division
Purchasing & Logistics Division
Mechanical Services
Electrical Department
Power Plant
Mobile Department
Mine Planning & Engineering
Geology Department
Mine Trucks & Shovel Oprations
Product Department
Analytical Laboratory
Human Resources & Org Dev't.
Accounting & Controllership
Civil Works & Infastructure
Admin. General Services
Materials Control
Quality, Safety & Environment
Security Department
Community Relations Office
SMC Hospital
Sales Department
Human Resources & Admin Services Department
Information & Communication Technology
Accounting Department
Investment Reln's. & Bus. Dev't.
Treasury Department
Risk Management & Systems Control
Purchasing Department
Logistics & Warehousing

Figure 1: Organizational chart

COAL RESERVES

In compliance with the listing requirements of the PSE, in February 2010, the Company engaged a third-party mining engineer, Engr. Rufino B. Bomasang, to prepare a competent person's report in accordance with the PMRC to estimate the remaining coal reserves at the Panian Deposit. In his coal reserve report dated April 30, 2010, Engr. Bomasang estimates the remaining mineable reserves and recoverable reserves at Panian at 47.12 million MT and 42.41 million MT, respectively. At a mining capacity of 6 million MT a year, the remaining mineable reserves at Panian Deposit are good for the next 7.07 years. The report prepared by Engr. Bomasang is attached as Annex C to this Prospectus.

Background of Competent Person

Engr. Rufino B. Bomasang is duly accredited by the Philippine Society of Mining Engineers as a competent person on coal mining. He finished Mining Engineering from the University of the Philippines in 1963 and topped the Mining Engineering Board Examination in January 1964. He also obtained a Master in Business Economics from the Center for Research and Communication in 1985. From August 1976 to September 2004, Engr. Bomasang had continuously served as a senior official in the Philippine public energy sector, his last position held was as President/CEO of PNOC Exploration Corp. from June 1996 to September 2004. Since retiring from the public energy sector, Engr. Bomasang has worked as a consultant and senior advisor to various private energy and mining companies involved in developing indigenous energy resources. Currently, he is Chairman of NorAsian Energy Limited, Preferred Energy Inc., and PhilCarbon Inc. Since 1998, he has been a member of the Board of Examiners for Mining Engineers under the Professional Regulations Commission.

Scope of Work

Pursuant to the requirements of the PSE, the third-party mining engineer was engaged to undertake the following services:

a. Appraise coal resources to identify parameters relevant to the conversion of resources to reserves and factors that may increase or decrease mineable reserves;
b. Conduct detailed review of existing mining conditions (i.e. hydrogeology, Strip Ratio, slope stability, coal transport system, etc.), as well as all existing mining data and information;
c. Review coal processing system and logistical network from mine to pier;
d. Review current mining method and validate its applicability to the mining of remaining coal reserves; and
e. Prepare report on reserves that can be mined commercially.

Valuation Methodology

The Company has successfully operated the Panian deposit for the last ten years and has already established well defined mining parameters (i.e. pit slope at 25 degrees, bench height of 10 meters, bench width of 15 meters, etc.). SCC considers these parameters as optimal from the standpoints of both safety and economics. Thus, in considering the technical mineability of the remaining resources, the same parameters have been adopted by Engr. Bomasang.

Key Assumptions to Valuation Methodology

Coal Seam Modelling and Measured Coal Resources

Engr. Bomasang digitized all the data from the 383 holes drilled at a grid spacing of 62.5 meters. From the digitized data, a 3D model of the coal seams intercepted by the drill holes has been successfully generated, from which, the in-situ coal resources have been delineated. As only the coal seams delineated by the closely spaced drilling were considered, the resources delineated are well within what the DOE considers “Positive Reserves". These therefore have been considered Measured Resources, which can be converted to proven reserves by applying modifying factors.

Applying Modifying Factors

The Measured Resources are first modified by superimposing the existing pit to establish what has already been mined out. A new pit designed to maximize the mining of the coal resources in the 3D model is then superimposed on said model. The difference between the Measured Resources within the new pit and the existing pit is the remaining Proved Reserves, or Mineable Reserves. By further applying a recovery factor of 90%, which is slightly higher than the 85% being used by the Company, the Recoverable Reserves are estimated. This is the quantity ultimately sold to the market and is the basis for computing the revenues and determining overall profitability.

Overall Strip Ratio

Within the proposed Panian pit extension, there is an estimated total of 409.94 bank cubic meters of waste that has to be excavated and moved in order to mine the remaining coal reserves, resulting in an overall Strip Ratio of 9.67 to 1.

Mine Profitability

On the basis of a coal price of $52.00 per ton ex-Semirara port, a financial analysis using actual costs shows annual operating profit of ₱3.3 billion, for a discounted cash flow rate of return (DCFROR) of 31%, after deducting annual government share (3% of gross revenues) of ₱449.28 million and annual income tax of ₱866.85 million, based on an exchange rate of ₱48 to $1. Furthermore, a sensitivity analysis shows that the profitability of Panian coal is most sensitive to coal prices and forex rates; production cost is one controllable factor which also impacts greatly on profitability, as well as its Strip Ratio. The mine remains profitable even if the price of coal goes down to $46.20 per ton, assuming a hurdle rate of 15%.

Mines

The Company holds a COC with the DOE for its coal operations on Semirara Island. Originally expiring in 2012, the DOE approved a final extension of the contract for 15 years, or until July 14, 2027, in accordance with the 50 year constitutional limit on exploitation of natural resources. The Company intends to apply for a new coal operating contract to continue its coal operations on Semirara Island subject, among others, to the sufficiency of coal resources and commercial viability at such future time. Under the Coal Operating Contract, the Company has the exclusive right to conduct exploration, development and coal-mining operations on Semirara Island. In return for the mining rights granted to the Company, the Government is entitled to receive annual royalty payments based on a proportion of the Company’s income from operations. Royalties paid to the Government in the years ended December 31, 2007, 2008 and 2009 were ₱191.29 million, ₱253.38 million and ₱450.15, respectively.

The Company’s current mining operations are focused on the Panian mine. The Company completed operations at the Unong mine in 2000. Significant detailed geological work and confirmatory drilling are on-going at Himalian. This site will only be developed if production at Panian falls short of market demand or when the resources at Panian are depleted. In addition, the confirmatory drilling activities undertaken thus far at Himalian are inconclusive to determine the economic viability of coal mining operations at this site.

The Company's mines are operated on an open pit basis, producing thermal coal that is appropriate for use in a wide range of combustion facilities. All of the coal produced by the Company is currently consumed in the domestic and international markets.

Panian mine. The Panian mine is located at the northern end of the Semirara Island. The Company started operations on the Panian mine in 1999. As per the report of Engr. Bomasa, the remaining mineable reserves and recoverable reserves at Panian stands at 47.12 million MT and 42.41 million MT, respectively, as of April 30, 2010. At a mining capacity of 6 million MT a year, the remaining mineable reserves at Panian Deposit are good for the next 7.07 years. The overburden at Panian is mainly comprised of limestone was prestripped to reach the coal and the main waste is soft sandstone. Since the year 2000, the Panian mine constituted 100% of the Company's total coal production and the significant majority of its revenues. The Panian mine is a multi-seam deposit and the geology of the mine consists of 13 primary coal seams and 10 workable coal seams. The thickness of the seams varies from less than one meter to approximately 38 meters.

Himalian project. The Himalian project is an undeveloped coal deposit on Semirara Island. Significant detailed geological work and test drilling are on-going at Himalian. This site will only be developed if production at Panian falls short of market demand or when the resources at Panian are depleted.

Unong mine. Operations at the Unong mine ceased in 2000 after 15 years of extraction. The Unong mine is located in the south-eastern shore of Semirara Island and it produced a total of 12 million MT of coal. Since 2000, the Unong mine area has been reforested through a tripartite partnership between the local community, the Government and the Company. The Unong mine is now a water reservoir supporting various species of marine life and serves as a sanctuary for migratory birds. So far, the company has incurred expenses of around ₱5 million for the rehabilitation of the Unong pit.

Historical production figures and stripping ratios for the Panian mine for the periods indicated are set forth in Table 2.

	ROM Production (Mt)					Stripping Ratio (bcm/ton)				
				Three months					Three months ended	
	Years ended December 31			ended March 31		Years ended December 31			March 31	
	2007	2008	2009	2009	2010	2007	2008	2009	2009	2010
Panian Mine	3,755	3,733	5,144	835	1,849	7.82	9.55	10.91	18.13	9.80

Table 2: Historical production figures and stripping ratios

From the commencement of the Panian mine's operation in 1999 until March 31, 2010, cumulative coal production from the mine amounted to 29.28 million MT ROM.

PRODUCTION AND OPERATIONS

Table 3 sets forth the Company's ROM and total product coal production for the periods indicated.

	Years ended December 31			Three months ended
	2007	2008	2009	March 31, 2010
ROM (million MT)	3.75	3.73	5.14	1.85
Total product coal (million MT)	3.46	3.44	4.84	1.67

Table 3: ROM and Total Product Coal Production

Mine planning

The Company's production capacity for 2010 is 6.5 million MT of ROM. Actual production for the three months ended March 31, 2010 was 1.67 million MT.

The Company is required to provide mining plans to the DOE every five years. In addition, the Company prepares internal mining plans for the annual and monthly operation of the Panian mine. These plans cover such matters as the location of the highwall for the mining pit and the areas for, and coordination of, disposal of overburden during the mining process and reclamation of mined areas, schedule of overburden excavation, and coal production. The Company has always met its internal production targets; however, its business is subject to operational risks, in particular, the risk of flooding and equipment shortages. See "Risk Factors – The Company's business is subject to operational risks and the Company is not insured against all potential losses".

Coal mining techniques

Mining operations at the Panian mine employ conventional truck-and-shovel open pit methods using large trucks and shovels for removing waste material and smaller trucks and shovels for mining coal, with bulldozers and graders as support equipment. The Company's miners work in 2 shifts of 12 hours a day. Overburden and coal are removed in sequence according to a detailed mine plan designed to ensure final product coal quality parameters are acceptable. Large trucks of 90 to 100 tons and excavators (16-cu. m. in bucket capacity) are used to remove the overburden/interburden, while smaller excavators and trucks are employed to mine the coal.

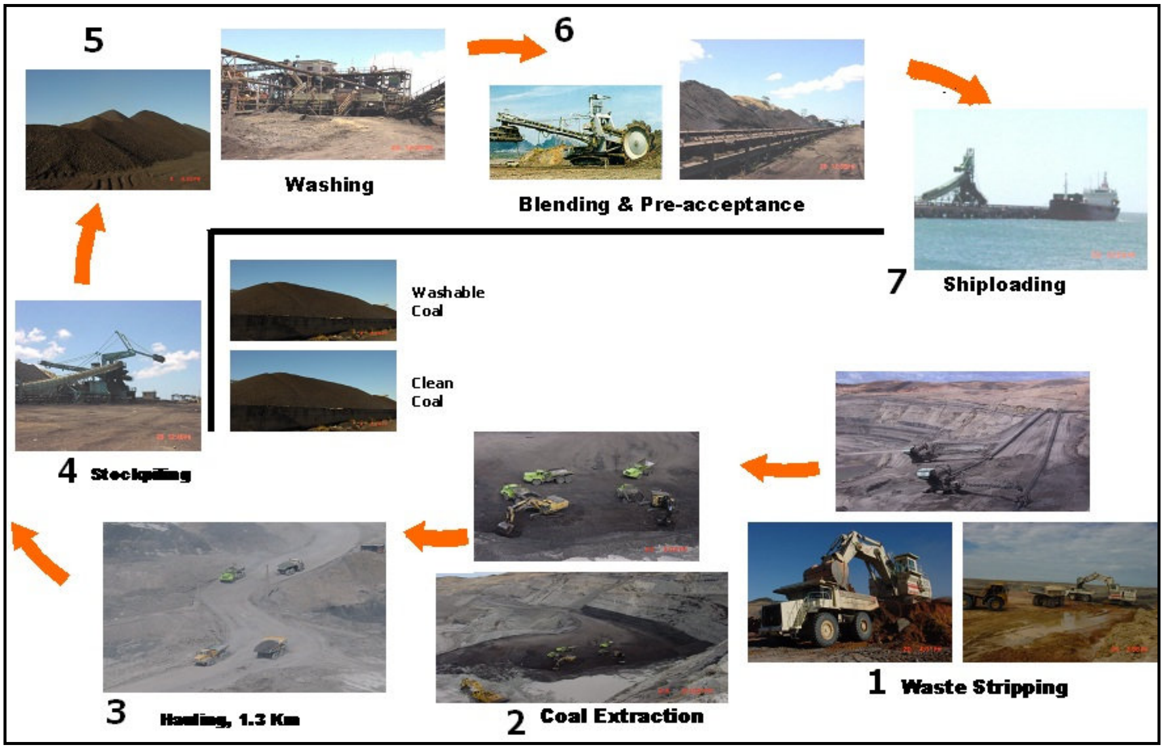


Figure 2: Production process flow chart

The production process consists of the following stages:

Waste stripping. Stripping of overburden materials is done by using articulated and rigid-frame dump trucks or bucketwheel excavators for stripping at upper levels. Excavated material is hauled directly to dumpsites 1 to 1.8 km from the pit or transported by conveyor belts. The Company has installed two in-pit crushers which feed the waste on to a conveyor belt to take the waste to the dumpsite.

Coal extraction. Coal is extracted from the mine with the use of smaller trucks and shovels to allow for better and easier coal segregation.

Hauling and stockpiling. Coal extracted from the mine is transferred from the pit stockyard to the main stockyard by bucketwheel reclaimers through a 6km conveyor system. Clean coal is taken directly to the blending bed and washable coal is taken to the washing plant.

Washing. The washing plant is situated at the south side of the auxilliary stockyard and has a nominal capacity of approximately 400 tons per hour with a recovery rate of approximately 60%. The coal is immersed in a blend of water and soil that has a higher density than coal which results in the clean coal floating to the surface while impurities or mine tailings settle on the bottom of the cleaning tanks. Clean water from the washing plant is recycled and the waste water is pumped to a tailings pond.

Blending and pre-acceptance. The blending bed is 0.2 km from the main stockyard where samples are taken at regular intervals for quality analysis at the mine site. The test results then becomes the basis for the customer's pre-acceptance of the coal prior to shipment.

Shiploading. The Semirara port is a facility owned by the Company which is equipped to load ships up to 30,000 tons. The Company generally uses barges either operated by third parties or affiliates with a capacity of 5,000 tons to transport its coal. The port is linked to the coal stockpile through a 1.5 km conveyor belt. From the stockyard, a rail-mounted reclaimer feeds the shiploader through the conveyor belt at the rate of 1,200 tons per hour. An automatic sampler is mounted along the conveyor belt and gathers samples for quality analysis.

Quality Control

The Company's quality enhancement program was set up in August 1999 in order to improve the quality and marketability of its coal. The quality enhancement program includes installing a washing plant in order to improve coal quality through reduction in the ash content. Higher quality coal commands a price premium to lower quality coal and is marketable to a wider customer base. In addition, the Company tests the coal when it is extracted and at the stockyard in order to ensure that it meets the customers' specifications.

The Company's quality control procedures currently include the following:

a) Washing of contaminated coal;
b) Implementation of coal quality forecasting in the mining plans;
c) Selective coal mining with coal extraction done on a ply by ply basis per seam;
d) Assigning grade control inspectors at the pit during coal mining for better selectivity and classification;
e) Strict monitoring of coal deliveries from the mine to the Panian auxiliary stockpile;
f) Assigning pickers during reclaiming and loading to remove stones and clay;
g) Installation of automatic sampling unit for systematic sampling procedure; and
h) Installation of an on-line magnet at the K3-line to remove scrap objects like iron, steel and plates.

SALES AND MARKETING

Historically, a large portion of the Company's produced coal has been sold to NPC. Since 1999, the Company has worked on improving the quality of its coal and as a result, the Company is currently required to wash only 20% of its total production. As a result, its market has widened to include other power plants, cement plants, paper mills, textile dying plants, canneries, food factories, a sugar mill, and a fertilizer plant.

Table 4 shows the volume of coal sold by the Company to its major customer groups and as a percentage of total volume sold for the periods indicated.

	Year ended December 31							
	2006		2007		2008		2009	
Customer	Volume sold ('000 Mt)	% of Total volume sold	Volume sold ('000 MT)	% of Total volume sold	Volume sold ('000 MT)	% of Total volume sold	Volume sold ('000 MT)	% of Total volume sold
NPC								
- Calaca power plant	1,294	62.3	1,342	37.6	731	22.1	1,082	24.2
- Other power plants	6	0.3	23	0.6	68	2.0	8	0.2
Non-NPC power plants	196	9.4	502	14.0	590	17.8	227	5.1
Cement and other industries	580	28.0	909	25.4	931	28.1	885	19.8
Exports	-	-	799	22.3	993	30.0	2,262	50.7
Total	2,076	100.0	3,575	100.0	3,313	100.0	4,464	100.0

Table 4: Volume of Coal Sold

Demand for the Company's coal has steadily increased since SCC started to market its product beyond the Philippine borders. In 2009, the Company sold a record high of 4.46 million MT. This volume is 34.74% higher than sales in 2008 of 3.31 million MT.

Market share of export sales has been increasing, such that this period's volume of 2.26 million MT took up 50.7% of total sales. This recorded a 128% growth over sales in 2008 of 993 thousand MT, with a market share of 30%. New markets were penetrated this year, namely, Thailand, Japan, and Taiwan, in addition to the existing markets in China, India and Hong Kong. Two new traders also partnered with the Company to bring its coal to new markets.

Meanwhile, the Power Plant were fully operational this year, unlike last year wherein technical problems caused intermittent downtimes. Once the single biggest market of Semirara coal, consuming more than 90% of its production, the Power Plant accounted for 24% of sales for 2009 at 1.08 million MT, 48% more than same period of last year's uptake of 731 thousand MT. Sales to other power plants in 2009 totaled 8 thousand MT, bringing total sales to power industry to 1.08 million MT. In 2008, sales to other power plants reached 658 thousand MT, thus offsetting NPC Calaca's low volume and pulled up total power plants' sales to 1.39 million MT. Market share of the power industry dropped at 29.5% from 41.9% last year.

Recording an 5% dip from last year's volume of 931 thousand MT, sales to cement plants and other industries in 2009 amounted to 885 thousand MT. This effectively brought down the market share of cement industry to 20% from 28% last year. On the positive note, one of the biggest cement companies in the country started to buy Semirara coal this year.

Finally, sales to other industries showed a 20% improvement at 202,16 MT compared with 2008 sales of 168.58 thousand MT. Market share, however, remained at 6% of total sales.

Total local sales remained at about the same level with last year. This period's volume amounted to 1.78 million MT, while 2008 sales totaled to 1.78 million MT.

Composite average FOB price, increased by 16% at ₱2,717/MT this period as against last year's price of ₱2,342/MT.

COMPETITION

Competition is insignificant in so far as domestic coal production is concerned. The Company remains the largest coal producer in the Philippines, contributing 3.44 million MT or 86.4% of total domestic coal production in 2008 while the nominal balance is shared by small-scale mines in Surigao, Cebu, Bataan Island, and other areas.

Nonetheless, domestic coal demand is still anchored heavily on imported coal. Coal importation has been increasing since 2005. From 6.66 million MT in 2005, it steadily rose to 7.34 million MT in 2006, 7.73 million MT in 2007 and 9.21 million in 2008. In 2008, total importation represented 69.8% of aggregate supply, much higher than the 3.98 million MT (or 30.2% of aggregate supply) contributed by domestic coal producers. Indonesia brought in the bulk of coal in the country, accounting for 80.0% of the total, followed by China (12.0%), Vietnam (3.8%), Australia (3.6%) and Russia (.06%). Meanwhile, total local consumption has also been steadily increasing from 10.04 million MT in 2005, to 10.06 million MT in 2006, 10.22 million MT in 2007, and 12.24 million MT in 2008. In 2005, domestic producers supplied 32% of the 10.04 million MTs market in 2005. However, in 2006 domestic producers supplied only 26% of the total consumption of 9.5 million MT's because of higher imported volume. The Company supplied 19% of the country's total coal consumption for 2008 at 2.32 million MT. The rest of its sales volume of 0.99 million MT were sold to export markets in China, India, and Hong Kong. The competitiveness of domestic coal producers is threatened by the superior quality of imported coal as well as the government's policy on trade liberalization. This is however compensated by the DOE's policy to promote indigenous energy resources and lower freight costs of local coal vis-à-vis imports. The Company remains competitive while it continues to exert efforts to improve the quality of its coal and keep production costs low. The tariff rates of sub-bituminous and other coal now stands at the rate of 3%. However, starting January 2010, the 3% tariff on imported coal will be removed as part of the country's commitment to the World Trade Organization to further promote trade liberalization.

To be marketable to domestic consumers, locally produced coal must be priced competitively against imported coal, which is currently sourced from Indonesia, China, Vietnam, Australia, and Russia. Pricing of domestic coal is generally benchmarked against the landed cost of imported coal.

The Company currently supplies all of the coal requirements of the Power Plant.

GOVERNMENT PERMITS AND AUTHORIZATIONS

Unless otherwise noted, the following permits and authorizations are applicable to the Company in view of its current business operations and are valid and subsisting:

Permits and Authorizations	Validity
COC	July 14, 2027
Mayor's Permit	December 31, 2010
Permit to operate port facility	(for renewal) May 20, 2010
Aerodome ratings certificate	May 31, 2010

POWER PLANT

Overview

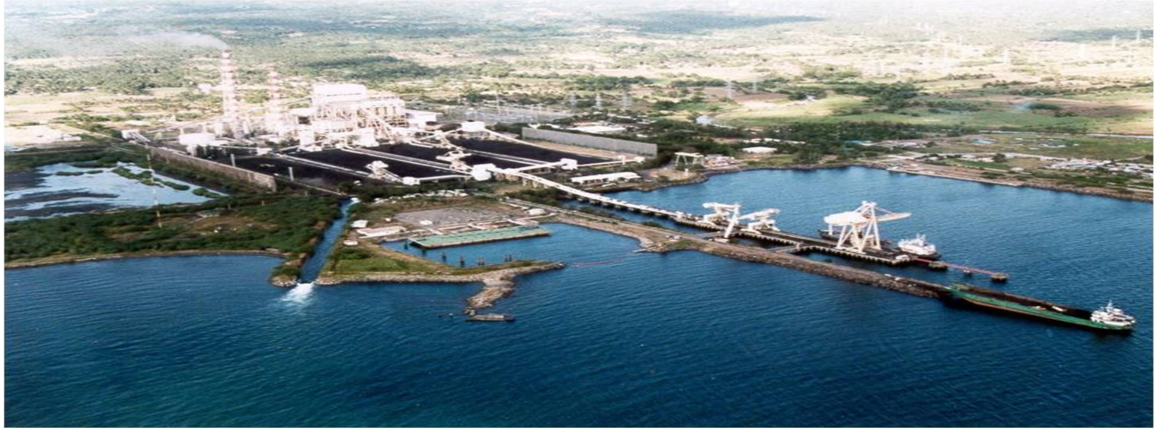


Figure 3: Aerial view of the Power Plant

The Power Plant is a base load coal-fired power plant in the Luzon grid. The construction and development of the Power Plant by NPC was an answer to the Government's call in the early '70s to maximize the utilization of indigenous coal resources and cushion the negative impact of the world oil crisis.

The Power Plant has a land area of 167 hectares, located at San Rafael Calaca Batangas, about 115 km south of Manila and 250 km by sea from Semirara Island in Antique, the source of the Power Plant's local coal requirement. It is bounded on the north by the Dacanlao National Highway, on the west by Dacanlao River, on the east by Cawong (Bolboc) River, and Balayan Bay in the south.

History

The contract to build the first unit of a 300 MW coal-fired power plant ("Unit 1"), including the common facilities for the two units, was signed with Mitsui and Co. of Japan in September 25, 1981 for a lump-sum contract price equivalent to approximately $238,000,000. Mitsui and Co. engaged Toshiba Corp. of Japan as plant engineering, designer and supplier of the turbine generator. On the manufacturing of Unit 1's boiler, the NPC has awarded the same to Foster Wheeler Energy Corporation, while IHI of Japan provided the main steel work and coal handling facilities. The plant's civil works were handled by the Atlantic Gulf and Pacific (AG&P) and F.F. Cruz and Co.

The construction of Unit 1 lasted for 36 months and was finally installed on the Luzon Grid on September 11, 1984. During the initial operation of the plant, it was observed that the coal specifications used as basis for the plant's design differed significantly from those actually supplied by the Company. In order to maximize Unit 1's utilization capacity at 300 MW, the plant adopted the blending of local and imported coal.

The Philippines' steady economic growth in the early '90s triggered additional demand for electricity, compelling the government to put-up additional energy generating capacity. Thus, NPC proceeded with the construction of the second unit of 300 MW ("Unit 2").

The turbine generator, balance of plant and associated civil works of Unit 2 were contracted by NPC to GEC-Alsthom of France. Mitsubishi Corp. and Combustion Engineering of USA installed the steam generator and auxiliaries and associated civil works. The necessary power transformers, switchyard equipment and appurtenances and associated civil works were provided for by Marubeni Corporation. The boiler of the second unit was designed to utilize 100% of the Company's coal.

Unit 2 was initially installed on the Luzon grid on July 5, 1995, and after four months of trial operation, a provisional acceptance was issued by NPC on November 15, 1995.

The installed project cost of Unit 2 was approximately $351,668,020, which was funded mostly by the Overseas Economic Cooperation Fund of Japan and NPC’s internal cash generation. This brought the Power Plant's total installed project cost to approximately $90 million, as follows:

Unit 1	$238,000,000
Unit 2	351,668,020
Total	**$589,668,020**

GENERAL DESCRIPTION OF THE PLANT

Process in Generating Power

The Power Plant generates electricity by using pulverized coal-fired boilers and steam driven turbo generators. The coal used as fuel is supplied principally by the Company. The Power Plant utilizes Light Fuel Oil as ignitor fuel.

The coal is transported via barges to the Power Plant’s harbor, which has a 50,000 Dead Weight Ton (“DWT”) capacity. Afterwards, the coal is conveyed to the coal storage capacity for the two units. From the station’s stockpile, coal is directed by semi-enclosed conveyors first to the crusher, then to the silos located in the Power Plant building. The coal is then fed to the pulverizers where it is crushed as finely as talcum powder, before conveyed by primary air through piping into the boiler furnace. It then combines with secondary air and combustion takes place.

The water flowing inside the boiler tubes absorbs the heat of combustion gases to generate superheated steam. Steam at 169 kilograms per cubic centimeter and 538°C is directed to the turbine, turning it at 3600 revolutions per minute. The alternating current generator coupled to the turbine converts the mechanical energy of rotation into 300 MW of electrical power.

The generator’s power output voltage is stepped up, fed into the switchyards and delivered to the Luzon grid. The Power Plant is connected to the Luzon grid at Biñan and Dasmariñas substations respectively, via a 230 kilovolts transmission lines.

The use of coal produces by-products such as heavy (bottom ash) and light (flyash) ashes. The heavy ashes move down to the boiler bottom, while the light particles go with the exhaust gases. The bottom ash is accumulated and transported to the ash pond through slurry pipes. Flyash, on the other hand, is collected by an electrostatic precipitator, which is necessary in protecting the health and safety of the people as well as the environment.

Water is an important element in operating the Power Plant. The fresh water from the Dacanlao River is first de-mineralized before it is fed to the Boiler. The circulating water (cooling water), which is used to condense steam in the condenser, comes from Balayan Bay. The cooling water is pumped through condenser tubes to absorb the heat content in the exhaust pump. Used or heated circulating water is discharged again to the sea. The temperature of the heated cooling water is reduced to comply with the DENR’s standards before discharge.

Major Equipment

The Power Plant is divided into four major components:

1) Steam Generator
2) Steam Turbine
3) Electric Generator
4) Condenser

Premises

The premises on which the Power Plant is built have a land area of 167 hectares. Except for the Adjoining Properties, the parcels underlying the Power Plant are owned by either PSALM or NPC. PSALM has leased to SEM- Calaca the parcels of land listed in the LLA as that on which the Power Plant is built. The lease is for a period of 25 years from the turnover of the Power Plant, renewable upon mutual agreement of PSALM and SEM-Calaca for another period of 25 years.

Among that comprising Adjoining Properties are two lots with a total area of 58,882 square meters subject of eminent domain proceedings filed by NPC (the "Eminent Domain Lots"). NPC has obtained writs of possession over these Eminent Domain Lots, giving it the right to possess the same. However, NPC will not acquire title over these Eminent Domain Lots until it pays the just compensation set by the court in the eminent domain proceedings. Until then, NPC may not lease the Eminent Domain Lots to the buyer, SEM-Calaca. Under the terms of the LLA, upon NPC or PSALM acquiring title to the Eminent Domain Lots, these automatically form part of the premises leased to SEM-Calaca.

The Adjoining Properties also includes the Foreshore Area. Foreshore land may be occupied only by a lease granted by the DENR. There is no valid and existing foreshore lease agreement over the Foreshore Area. NPC's application for a foreshore lease over the Foreshore Area is currently pending with the DENR. PSALM has informally represented that the DENR has issued an order of award of foreshore lease for the Foreshore Area in favor of NPC. PSALM has undertaken to acquire, within seven years from turnover of the Power Plant, a right to occupy or use the Foreshore Area that is transferrable to SEM-Calaca. PSALM further undertook to defend SEM-Calaca against any legal proceeding that will disturb its possession and use of the Foreshore Area until the earlier of PSALM acquiring a transferrable right over the Foreshore Area or the lapse of the aforementioned seven-year period.

Historical Performance

The energy generation performance of the Power Plant varies every year depending on energy demand & plant operating performance. Unit 1 recorded its highest annual electricity generation in 1989 at 2.05 million MWh, while its lowest occurred in 2008 at 0.80 million MWh. Unit 2 recorded its highest annual electricity generation in 2001 at 1.48 million MWh, while its lowest performance was in 2008 at 0.45 million MWh. Table 5 illustrates the historical performance of the Power Plant from the year of commissioning to 2008.

Year	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Unit 1	0.19	1.45	1.61	1.95	2.00	2.05	1.60	1.83	1.66	1.67	1.67	1.67

Year	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Unit 1	0.87	1.58	1.70	1.32	1.31	1.46	0.94	1.03	0.98	1.13	0.87	1.09	0.80	0.73
Unit 2	1.15	1.11	1.35	1.46	1.26	1.48	1.37	1.23	1.30	0.75	1.42	1.13	0.45	1.06
Total	2.02	2.69	3.05	2.78	2.57	2.94	2.31	2.26	2.28	1.88	2.29	2.22	1.25	1.69

Table 5: The Power Plant's historical performance from date of commission to 2008
(in million MWh)
Source: NPC
**As of November 30, 2009*

Privatization of the Power Plant

Since 2006, PSALM has endeavored to privatize the Power Plant. The first round of bids took place on April 27, 2006 where DMCI-HI participated. None of the bidders, however, were able to meet the reserved price set by PSALM, rendering the bid a failure. The second round of bids transpired in October 16, 2007, where Suez-Tractebel was declared by PSALM as the highest bidder. However, Suez-Tractebel withdrew due to alleged deterioration of the Power Plant's condition.

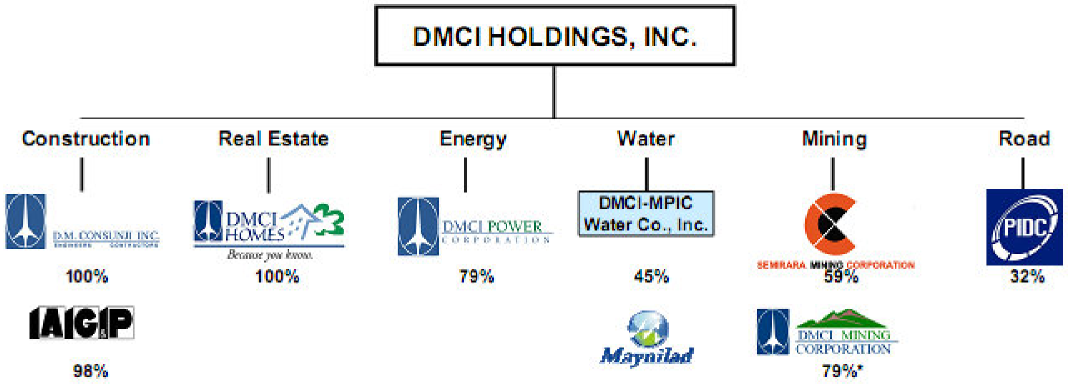
In accordance with the PSALM's bidding rules, after two consecutive failed biddings for the Power Plant, PSALM conducted a negotiated sale of the Power Plant in early 2009. DMCI-HI once again participated and was declared as the highest bidder on July 8, 2009.

Under an Amendment, Accession and Assignment Agreement dated December 2, 2009 among PSALM, DMCI-HI and SEM-Calaca, DMCI-HI, with PSALM's consent, assigned its rights and obligations under the APA and LLA to SEM-Calaca. Under an Assignment Agreement dated December 1, 2009, DMCI-HI and SEM-Calaca agreed to an assignment cost of ₱54,343,156 for the APA and LLA. On December 2, 2009, SEM-Calaca paid PSALM ₱6,617,332,800 representing the Peso equivalent of the 40% down payment for the Purchase Price and $10,390,000 as Rentals and the amount of the Purchase Orders. SEM-Calaca also paid ₱4,293,301.75 as pro-rated premium for insurance on the Power Plant, corresponding to the period from December 2 to 31, 2009. Likewise, SEM-Calaca submitted to PSALM closing deliveries including two stand-by letters of credit representing the DP Security and the performance security on the LLA. Subsequent to the execution of the Amendment, Accession and Assignment Agreement, the control, possession, obligation to operate the Power Plant and the rights to its revenues were transferred to SEM-Calaca.

On December 1, 2009, the Company made deposits to SEM-Calaca for its future stock subscription amounting to ₱6,669,000,000 and $10,390,000. On February 25, 2010, the Company made additional deposits for future stock subscription of ₱839,340,000 and advances of ₱4,060,660,000 to SEM-Calaca, which SEM-Calaca in turn paid to PSALM as partial prepayments.

From January to February 2010, SEM-Calaca prepaid a total of ₱6.85 billion of its outstanding debt for the Power Plant to PSALM. On March 5, 2010, SEM-Calaca paid the amount of ₱2.39 billion to PSALM, representing the final prepayment for the purchase price of the Power Plant. On May 5, 2010, PSALM and SEM-Calaca signed a deed of absolute sale transferring ownership of the Power Plant to SEM-Calaca.

CORE BUSINESSES OF DMCI-HI


DMCI HOLDINGS, INC.
Construction
Real Estate
Energy
Water
Mining
Road
D.M. CONSUNJI, INC.
100%
DMCI HOMES
Because you know.
100%
DMCI POWER CORPORATION
79%
DMCI-MPIC Water Co., Inc.
45%
SEMIRARA MINING CORPORATION
59%
PIDC
32%
AIGP
98%
Maynilad
DMCI MINING CORPORATION
79%*

*   *50% + 28% (59% of 50 % SCC equity); totals rounded off*

Figure 4: Core businesses of DMCI-HI

RATIONALE FOR INVESTMENT IN THE POWER PLANT

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

The acquisition of the Power Plant is consistent with DMCI-HI's synergistic investment strategy, being a forward integration of its coal mining operations. DMCI-HI's infrastructure and construction businesses could provide the necessary repairs, maintenance and rehabilitation of the Power Plant, while its coal mining business will provide all the local coal requirements of the Power Plant.

MARKET OF THE POWER PLANT IN THE LUZON GRID

The Power Plant's revenues will come from the following sources:

a) Assigned Transition Supply Contracts ("TSCs") between NPC and customers;
b) Retail electricity market;
c) Replacement power contract of other generating companies; and
d) WESM.

Assigned Transition Supply Contracts

As part of the Power Plant's privatization, PSALM has assigned some TSCs of NPC, totaling 322.2 MW. Of the TSCs assigned by PSALM, the supply contract with MERALCO is the biggest with a capacity of 169 MW, or 52.45%, of the total TSCs assigned.

Table 6 lists the assigned TSCs.

Customer	Contract Duration	
	Effectivity	Expiration
MERALCO	November 6, 2006	November 25, 2011
Cavite Economic Zone	June 26, 2006	June 25, 2011
BATELEC I	December 26, 2006	December 25, 2010
Sunpower Philippines Manufacturing Ltd	August 18, 2004	August 17, 2019
Steel Corp.	March 26, 2008	December 25, 2009
Puyat Steel Corporation	November 26, 2008	November 25, 2009
ECSCO, Inc.	December 26, 2005	December 25, 2010
Lipa Ice Plant	January 26, 2005	January 25, 2010

Table 6: NPC Power Supply Contracts and Transition Supply Contracts for the Power Plant

Source: Schedule W of the APA

Prior to the expiration of these assigned TSCs, the Company will endeavor to negotiate with the customers for the extension and conversion of these TSCs to regular power supply bilateral contracts. Generally, the generation rate of these assigned TSCs will be the Luzon Grid NPC Time of Use (“TOU”) rates as approved by the ERC. Luzon TOU Price ranges from a minimum of ₱2.34/kWh during off-peak hours to a maximum of ₱6.53/kWh during peak hours.

Aside from MERALCO and BATELEC I, the Power Plant could offer its available power to other DUs in the Luzon Grid through Bilateral Power Supply Agreement. However, the approval of the ERC on the bilateral contract is necessary before the contract is implemented.

Retail Electricity Market

The second source of revenue for the Power Plant is the retail market, where the Power Plant will sell its excess power to Contestable Customers through its affiliate, SEM-Calaca RES Corporation (”SEM-Calaca RES”). SEM-Calaca RES is a wholly-owned subsidiary of DMCI-HI and is intended to be a wholly-owned subsidiary of SEM-Calaca by the third quarter of 2010. SEM-Calaca RES filed its application for a RES License on November 5, 2009 with the ERC and expects that the RES license will be awarded within the third quarter of 2010.

The turn-over of the Power Plant is crucial to the implementation of the Interim Open Access in the Philippine electricity market as it allows PSALM to meet the 70% privatization threshold for NPC’s generating assets. During this Interim Open Access period, a RES can sell directly to Contestable Customers located in the franchise areas of participating DUs. Upon the Declaration of Full Open Access and Retail Competition as defined under EPIRA, the Contestable Customers in the whole Luzon grid may be serviced by any RES regardless of which franchise areas these Contestable Customers belong to. Since the Supply Sector of the restructured electric power industry is competitive, any agreed generation rate for the retail customer under Interim Open Access and Full Open Access is not subject to the ERC’s approval.

Replacement Power Contract with Other Generating Companies

Another source of revenue for the electricity generation of the Power Plant is as replacement power supplier for other generating companies. Each generating company has to maintain its power plant to attain and sustain efficiency in its operations. To achieve this objective, the generating company has to schedule shut-downs of its power plant for maintenance without impairing its contractual obligations to its customers with continuous and reliable supply of power. In this regard, the power generators may either buy power from the spot market or enter into a replacement power contract for their contractual requirements.

To avoid possible exposure to price volatility of power in the spot market, a generating company is better off entering into replacement power contracts with other generating companies in order to fulfill their contractual requirements. The rate for the replacement power contract is purely contractual and is not subject to ERC regulation.

Wholesale Electricity Spot Market

The excess capacity of the Power Plant over the power sales to the TSC customers, bilateral contract customers, retail customers and as replacement power will be sold in WESM for spot sales. The possible buyers of power in WESM are:

a) DUs;
b) RES;
c) Generating companies including IPPA;
d) End-users; and
e) Other similar person/entities authorized by the ERC eligible to become members of the WESM.

The electricity rate in the WESM is purely competitive and is largely unpredictable. The volatility of the price is attributable to various factors, such as but not limited to:

a) Rise and fall of supply and demand for electricity including generation plant's planned and unplanned shut-downs and distribution system's regular maintenance;
b) Changes in the customers pattern of power utilization;
c) Weather conditions;
d) Availability of water supply for hydro-electric power plants;
e) Changes in the transmission constraints or inefficiencies;
f) Development of new fuels and new technologies in generating power;
g) Natural calamities, terrorism, insurgency, war and other catastrophic events; and
h) Government regulations, legislations and interventions.

The total energy traded for spot transactions for the years 2007, 2008 and 2009 are presented in Table 7.

Year	Volume of Energy
2007	5,959,946
2008	5,451,202
2009*	5,258,110

Table 7: Total energy traded for spot transactions (in MWh)
Source: WESM 2008 and 2009 annual report
**As of October 25, 2009*

COMPETITIVENESS OF THE POWER PLANT

The competitive advantages of the Power Plant are: a) lower capital cost compared to other privatized NPC generating assets; and b) fuel advantage due to the synergistic relationship with the Company.

Lower Capital Cost

The acquisition cost of the Power Plant from PSALM is equivalent to the offer bid by DMCI-HI amounting to $361,709,000, or $0.602 million per MW.

Compared to the acquisition costs of other privatized NPC generating assets, the Power Plant is considered as one of the cheapest asset privatization transactions executed. Table 8 shows the acquisition cost of major power plants in Luzon and Visayas grids privatized by PSALM.

Power Plant	Capacity	Location	Winning Bidder	Acquisition Cost	$/MW
Pantabangan-Masiway Hydroelectric Power Plant	112	Nueva Ecija	First Gen Hydropower Corp.	$129 million	1.15
Magat Hydroelectric Power Plant	360	Isabela	SN Aboitiz Power Corp.	$530 million	1.47
Masinloc Coal-Fired Thermal Power Plant	600	Zambales	Masinloc-Power Partners Co. Ltd.	$930 million	1.55
Ambuklao-Binga Hydroelectric Power Complex	175	Benguet	SN Aboitiz Power Hydro Inc.	$325 million	1.86
Tiwi-MakBan	748	Albay, Laguna/ Batangas	AP Renewables Inc.	$447 million	0.60
Batangas (Calaca) Coal-Fired Thermal Power Plant	600	Calaca, Batangas	DMCI Holdings, Inc.	$362 million	0.60
Limay Combined-Cycle Power Plant	620	Bataan	San Miguel Energy Corp.	$13.5 million	0.02
Palinpinon-Tongonan Geothermal Power Plants	305	Negros Oriental, Leyte	Green Core Geothermal Inc.	$220 million	0.72

Table 8: Acquisition costs of major power plants in Luzon and Visayas
Source: PSALM

Among the privatized major power plants, the lowest acquisition cost is that of the Limay Combined Cycle Power Plant, which was awarded to San Miguel Energy Corporation, followed by the Tiwi-Makban Geothermal Power Plant. The Power Plant's acquisition cost is the third lowest; however, the Power Plant's acquisition cost is the lowest among that of privatized coal-fired power plants in the Luzon grid, as shown in Table 9.

Power Plant	Acquisition Cost (in $ millions, per MW)
Calaca Power Plant (based on 2 x 300 MW capacity, without rehab cost)	**0.60**
Masinloc Plant (based on 2 x 300 MW capacity, without rehab cost)	1.55

Table 9: Acquisition costs of privatized coal-fired power plants
Source: PSALM Report

Fuel Advantage

The Power Plant is designed to heavily utilize the Company's coal in generating electricity. This would give advantage to the Power Plant in terms of reliability of coal supply and lower price of coal. The Company being the owner of the Power Plant can guarantee the reliable supply of coal which is one of the most essential requirements in operating a power plant.

The Power Plant is located approximately 250 kilometers by sea from Semirara Island, where the bulk of the Power Plant's coal is sourced from. The close proximity of the Power Plant to the Company’s mining site provides substantial freight cost and logistical management advantages to the Power Plant which, ultimately, brings additional benefits to its customers. Inefficiencies in procuring large shipments, transportation and storage of coal are minimized. More importantly, the Power Plant enjoys freight cost advantages compared to imported coal. This will help the Power Plant stay more competitive in terms of providing reliable supply and competitive price of electricity.

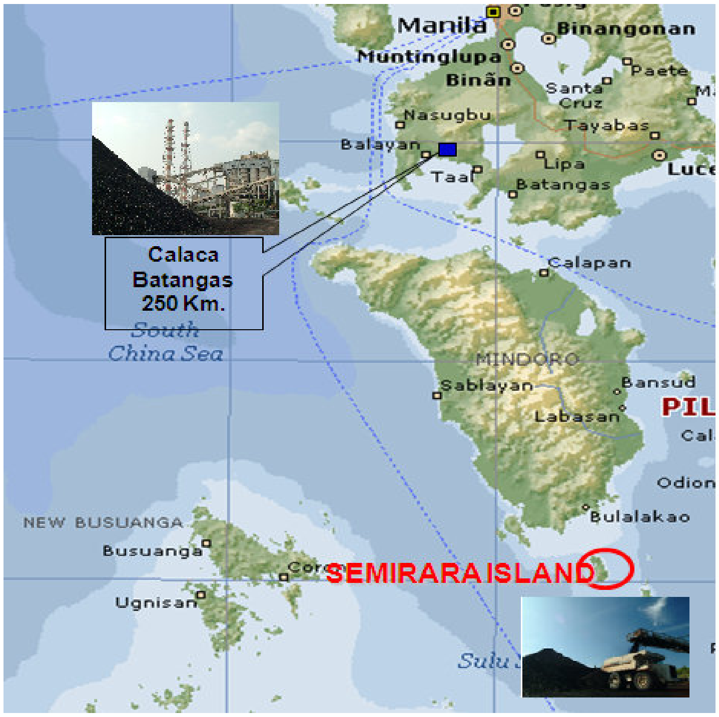

Manila
Binangonan
Muntinglupa
Binãn
Paete
Santa Cruz
Nasugbu
Tayabas
Balayan
Taal
Lipa
Batangas
Luce
Calaca
Batangas
250 Km.
Calapan
South
China Sea
MINDORO
Sablayan
Bansud
Labasan
PIL
Cal
Odion
Bulalakao
NEW BUSUANGA
Busuanga
Ugnisan
Cor
SEMIRARA ISLAND
Sulu

Figure 5: Location of Power Plant and Semirara Island

TECHNICAL ASPECT OF THE POWER PLANT

The Power Plant was designed to have a total installed capacity of 600MW or 300 MW per generator unit. Units 1 and 2 each have a normal operating availability of 7,000 hours. However, due to factors that are mostly attributable to the relatively old age of the Power Plant and inadequate maintenance, its generating capacity and operating availability (in terms of running hours) are far from ideal.

Based on 2008 data provided by NPC, the Power Plant has operating characteristics as shown in Table 10.

	Unit 1	Unit 2
Maximum Generating Capacity	165 MW	200 MW
Operating Availability	3,679 Hrs.	2,536 Hrs.

Table 10: Operating characteristics of the Power Plant (2008)

The subpar performance of the Power Plant is caused by the need to rehabilitate or upgrade certain components of the Power Plant, as shown in Table 11.

Unit 1	Unit 2
Fans	Air-heater
Boiler	Boiler
Electrical Generator	Electrical Generator
	Condenser
	Turbine

Table 11: Power Plant components requiring rehabilitation or upgrade

Rehabilitation Program

The rehabilitation of the Power Plant is scheduled to be undertaken based on the following timetable and estimated costs as shown in Table 12.

Power Plant Equipment	Rehabilitation Period	Estimated Rehabilitation Cost*
Unit 1	October 2010-January 2011; July 2011-August 2011	31.56
Unit 2	July 2010-September2010	25.26
Common facilities	May 2010-July 2010	3.16
Total		60.0

Table 12: Rehabilitation schedule
In $ millions
Source: Technical Team estimates

After PSALM's turnover of the Power Plant, SEM-Calaca engaged the services of PIC Asia-Pacific Sdn. Bhd. ("PIC"), a member of the Marubeni Group, to undertake a technical audit of the Power Plant which was completed January 2010. Among PIC's recommendations were as follows:

a) condenser retubing of Unit 2 and eddy current testing of condenser tubes for Unit 1;
b) installation of debris filter and continuous ball condenser tube cleaning;
c) continuous chlorination in Unit 1 and Unit 2;
d) continuous monitoring of water chemistry
e) conduct computational fluid dynamics modeling for Unit 1 to increase capacity using Semirara coal; and
f) replace thermally deteriorated boiler tube in Unit 2.

SEM-Calaca has formed a dedicated technical rehabilitation group (the "Technical Team") to oversee all activities related to the rehabilitation of the Power Plant. It is intended that this team be expanded to include a foreign consultancy firm to assist in overseeing the implementation of the rehabilitation of the Power Plant. The Technical Team is in charge of analyzing and evaluating the condition of the Power Plant's major equipment. It identifies the fundamental causes of the equipment's inability to perform efficiently in accordance with design standards and specifications. It determines the necessary corrective measures that need to be undertaken, plans and manages the implementation of these corrective measures, and subsequently monitors the performance of actual corrective measures taken. The Technical Team is likewise tasked with providing alternative solutions to effectively improve the Power Plant's performance.

In order to improve the Power Plant's operating performance during the first two years of operation after turnover, SEM-Calaca will undertake a combination of minor repairs, running repairs, major rehabilitation and possible replacement of components of the Power Plant. The efforts of the repairs, rehabilitation and replacement will be concentrated on the identified areas causing unscheduled shut-downs and inefficient operations of the Power Plant. Ultimately, the SEM-Calaca intends to achieve the following rehabilitation objectives:

a) Prevent further Power Plant deterioration and stabilize operating conditions; and
b) Restore the different systems of the Power Plant to perform as close to the original condition and capacity of the Power Plant.

Once these objectives are achieved, the Power Plant's operating characteristics are expected to improve significantly.

Inspite of the $60.0 million estimated rehabilitation cost, SEM-Calaca believes that the Power Plant will remain competitive in terms of capital cost on a per MW basis compared to other privatized major coal-fired power plants in Luzon, as shown in Table 13.

Particulars	Cost*
Power Plant acquisition cost from PSALM	0.60
Estimated Power Plant rehabilitation cost	0.10
Total investment cost of the Power Plant**	**0.70**
Acquisition cost of Masinloc for 2 x 300 MW** (w/o rehabilitation cost)	1.56

Table 13: Capital cost per MW

Notes: in $ millions, based on 600 MW rated capacity

If the total acquisition and rehabilitation cost of the Power Plant is to be reckoned based on dependable capacity of 470.0 MW (post-rehabilitation), the total investment cost of the Power Plant on a per MW basis is equivalent to $0.89 million.

The realization of the rehabilitation objectives will provide SEM-Calaca an opportunity to sell additional electricity, which will translate to additional revenue and enhanced profitability.

GOVERNMENT PERMITS AND AUTHORIZATIONS

The following permits and authorizations applicable to the Power Plant are still to be secured, as shown in Table 14.

Permits and Authorizations	Estimated Timetable for Filing Applications
Water Rights	December 2010
Priority Chemical List Compliance Certificates	December 2010
DOLE Registration and Permit	December 2010
Foreshore Lease Contract	June 2012
Certificate of Registration of Port Facilities	December 2010

Table 14: Permits and authorizations to be secured

SEM-CALACA

On July 8, 2009, DMCI-HI was declared by PSALM as the highest bidder for the privatization of the Power Plant. DMCI-HI's bid is outlined in Table 15.

Particulars	Amounts
Purchase Price for the Power Plant	351.000
Purchase Orders for Power Plant parts and services	7.200
Rental for 25-year lease of the Leased Premises	3.190
Option Price	0.319
Total	**361.709**

Table 15: DMCI-HI 2009 bid for the Power Plant (in $ millions)

SEM-Calaca was incorporated on November 19, 2009, primarily to acquire, expand and maintain power generating plants, develop fuel for generation of electricity, and sell electricity to any person or entity through electricity markets, among others. It is currently capitalized at ₱5.0 million, with deposits for future subscriptions amounting to ₱7.995 billion.

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

At the special meeting of the Board of Directors held on December 1, 2009, the Company's investment in the Power Plant, via SEM-Calaca, with an acquisition cost of $361.709 million was approved. In the Company's annual stockholders' meeting held on May 7, 2007, at least two-thirds of the Company's outstanding capital stock approved its investment in power generation.

At the special meeting of SEM-Calaca's board of directors held on December 1, 2009, SEM-Calaca's board of directors approved its acquisition of the Power Plant from PSALM.

Under an Amendment, Accession and Assignment Agreement dated December 2, 2009 among PSALM, DMCI-HI and SEM-Calaca, DMCI-HI, with PSALM's consent, assigned its rights and obligations under the APA and LLA to SEM-Calaca. Under an Assignment Agreement dated December 1, 2009, DMCI-HI and SEM-Calaca agreed to an assignment cost of ₱54,343,156 for the APA and LLA.

On December 2, 2009, SEM-Calaca paid PSALM ₱6,617,332,800 representing the Peso equivalent of the 40% down payment for the Purchase Price and $10,390,000 as Rentals and the amount of the Purchase Orders. SEM-Calaca also paid ₱4,293,301.75 as pro-rated premium for insurance on the Power Plant, corresponding to the period from December 2 to 31, 2009. Likewise, SEM-Calaca submitted to PSALM closing deliveries including two stand-by letters of credit posted by DMCI-HI representing the DP Security and the performance security on the LLA. Subsequent to the execution of the Amendment, Accession and Assignment Agreement, the control, possession, obligation to operate the Power Plant and the rights to its revenues were transferred to SEM-Calaca.

The ₱6,617,332,800 paid on December 2, 2009 was computed on the basis of a $ to ₱ exchange rate of $1.00 : ₱47.20, provided by PSALM. In a letter dated December 18, 2009, PSALM claims an additional amount of ₱9,547,200 representing the difference between the Peso equivalent of the 40% downpayment for the Power Plant computed using the $ to ₱ exchange rate earlier provided by PSALM and that computed using the $ to ₱ exchange rate PSALM alleges to be the correct one as per the APA. The Company paid PSALM the claimed amount over a three month period beginning January 2010 up to March 5, 2010.

To partially finance the ₱6.62 billion representing the 40% downpayment for the Power Plant and insurance premium covering the period December 2 to 31, 2009 and $10.39 million representing the 25-year land lease and purchase orders for parts and services for the Power Plant: 1) DMCI-HI contributed on November 27, 2009 and December 1, 2009 the amounts of ₱1.5 billion and ₱3.0 billion, respectively totaling ₱4.5 billion, by way of deposits for future subscription, which will be applied wholly or partially to DMCI-HI's subscription for the Rights Shares; and 2) Dacon contributed on December 1, 2009 the amount of ₱902.12 million, by way of deposits for future subscription, which will be applied wholly or partially to Dacon's subscription for the Rights Shares.

From January to February 2010, SEM-Calaca prepaid a total of ₱6.85 billion of its outstanding debt for the Power Plant to PSALM. On March 5, 2010, SEM-Calaca paid the amount of ₱2.39 billion to PSALM, representing the final prepayment for the purchase price of the Power Plant. Aside from the deposit for future subscriptions, SEM-Calaca secured a term loan of ₱9.6 billion from a syndicate of Philippine banks on May 24, 2010 and its internally generated funds to fully prepay the debt to PSALM.

The current capital structure of SEM-Calaca as of March 31, 2010 is as follows:

	Amount
Deposits for future subscriptions	₱7,995,000,000
Paid-in capital	5,000,000
Total capital	**₱8,000,000,000**

Table 16: SEM-Calaca capital structure

Note: Amounts in ₱

MATERIAL AGREEMENTS RELATING TO THE COMPANY

Coal Operating Contract with DOE and related agreements

The Company holds the COC with the DOE for its coal operations on Semirara Island which is effective until 2012. On May 13, 2008 the DOE approved the Company's request for a final 15 year term extension of the Contract for 15 years or until July 14, 2027.

Under the COC, the Company has the exclusive right to conduct exploration, development and coal-mining operations on Semirara Island. In return for the mining rights granted to the Company, the Government is entitled to receive annual royalty payments consisting of the balance of the gross income after deducting operating expenses, Operator's fee and special allowance. Royalties paid to the Government in the year ended December 31, 2006, 2007 and 2008 and nine month period ended September 31, 2009 were ₱138.3 million, ₱191.3 million, ₱253.3 million and ₱253.4 million, respectively. If the Operator incurs a loss in any year, the Operator will request the DOE for a deferral of payment of the share of the Government to the extent of loss incurred by the Operator in said year. The COC does not provide a penalty in case of failure to remit the annual royalty payments See "Risk Factors – Any breach of the Coal Operating Contract by the DOE would adversely affect the Company".

Under the COC, the Company has the following operator's obligations:

a) Perform coal operations and provide all necessary services, technology and financing in connection therewith. "Coal Operations" is defined as (i) the examination and investigation of lands supposed to contain coal by detailing surface geologic mapping, core drilling, trenching, test pitting and other appropriate means, for the purpose of probing the presence of coal deposits and the extent thereof; (ii) steps necessary to reach the coal deposit so that it can be mined, including but not limited to shaft sinking and tunneling; and (iii) the extraction and utilization of coal;
b) Delineate the development and production area in accordance with good coal mining practice;
c) Operate the area using good coal mining practices;
d) Furnish the DOE with the necessary reports;
e) Maintain detailed technical records and accounts for operations;
f) Maintain all necessary equipment in good order;
g) Provide full access during reasonable hours to accounts, books and records relating to Coal Operations to DOE inspectors;
h) Give priority in employment to qualified personnel from the municipality or province where exploration, development and production operations are located; and
i) Post a bond in favor of the Government to secure the Company's faithful performance for its obligations.

Coal Supply Agreement with NPC

The Company entered into a coal supply agreement with the NPC for the supply of coal to the Power Plant effective from July 1, 1995, which was amended on January 15, 2001, January 1, 2002 and October 16, 2007. The CSA is effective for 15 years and will expire on June 30, 2010.

The CSA contains provisions for:

a) Coal sale price determination. A base coal price is established for each calendar quarter. This base coal price is to apply to all Company sales delivered under the CSA for that quarter. The mechanism for establishing the base coal price is designed to produce an import parity price for the Company's coal. In deriving the base coal price the mechanism takes into account the Free On Board US Dollar cost of coal imported by NPC to the Calaca plant, the energy content of imported coal and prevailing import duties and taxes;
b) Price adjustments, upwards or downwards, to apply to the base coal price. Price adjustments are determined on a per delivery basis and made with reference to a set of specified coal quality standards. As is typical is such contract, standards are prescribed for calorific value, ash, sulphur, sodium, potassium and fines;
c) The Company will supply coal to NPC an annual minimum guaranteed quantity of 1.2 million MT and a maximum of 2.4 million MT, or a monthly minimum guaranteed quantity of 100,000 MT +/- 10% up to a maximum of 200,000 MT;
d) Monthly minimum guaranteed quantity of 100,000 MT can be reduced to 60,000 MT in the event of scheduled maintenance or unforeseen outage lasting 15 days or more at the Power Plant;
e) To assure continuous coal supply to NPC, the Company will, at its expense, maintain a minimum coal inventory of at least 50,000 MT
f) Entitlement of NPC to a discount in the event that the aggregate liftings in any given year exceeds 1.1 million MT. Discount computation will start on the month its aggregate lifting exceeds such amount;
g) An option to reject for certain bases and the consequence of such rejection;
h) Protecting the Company's rights under the CSA in the event of a change of ownership of the Power Plant;
i) Diversion of the Company's coal to other NPC power plants such as the Toledo and Naga coal fired power plants; and
j) Termination by written notice on any of the following grounds; (i) force majeure of more than 6 months; (ii) insolvency or bankruptcy of a party; (iii) failure of a party to perform its obligations within 180 days after the cessation of an event of force majeure; and (iv) inability of the Company to supply the monthly minimum contracted quantities of coal required by NPC for 6 consecutive months.

In the event that the Company is unable to supply the minimum coal offtake, it is required under the CSA to supply the Power Plant with coal of the same specifications set out in the CSA at the same cost as the NPC would have been required to pay for coal from the Company. If the Company is unable to obtain the required coal from an alternative source, it is required to notify the NPC and the NPC may purchase such coal from international producers. In such event, the Company is required to pay to the NPC the difference between the cost of its coal and the cost of the imported coal, together with a management fee of 2% of the imported coal price. If the Company fails to so notify the NPC, it will also be responsible for liquidated damages and any actual revenue loss suffered by the NPC if the Company's failure to provide the minimum coal offtake results in a shutdown or a load reduction at the Power Plant. There has been no material dispute between the parties under this CSA.

In the event that the Power Plant is privatized or its operation and maintenance is turned over to the private sector, the provisions of the CSA may be reviewed and amended by the Company and the new owner or operator of the Power Plant. In the conduct of such review, the prevailing policy on the development of the country's indigenous energy resources as set forth in the DOE Act of 1992 will be observed.

The Company also entered into a supplemental agreement (the "Supplemental Agreement") with NPC on October 27, 2003 to handle coal deliveries from the Power Plant's port to its silos, thereby maximizing coal delivery efficiency. NPC agreed to pay a delivery fee on a per MT basis for coal delivered to the Power Plant's silos.

Other Coal Supply Agreements

In addition to the CSA, the Company also entered into coal supply agreements with three other customers, involving a total of 1.05 million MT of coal.

Customers	Volume	Expiration
Toledo Power Company	200,000 MT	2/2010*
Siam Cement Trading Company, Ltd	100,000 MT	5/2010
Noble Resources, Pte Ltd	750,000 MT	6/2010

Table 17: Other coal supply agreements of the Company

Note: Contract under negotiation

Loan Agreements

Standard loan agreements with Bayerische Hypo-Und Vereinsbank Aktienggesellschaft ("HVB")

Seven Standard Loan Agreements were executed between the Company and Bayerische Hypo-Und Vereinsbank Aktienggesellschaft, Munich, Federal Republic of Germany (''HVB'') for the purchase of equipment, with amounts and maturity dates as follows:

	Agreement Date	Amount (in ₱)	Maturity	Status
1	July 1, 2004	106,603,518.73	December 31, 2009	Matured
2	September 28, 2004	149,440,171.72	January 18, 2010	Matured
3	October 25, 2004	153,232,733.75	March 10, 2010	Matured
4	November 23, 2004	121,748,671.83	December 7, 2009	Matured
5	January 27, 2005	52,391,484.80	December 30, 2009	Matured
6	June 2, 2005	79,498,793.84	August 30, 2010	Current
7		121,606,991.85	September 27, 2010	Current

Table 18: Standard Loan Agreements with HVB

HVB financed 85% of the total contract price of the abovementioned pieces of equipment plus all or part of the guarantee fee imposed by the export credit insurer, Euler Hermes Kreditversicherungs-AG, Germany, for the guarantee which secures the loan. Hermes is an export credit agency of the German Government. These facilities are also secured by a corporate guarantee from DMCI-HI. Each facility bears an interest rate of six-months LIBOR plus a spread of 1.5%, except the seventh Standard Loan Agreement which provides for a spread of 1.25%. Each tranche has a term of five and a half years, with a 6 month grace period on principal amortization.

Facility Agreement with Mizuho Corporate Bank, Ltd.

The Company entered into a Facility Agreement with Mizuho Corporate Bank, Ltd., Singapore Branch on December 14, 2005. The maximum aggregate amount of $ 6,642,000 is granted in favor of the Company under the Facility Agreement. The guarantor under the Facility Agreement is Komatsu Asia & Pacific Pte

Ltd. The stated purpose of the facility is to finance the commissioning and purchasing of the equipment by the Company. The Facility Agreement has a term of five years, with a one-year grace period on the principal repayment. The final maturity of the loan is November 30, 2010.

Deferred Payment Sale and Purchase Agreement with Marubeni Corporation

The Company entered into a Deferred Payment Sale and Purchase Agreement with Marubeni Corporation on November 16, 2009 for the purchase, on a deferred payment basis, of mining equipment manufactured by Komatsu Limited. More equipment may be added to the initial list as long as total availment will not exceed $35,000,000.

Credit Line Agreements

As of the date of this Prospectus, the Company has entered into credit line agreements with various banks named in Table 19.

Bank	Omnibus Line	Bills Purchase Line	DAUD Line	Settlement Risk Line	Currency Swaps Line	Outstanding (as of January 24, 2010)	Expiry
Banco De Oro Unibank, Inc.	₱500.0	₱150.0					30-Apr-10
Security Bank Corporation	₱500.0	₱50.0		$2.0		₱326.2	30-Sep-10
Mizuho Bank, Ltd	$10.0					₱7.9	12-Sep-10
Bank of Commerce	₱250.0		₱10.0				30-Nov-10
Bank of the Philippine Islands	₱3,200.0					₱543.2	30-Sep-10
Hongkong Shanghai Banking Corp.	₱150.0				$2	₱3.9	31-Oct-10

Table 19: Credit line agreements
Note: Amounts in millions

Equipment Rental Agreements

The Company entered into several sale and leaseback agreements with BDO Rental, Inc. ("BDO Rental") involving units of heavy equipment and other vehicles. The Company was required to pay monthly rental according to a step-down payment scheme. The relevant details of the Equipment Rental Agreements with BDO Rental are as shown in Table 20.

Period	Aggregate Rental Due (in ₱)	Aggregate Value Outstanding * (in ₱)	Final Amortization Date
Aug. 29, 2008 to Aug. 29, 2010	50,442,026.64	1,942,026.64	Aug. 29, 2010
Sept. 23, 2008 to Sept. 23, 2010	121,897,268.59	18,897,268.59	Sept. 23, 2010
Nov. 3, 2008 to Nov. 3, 2010	395,122,401.15	119,500,433.50	Oct. 24, 2010
Nov. 3, 2008 to June 3, 2010	469,097,959.94	123,699,319.98	June 3, 2010
Dec. 22, 2008 to Dec. 22, 2010	194,542,088.58	70,187,076.55	Dec. 22, 2010
Feb. 20, 2009 to Feb. 20, 2011	179,555,175.00	100,550,898.00	Feb. 20, 2011
Mar. 31, 2009 to Aug. 31, 2010	232,445,447.70	93,682,559.22	Aug. 31, 2010
Mar. 31, 2009 to Aug. 31, 2010	87,715,263.23	35,351,909.12	Aug. 31, 2010
May 29, 2009 to Oct. 29, 2010	70,508,089.06	36,536,009.78	Oct. 29, 2010
Apr. 30, 2009 to Sept. 30, 2010	88,135,111.08	40,595,566.16	Sept. 30, 2010

Table 20: Equipment rental agreements
**As of December 31, 2009*

Selling Agency Agreements

Selling Agency Agreement with Starwise Investments Limited

Under Selling Agency Agreement dated June 2, 2009 and effective until May 1, 2010 between the Company and Starwise Investments Limited ("Starwise"), the Company appointed Starwise as its sole and exclusive agent in the sale of Semirara steaming coal to Fujian Sunway Resources Limited ("Fujian"). The Company agreed to pay Starwise a commission for the sale of the Company's steaming coal.

MATERIAL AGREEMENTS RELATING TO THE POWER PLANT

Asset Purchase Agreement

On July 8, 2009, DMCI-HI was declared by PSALM as the highest bidder for the privatization of the Power Plant. The DMCI-HI bid is outlined in Table 21.

Particulars	Amounts
Purchase Price for the Power Plant	351.000
Purchase Orders for Power Plant parts and services	7.200
Rental for 25-year lease of the Leased Premises	3.190
Option Price	0.319
Total	**361.709**

Table 21: DMCI-HI 2009 bid for the Power Plant (in $ millions)

Under the APA, PSALM agreed to sell and transfer to DMCI-HI, on an "as is where is" basis, the Power Plant. In an Amendment, Accession and Assumption Agreement dated December 2, 2009, DMCI-HI assigned all of its rights and obligations under the APA and the LLA to SEM-Calaca. PSALM consented to the said assignment. Closing under the APA was achieved on December 2, 2009, upon which control, possession, risk of loss or damage of and the obligation to operate the Power Plant, and the rights to its revenues were turned over to SEM-Calaca. However, legal title to the Power Plant will transfer to SEM-Calaca only upon full payment of the purchase price.

On December 2, 2009, SEM-Calaca paid PSALM ₱6,598,480,000 representing the Peso equivalent of the 40% down payment for the Purchase Price and $10,390,000 as Rentals and the amount of the Purchase Orders. SEM-Calaca also paid ₱4,293,301.75 as pro-rated premium for insurance on the Power Plant, corresponding to the period from December 2 to 31, 2009. In a letter dated December 18, 2009, PSALM claims an additional amount of ₱9,547,200 representing the difference between the Peso equivalent of the 40% downpayment for the Power Plant computed using the $ to Peso exchange rate earlier provided by PSALM and that computed using the $ to Peso exchange rate PSALM alleges to be the correct one as per the APA.

The principal amount of the Deferred Payment is equivalent to 60% of the purchase price for the Power Plant. The Deferred Payment will be paid to PSALM via 14 equal semi-annual payments beginning June 2, 2010 with an interest rate of 12% per annum, compounded semi-annually. Under a Memorandum of Agreement dated December 2, 2009 between PSALM and SEM-Calaca, the amounts of ₱288,385,449 representing parts identified as required to achieve 350 MW capability and ₱247,548,376.23 as unawarded purchase orders will be deducted from the principal amount of the Deferred Payment. Under the APA, upon prior written notice to PSALM, and on the condition that SEM-Calaca is not in breach of any of its substantial obligations to PSALM under the APA and LLA, SEM-Calaca may prepay any portion of the Deferred Payment at any time.

On December 1, 2009, the Company made deposits to SEM-Calaca for its future stock subscription amounting to ₱6,669,000,000 and $10,390,000. On February 25, 2010, the Company made additional deposits for future stock subscription of ₱839,340,000 and advances of ₱4,060,660,000 to SEM-Calaca, which SEM-Calaca in turn paid to PSALM as partial prepayments.

From January to February 2010, SEM-Calaca prepaid a total of ₱6.85 billion of its outstanding debt for the Power Plant to PSALM. On March 5, 2010, SEM-Calaca paid the amount of ₱2.39 billion to PSALM, representing the final prepayment for the purchase price of the Power Plant.

With the full payment of the acquisition price for the Power Plant, SEM-Calaca, at its own cost and expense, obtained and maintains insurance that insure: (i) SEM-Calaca and PSALM against third party claims arising out of actions or omissions of SEM-Calaca or any of its current or former directors, officials, employees, agents and/or representatives; and (ii) the Power Plant against property damage or loss (partial or total).

Land Lease Agreement

PSALM and DMCI-HI entered into the LLA in furtherance of and as an ancillary contract to the APA. In an Amendment, Accession and Assumption Agreement dated December 2, 2009, DMCI-HI assigned all of its rights and obligations under the APA and the LLA to SEM–Calaca. PSALM consented to the assignment.

Under the LLA, SEM-Calaca leased from PSALM the Leased Premises. The total area of the Leased Premises is 1,475,484 square meters. The term of the lease is 25 years from the date of turnover of the Power Plant on December 2, 2009. The lease may be renewed or extended for another period of 25 years, upon mutual written agreement of PSALM and SEM-Calaca, provided SEM-Calaca will have faithfully complied with the terms and conditions of the LLA.

PSALM undertook to include as part of the Leased Premises, any part of the Adjoining Property to which PSALM may acquire, during the term of the lease, ownership, actual possession or possessory rights which allows PSALM to lease the same to SEM-Calaca. The rental due on such additional Leased Premises will be computed at a base rate of $0.20 per square meter per annum, subject to an annual increase of said base rate at a rate of 2.5% commencing on the first anniversary of the Power Plant turnover. Among that comprising Adjoining Property are the Eminent Domain Lots with a total area of 58,882 square meters.

NPC has obtained writs of possession over these Eminent Domain Lots, giving it the right of possession. However, NPC will not acquire title over these Eminent Domain Lots until it pays the just compensation set by the court in the eminent domain proceedings. Upon NPC or PSALM acquiring title to the Eminent Domain Lots, these automatically form part of the Leased Premises.

Some parcels of land (the "Optioned Assets") forming part of the Leased Premises have been separately identified under the LLA as subject to the Option. PSALM has the sole discretion to add to the LLA's list of Optioned Assets. At PSALM's sole discretion and upon written demand by PSALM, SEM-Calaca will pay PSALM the option price amounting to $0.319 million, as consideration for the Option. SEM-Calaca may purchase the relevant Optioned Assets within a period of one year from such written demand. The purchase price (per square meter) of the Optioned Assets will be the highest of the following valuations and/or amounts: 1) the Batangas Provincial Assessor's assessment; 2) the relevant municipal or city assessor's assessment; 3) the BIR's zonal valuation (the aforementioned as of the date that SEM-Calaca receives PSALM's written demand); or 4) $21 per square meter. Any unused rental corresponding to the area of the Optioned Assets over which SEM-Calaca exercises its Option will be deducted from the purchase price of the purchased Optioned Assets. Upon prior written notice to PSALM, SEM-Calaca may assign its Option to an entity, at least 30% of the outstanding voting capital stock owned by SEM-Calaca. The LLA will be deemed terminated to the extent of and as to such part of the Optioned Assets that have been purchased by SEM-Calaca. SEM-Calaca may mortgage or encumber any of the Optioned Assets over which the Option is exercised upon prior written notice to PSALM solely to secure financing for or refinancing of (i) the acquisition of the Power Plant or the Optioned Assets over which the Option is exercised, (ii) operation of the Power Plant, or (iii) rehabilitation, repair, upgrade or expansion of the Power Plant. If the APA is terminated in accordance with Section 13 thereof, SEM-Calaca is required to transfer ownership over any purchased Optioned Assets back to PSALM and PSALM is required to refund to SEM-Calaca the purchase price paid for such, without interest and less any corresponding rental.

SEM-Calaca may not mortgage or encumber the Leased Premises or its leasehold rights without the prior written consent of PSALM. PSALM may sell, mortgage, convey, alienate or encumber its rights over the Leased Premises provided SEM-Calaca's leasehold rights are respected. SEM-Calaca will have the right to top the bid price of the winning bidder (i.e. to pay a purchase price that exceeds five percent of that bid by the winning bidder) for any of the Optioned Assets sold by PSALM and over which SEM-Calaca fails to exercise its Option.

SEM-Calaca will be liable for all costs, expenses, fees and taxes, including but not limited to documentary stamp tax but excluding VAT, arising out of, related to or in connection with the LLA, the Option, any sale document executed in furtherance of the LLA and the exercise or performance of SEM-Calaca's obligations under the LLA. PSALM will be liable for any VAT due on the rental, the price of the Option or the purchase price for the purchased Optioned Assets.

On December 2, 2009, DMCI-HI posted in favor of PSALM a stand-by letter of credit in the amount of $0.738 million to secure SEM-Calaca's obligations under the LLA.

On December 2, 2009, SEM-Calaca paid the amount of $3.19 million as rental for the Leased Premises for the 25-year term of the lease.

The LLA will terminate automatically if the APA is terminated prior to full payment of the Power Plant on any of the grounds enumerated in Section 13.01 of the APA. The termination grounds under Section 13.01 of the APA that are still applicable as of this date are:

a) By PSALM, upon failure of SEM-Calaca to pay all the Deferred Payments, penalties and interest, payment of which will become accelerated and due upon failure of SEM-Calaca to pay any portion of the individual Deferred Payments within 30 days from payment date;

b) By either PSALM or SEM-Calaca, upon the other party’s failure to cure a material breach of its obligations under the APA within 45 days from receipt of written notice of such breach; and

c) By mutual written agreement of the parties; provided, neither party is in breach of the APA.

Power Supply Contracts

NPC entered into the following power supply contracts for the supply of energy generated by the Power Plant to specific customers, as outlined in Table 22.

Customer	Contract Duration	
	Effectivity	Expiration
MERALCO	November 6, 2006	November 25, 2011
Cavite Economic Zone	June 26, 2006	June 25, 2011
BATELEC I	December 26, 2006	December 25, 2010
Sunpower Philippines Manufacturing Ltd	August 18, 2004	August 17, 2019
Steel Corp.	March 26, 2008	December 25, 2009
Puyat Steel Corporation	November 26, 2008	November 25, 2009
ECSCO, Inc.	December 26, 2005	December 25, 2010
Lipa Ice Plant	January 26, 2005	January 25, 2010

Table 22: NPC Power Supply Contracts and Transition Supply Contracts for the Power Plant

Source: Schedule W of the APA

Under the APA, SEM-Calaca assumed the rights and obligations of NPC under these power supply contracts upon turnover of the Power Plant.

As of March 31, 2010, the following are the current and outstanding PSCs and TSCs of SEM-Calaca.

Customer	Contract Duration	
	Effectivity	Expiration
MERALCO	November 6, 2006	November 25, 2011
Cavite Economic Zone	June 26, 2006	June 25, 2011
BATELEC I	December 26, 2006	December 25, 2010
Steel Corp.*	March 26, 2008	December 25, 2009
Puyat Steel Corporation	November 26, 2009	November 25, 2012
ECSCO, Inc.	December 26, 2005	December 25, 2010
Lipa Ice Plant	January 26, 2010	January 25, 2011

**Under negotiation for renewal*

Under the power supply contracts (the “PSCs”) and transition supply contracts (the "TSCs"), NPC is obliged to supply the energy to the customer in accordance with good utility practice and in compliance with the appropriate rules and regulations. The supply of energy will be available except for interruption or reduction due to: 1) causes beyond the control of NPC despite the exercise of due care; 2) transmission failure; or 3) maintenance to ensure system stability and safety reasons as may be provided by laws, rules or regulation. NPC will inform the customer of any shortage in its general capacity and the allocation of the available supply of electricity to the customer will be proportionate to the contracted energy as provided in the PSC.

Generation rates are stipulated in the individual PSC. If the customer has not fully taken or failed to consume its contracted energy, the customer will pay the specified minimum charge, subject to service interruption adjustment due to the fault or lack of generation capacity of NPC or to maintenance service adjustment during the customer's scheduled maintenance of its facilities.

Either party may terminate the relevant PSC:

1. Upon the occurrence of a verified event of force majeure; or
2. Upon failure of the other to perform its obligation under the PSC.

The PSCs provide that NPC may assign or transfer part or all of its rights and obligations in the supply of the contracted energy.

Contract for the Fly Ash of the Power Plant

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

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

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

Memorandum of Agreement dated September 28, 1993

Under the Memorandum of Agreement ("MOA") between NPC, the Philippine National Police ("PNP"), the Armed Forces of the Philippines ("AFP") and the Office of the Undersecretary for Local Governments ("DILG") dated September 28, 1993, PNP and AFP agreed to provide assistance to NPC in securing its installations, facilities and personnel in accordance with the Joint AFP-PNP Implementing Guidelines on Operational Matters on the Turn-Over of Internal Security Responsibility from AFP to PNP, and other pertinent issues. The DILG, through its field personnel and local government officials, will extend assistance to NPC by seeking the cooperation of the residents to protect NPC installations. NPC will each provide daily meal/incentive allowance of ₱80.00 to five PNP personnel in Calaca actually assigned to the Power Plant to be paid directly to them subject to corporate policies and Commission on Audit ("COA") requirements. NPC will likewise allocate monthly 40 liters of diesel fuel to PNP-Calaca for their use in conducting security patrol within NPC periphery including contiguous security areas of concern subject to corporate policies and COA requirements.

In case of actual combat or imminent danger thereof, the PNP or AFP commander in the area will have operational control over the NPC's security guards. However, NPC will provide PNP/AFP/DILG elements actually engaged in providing security to NPC installations the administrative and/or logistical support, subject to NPC's corporate policies. NPC will also provide the necessary office space and other facilities for the PNP/AFP elements.

Security within the Power Plant will remain the basic responsibility of NPC, but the parties agree to cooperate in giving effect to this MOA.

OWNERSHIP AND MANAGEMENT

Corporate Structure

Figure 6, updated as of March 31, 2010, provides an overview of the ownership structure of the Company, its parent and certain principal affiliates.

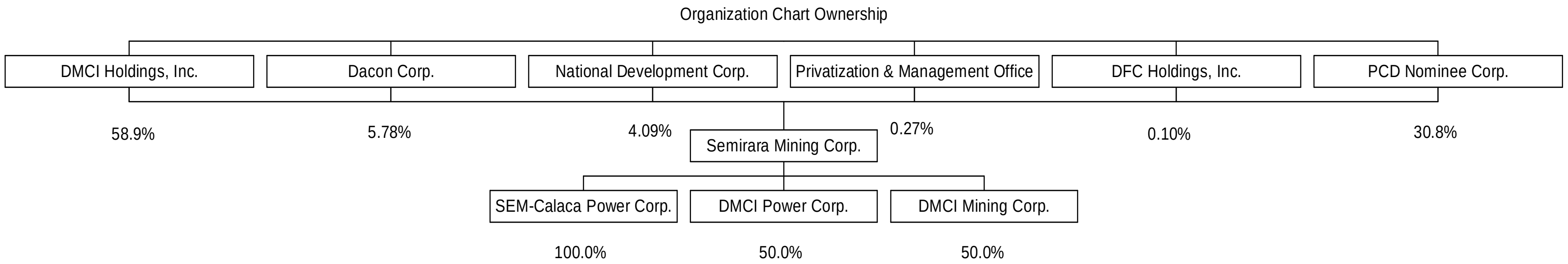

Organization Chart Ownership
DMCI Holdings, Inc.
Dacon Corp.
National Development Corp.
Privatization & Management Office
DFC Holdings, Inc.
PCD Nominee Corp.
58.9%
5.78%
4.09%
0.27%
0.10%
30.8%
Semirara Mining Corp.
SEM-Calaca Power Corp.
DMCI Power Corp.
DMCI Mining Corp.
100.0%
50.0%
50.0%

Figure 6: Ownership structure of the Company

SUBSIDIARIES AND ASSOCIATES

The Company's subsidiaries and associates and its ownership in these subsidiaries and associates as of December 31, 2009 are set forth below.

Subsidiaries	Percentage Ownership
SEM-Calaca	100%
DMCI Power Corporation	50%
DMCI Mining Corporation	50%

Except as otherwise provided herein, neither the Company nor any of its subsidiaries and associates have been the subject of a bankruptcy, receivership or similar proceeding, or involved in any material reclassification, merger, consolidation, or purchase or sale of a significant amount of its assets not in the ordinary course of business.

CAPITAL EXPENDITURE

The Company incurred capital expenditure for its conventional and continuous mining equipment, power plant building, aircraft, roads, bridges and other infrastructure, as outlined in Table 23.

Year	Amount (in ₱ billions)
2009	2.95
2008	1.91
2007	0.29

Table 23: Semirara's capital expenditure

Intellectual Property

The Company believes that its operations and the operations of its subsidiary are not dependent on any patent, trademark, copyright, license, franchise, concession or royalty agreement.

RESEARCH AND DEVELOPMENT

Amounts spent for research and development activities are minimal and do not amount to a significant percentage of revenues.

Regulatory and Environmental Matters

Coal operations in the Philippines are governed by Presidential Decree 972, or the Coal Development Act of the Philippines, as amended by PD 1174, providing for the active and systematic exploration, exploitation, development, disposition and utilization of Philippine coal resources. These decrees introduced the Philippine Coal Service Contract System and established the appropriate guidelines for coal operations. Under these guidelines, the Government retains ownership of coal resources through the coal contract system, but assigns the right to explore, develop, exploit and market the coal.

There are three types of coal contracts:

1) Exploration
2) Development/Production
3) Small Scale Coal Mining Permit (“SSCMP”)

The DOE is mandated by Republic Act 7638 (Department of Energy Act of 1992) to prepare, integrate, coordinate, supervise and control all plans, programs, projects and activities of the Government relative to energy exploration, development, utilization, distribution and conservation. As such, the Company's exploration, development, and production of coal resources under its COC are regulated by the DOE.

In relation to its operations, the Company is required under existing law to secure an ECC. The Company obtained ECC number 9805-009-302 on August 12, 1993 for the Panian coal mine project and ECC number 0699-1208-280-120, issued on December 8, 1999 for the improvement and expansion of the existing air strip in Semirara Island. The Company has programs being implemented to comply with the conditions of its ECC, which includes the Regular Monitoring by a Multi-partite Monitoring Team (“MMT”), Marine Assessment Studies/Surveys, and Social & Environmental Development Programs such as expanded mangrove areas, initiated and supported livelihood projects, implemented reforestation programs on the island and cultivated fresh water sanctuary. The Company has spent ₱35.7 million for these activities in 2009.

The Company has established an Environmental Monitoring Fund for MMT, which has an initial amount of ₱600,000, determined by the work and financial plan of the Monitoring Team. Also, an Environmental Guarantee Fund was established with a cash component of ₱1.5 Million. This enables the continued mining operations of the Company.

The Company has also obtained an Exploration Permit from the DENR for the exploration of limestone, silica and other quarry minerals on Semirara Island. See "Description of the Company – Resources – Others mineral deposits". In addition, the Company acquired a temporary permit to operate a 2 x 7.5 MW captive power plant on the Island. Both of these permits were renewed for a period of two years on June 28, 2004.

The Company acquired an Aerodome Rating Certificate and it has private use of an airstrip on Semirara Island which it uses for the transport of employees and equipment parts of supplies. The Certificate is valid until May 31, 2010 and is renewable 30 days before its expiration.

EMPLOYEES

The average number of personnel of the Company is 2,017 and 1,649 for the years 2009 and 2008, respectively, inclusive of employees based at the company's head office in Manila. Out of the 2,017 employees for 2009, 221 are employed by the Company while the rest are employed by Integrated Workers Multi-Purpose Cooperative and DMC Construction Equipment Resources, Inc., an affiliate of Dacon Corporation.

A new CBA was signed between the Company and the SMCLU last December 14, 2006 which will last five years after effectivity. There was a notice of strike or dispute which, however, did not materialize due to the settlement resulting to the signing of the new CBA.

INVESTOR RELATIONS

As part of the Company's Corporate Governance Program, the Company maintains an Investor Relations unit which is currently being handled by the Investor Relations ("IR") Department, in close coordination with SCC's Corporate Secretary, Atty. John R. Sadullo. The IR is headed by Sharade E. Padilla. The IR unit is located at 2/F DMCI Plaza Bldg., 2281 Don Chino Roces Ave., 1231 Makati City, with telephone number +63 2 888 3553.

The responsibilities of SCC's IR Department include annual report production, press releases, and corporate website management. SCC's IR Department also assists in organizing and staging SCC's annual stockholders' meetings and media briefings related to earnings releases. One-on-one meetings with investors are directly handled by SCC's senior executives.

DIVIDENDS AND DIVIDEND POLICY

The Company is allowed to declare dividends from its surplus profits at such times and in such percentage as the Board of Directors may deem proper. The Company may declare dividends only out of its unrestricted retained earnings. These represent the net accumulated earnings of the Company with its capital unimpaired, which are not appropriated for any other purpose. The Company may pay dividends in cash, by the distribution of property, or by the issue of shares of stock. Dividends paid in cash or property are subject to the approval by the Board of Directors. Dividends paid in the form of additional shares are subject to approval by both the Board of Directors and shareholders owning at least two-thirds of the outstanding capital stock of the Company at a shareholders' meeting called for such purpose.

The Company adopts a minimum of 20% of net profit after taxes starting from the period ending December 31, 2005 as its payout ratio; provided however that the Board of Directors will have the option to declare more than 20%, if there is excess cash and less than 20%, if no sufficient cash is available. No dividend will be declared that will impair the capital of the Company. Stock dividends will be declared in accordance with law. There are no restrictions that will limit the ability of the Company to pay dividends on Common Shares.

The Company's dividend history for 2007 to 2010 is shown in Table 24.

Year	Actual payout ratio	Total cash dividends paid	Cash dividends paid per share
2010	0.97	1,781,250,000	6.00
2009	2.09	1,665,436,800	6.00
2008	1.75	1,110,291,200	4.00
2007	0.56	333,087,360	1.20

Table 24: Dividend history

The Corporation Code prohibits stock corporations from retaining surplus profits in excess of 100% of their paid-in capital stock, except when justified by definite corporate expansion projects or programs approved by the Board of Directors, or when the corporation is prohibited under any loan agreement with any financial institution or creditor from declaring dividends without its consent, and such consent has not yet been secured, or when it can be clearly shown that such retention is necessary under special circumstances obtaining in the corporation.

The Company declares cash dividends to shareholders of record usually in the first half of each year. These dividends are paid from unrestricted retained earnings. The Company’s Board of Directors may, at any time, modify its dividend payout ratio depending upon the results of operations and future projects and plans of the Company.

RECENT SALES OF UNREGISTERED OR EXEMPT SECURITIES

There were no sales of securities within the past three years which were not registered under the Securities Regulation Code.

Description of Securities

The following is the general information relating to the Company's capital stock but does not purport to be complete or to give full effect to the provisions of law and is in all respects qualified by reference to the applicable provisions of the Company's Amended Articles of Incorporation and By-Laws.

RIGHTS OFFER BOARD APPROVAL

In a special meeting held on January 12, 2010, the Board of Directors approved the issuance of 92,524,266 Common Shares with a par value of ₱1.00 per share by way of a Rights Offer to eligible existing common shareholders of the Company at the proportion of one Rights Share for every five existing Common Shares held. The Rights Offer Price will be determined based on the VWAP of the Company's Common Shares traded in the PSE for the 15-day trading period preceding the Pricing Date.

The Rights Offer proceeds will be used to partially finance the Company's acquisition of the Power Plant through its wholly-owned subsidiary, SEM-Calaca.

In the same board resolution, the Company approved the engagement of BDO Capital & Investment Corporation as Underwriter for the Rights Offer for technical compliance purposes of the SEC.

SHARE CAPITAL

The authorized capital stock of the Company is ₱1,000,000,000 consisting of 1,000,000,000 Common Shares with a par value of ₱1.00 per share. As of the date of this Prospectus, 296,875,000 Common Shares are issued and outstanding.

The Company is offering for subscription 59,375,000 Common Shares with a par value of ₱1.00 per share by way of a Rights Offer to eligible existing common shareholders of SCC at the proportion of one Rights Share for every five existing Common Shares held as of Record Date at an offer price of ₱74.00 per Rights Share. Any fractional share will be disregarded in the computation of the Rights Share of each shareholder.

VOTING RIGHTS

Each Common Share is equal in all respects to all other Common Shares. All Common Shares have full voting and dividend rights. At stockholders' meetings, every stockholder will be entitled to one vote for each share registered in his name.

Stockholders may vote in all meetings either in person or by proxy given in writing, signed by the stockholders concerned, and presented to the Company's Corporate Secretary not later than 10 days prior to the date of the meeting. Validation of proxies will be held at the date, time, and place as stated in the Notice of Meeting, which in no case will be less than five days prior to the date of said meeting, as provided in the By-Laws.

Cumulative voting is allowed. Each registered stockholder will have the right to vote the number of shares standing in his name at record date and said stockholder may vote such number of shares for as many persons as there are directors to be elected, or he may cumulate said shares and give one candidate as many votes as the number of directors to be elected multiplied by the number of his shares will equal or he may distribute them on the same principle among as many candidates as he will see fit, provided that the total number of votes cast by him will not exceed the number of shares owned by him as shown in the books of the Company multiplied by the total number of directors to be elected. A director may be removed from office, with or without cause, by the vote of stockholders representing two-thirds of the outstanding voting capital stock, provided that removal without cause may not be used to remove a director elected by the minority stockholders.

The Corporation Code also provides that certain fundamental acts may only be implemented with stockholder approval. The following require the approval of the stockholders representing at least two-thirds of the outstanding capital stock:

- amendment of the Articles of Incorporation;
- sale, lease, exchange, mortgage, pledge or other disposition of all or substantially all of the assets of the Company;
- investment of corporate funds in any other corporation or business or for any purpose other than the primary purpose for which the corporation was organized;
- merger or consolidation;
- any increase or decrease of capital stock;
- extension or shortening of the corporate term;
- dissolution of the corporation;
- creation or increase of bonded indebtedness.
- removal of directors;
- issuance/declaration of stock dividends; and
- delegation to the board of directors of the power to amend or repeal by-laws or adopt new by-laws.

DIVIDEND RIGHTS

The Company's Board of Directors is authorized to declare dividends. A cash or property dividend declaration does not require any further approval from the stockholders. A stock dividend declaration requires further approval of the stockholders holding or representing not less than two-thirds of the Company's outstanding capital stock entitled to vote. Such approval of the stockholders may be given at a general or special meeting called for such purpose.

Dividends may be declared and paid out of the unrestricted retained earnings which will be payable in cash, property, or stock to all stockholders on the basis of outstanding stock held by them, as often and at such times as the Board of Directors may determine and in accordance with law. The Company adopts a minimum of 20% of net profit after taxes starting from the period ending December 31, 2005 as its payout ratio; provided however that the Board of Directors will have the option to declare more than 20%, if there is excess cash and less than 20%, if no sufficient cash is available.

The Corporation Code generally requires a Philippine corporation with retained earnings in excess of 100% of its paid-in capital to declare and distribute as dividends the amount of such surplus. Notwithstanding this general requirement, a Philippine corporation may retain all or any portion of such surplus in the following cases: (i) when justified by definite expansion plans approved by the board of directors of the corporation; (ii) when the required consent under any of the corporation's loan agreements with a financing institution or creditor to such distribution has not been secured; (iii) when retention is necessary under special circumstances, such as when there is a need for special reserves for probable contingencies; or (iv) when the non-distribution of dividends is consistent with the policy or requirement of a government office. Philippine corporations whose securities are listed on any stock exchange are required to maintain and distribute an equitable balance of cash and stock dividends, consistent with the needs of shareholders and the demands for growth or expansion of the business.

RIGHTS OF COMMON SHARES TO ASSETS OF THE COMPANY

Each holder of a common share is entitled to a pro rata share in the assets of the Company available for distribution to the stockholders in the event of dissolution, liquidation and winding up.

PREEMPTIVE RIGHTS

The Corporation Code provides that all stockholders of a stock corporation will enjoy preemptive right to subscribe to all issues or disposition of shares of any class, in proportion to their respective shareholdings, unless such right is denied by the articles of incorporation or an amendment thereto. Under the Company's Articles of Incorporation, pre-emptive rights are denied as to all issuances or dispositions of the Company's common shares.

APPRAISAL RIGHTS

Under Philippine laws, stockholders dissenting from the following corporate actions may demand payment of the fair value of their shares in certain circumstances:

- In case any amendments to the Company's Articles of Incorporation has the effect of changing and restricting the rights of any stockholder or of authorizing preferences over the outstanding shares;
- In case of any sale, lease, exchange, transfer, mortgage or other disposition of all or substantially all of the corporate property or assets;
- In case of merger or consolidation;
- In case the Company decides to invest its funds in another corporation or business or for any purpose other than the primary purpose; and
- Extension or shortening of the Company's corporate term.

Failing an agreement between the dissenting stockholder and the Company, fair value will be determined by a committee of three disinterested persons. The remedy will only be available if the Company has unrestricted retained earnings sufficient to support the purchase of the shares of the dissenting stockholders.

OWNERSHIP RESTRICTIONS

The Philippine Constitution and laws limit foreign ownership in the Company to a maximum of 40% of its capital, because it is engaged in the business of exploring, extracting, and utilizing a natural resource. The Company cannot allow the issuance or the transfer of shares to persons other than Philippine nationals and cannot record transfers in the books of the Company if such issuance or transfer would result in the Company ceasing to comply with the aforementioned nationality restriction.

STOCK TRANSFER AGENT

The Company's stock and transfer book is maintained at the principal office of the Company's stock transfer agent, Rizal Commercial Banking Corporation located at Yuchengco Tower, RCBC Plaza, 6819 Ayala Avenue, 0727 Makati City.

CHANGE IN CONTROL

There are no existing provisions in the Amended Articles of Incorporation or the Amended By-laws of the Company which will delay, defer or in any manner prevent a change in control of the Company.

Philippine Power Industry

The information in this section has been derived from various government and private publications or obtained from communications with various Government agencies unless otherwise indicated and has not been prepared or independently verified by the Company or the Underwriter or any of their respective affiliates or advisors. The information may not be consistent with other information compiled within or outside the Philippines.

PRIOR TO ENACTMENT OF THE ELECTRIC POWER INDUSTRY REFORM ACT

Before the enactment and promulgation of the EPIRA, the power industry is divided into three sectors namely:

1) Generation & transmission;
2) Distribution & supply; and
3) End-Users.

The generation and transmission of power was monopolized by the NPC, which is a government owned and controlled corporation. Being a monopoly business, its bundled rate had to be approved by the then Energy Regulatory Board ("ERB") before the same was charged to distribution utilities and finally to end-users.

From the high-voltage transmission highway, the power generated must pass through the distribution lines of distribution utilities before it reaches the level of end-users. Distribution utilities are either a privately owned distribution utility such as Manila Electric Company, Visayan Electric Company or electric cooperatives such as Batangas Electric Cooperative I, Pampanga Electric Cooperative. In addition to the distribution function, the sourcing and selling of power (supply function) was also under the responsibility of the distribution utilities. Similar to the case of NPC, the rate charges by distribution utilities was under the regulation of the then ERB to protect the interest of the end-users of the distribution utilities who are considered as captive market because of the absence of choice in sourcing power.

ENACTMENT OF THE EPIRA LAW

As part of the Government's effort to lower the cost of electricity in the country, the EPIRA Law was promulgated last June 2001. The EPIRA Law was enacted by the Government with the hope of realizing the following objectives:

a) To ensure the quality, reliability, security and affordability of the supply of electric power;
b) To ensure transparent and reasonable prices of electricity in a regime of free and fair competition and full public accountability to achieve greater operational and economic efficiency and enhance the competitiveness of Philippine products in the global market;
c) To enhance the inflow of private capital and broaden the ownership base of the power generation, transmission and distribution sector;
d) To ensure fair and non-discriminatory treatment of public and private sector entities in the process of restructuring the electric power industry;
e) To provide for an orderly and transparent privatization of the assets and liabilities of the NPC; and
f) To establish a strong and purely independent regulatory body and system to ensure consumer protection and enhance the competitive operation of the electricity market.

To achieve the above-mentioned objectives of the EPIRA, the Government has to develop and restructure the Philippine electric power industry, which include the implementation of the following:

a) Unbundling of the generation, transmission, distribution and supply sectors; and
b) Declaration of Open Access and Retail Competition.

Unbundling of the Generation, Transmission, Distribution and Supply Sectors

To realize the objective of the EPIRA in making the electricity rates affordable, the power industry must be restructured to include the unbundling of its various sectors. From the three sectors during the pre-EPIRA regime, the power industry was restructured to separate the transmission from generation and supply from distribution, making the industry into four sectors, namely:

a) Generation Sector;
b) Transmission Sector;
c) Distribution Sector; and
d) Supply.

A. Generation Sector

This sector is responsible in converting fuel and other sources of energy into electricity. Under the EPIRA regime, the generation sector was liberalized from a Government monopoly to a competitive market. This liberalization fostered competition in the generation sector at the wholesale level. In addition, the EPIRA set a limitation preventing generation companies from owning: 1) more than 30% of the installed generating capacity in the Luzon, Visayas and Mindanao grids; or 2) more than 25% of the total nationwide installed generating capacity.

Competition in the wholesale level is dependent on the realization of the following requisites, to wit:

a) Creation of TRANSCO;
b) Privatization of NPC's generating assets and IPP contracts by PSALM; and
c) Establishment of WESM by PEMC.

Upon the fulfillment of the above requisites, the generation sector will now be composed of: 1) Independent Power Producers (First Gas Power Corporation and FGP Corporation); 2) Successor Generating Companies (SEM-Calaca, AES Philippines, SN Aboitiz Power Corporation); 3) IPP-Administrators (San Miguel Energy Corporation and Therma Luzon Corporation) and NPC for the generating assets that are yet to be privatized.

A1. Creation of the National Transmission Corporation

The enactment of the EPIRA gave birth to the establishment of the TRANSCO. The TRANSCO was created to assume the authority and responsibility of NPC for the planning, construction, operation and maintenance of the national high-voltage transmission facilities including grid interconnections and ancillary services. The separation of the transmission function from NPC delineates the generation assets from transmission assets. This is necessary in the privatization of NPC's generating assets.

A.2. Privatization of NPC Generating Assets and IPP-Contracts by the PSALM

The EPIRA likewise created PSALM to efficiently privatize the generating assets and IPP-Contracts of NPC including the privatization of TRANSCO. The privatization of NPC generating assets and IPP-Contracts encourages the participation of the private sector in the power industry at the same time dilutes the control of the Government in the generation of power which is essential in fostering competition and ultimately making the electricity tariff affordable. Based on the report of PSALM as of 2 September 2009, it has privatized the NPC generating assets outlined in Table 25.

Power Plant	Rated Capacity*	Location
Talomo Hydroelectric Power Plant	3.5	Davao
Agusan Hydroelectric Power Plant	1.6	Agusan
Barit Hydroelectric Power Plant	1.8	Camarines Sur
Cawayan Hydroelectric Power Plant	0.4	Sorsogon
Loboc Hydroelectric Power Plant	1.2	Bohol
Pantabangan-Masiway Hydroelectric Power Plant	112.0	Nueva Ecija
Magat Hydroelectric Power Plant	360.0	Isabela
Masinloc Coal-Fired Thermal Power Plant	600.0	Zambales
Ambuklao-Binga Hydroelectric Power Complex	175.0	Benguet
Tiwi-MakBan	747.5	Albay, Laguna/Batangas
Panay and Bohol Diesel Power Plants	168.5	Iloilo, Bohol
Amlan Hydroelectric Power Plant	0.8	Negros Oriental
Batangas (Calaca) Coal-Fired Thermal Power Plant	600.0	Batangas
Power Barge 118	100.0	Compostela Valley
Power Barge 117	100.0	Agusan del Norte
Limay Combined-Cycle Power Plant	620.0	Bataan
Palinpinon-Tongonan Geothermal Power Plants	305.0	Negros Oriental, Leyte
Naga Land-Based Gas Turbine Power Plant	55.0	Cebu

Table 25: Privatization of NPC generating assets and IPP-contracts by PSALM
**In MW*

As of September 1, 2009, PSALM successfully privatized 88% of NPC's total installed generating capacity in Luzon and Visayas as well as 35.24% of total NPC-IPP Contracts. The privatized NPC-IPP Contracts are outlined in Table 26.

NPC-IPP Contracts	Contracted Capacity	Location
Sual Coal-Fired Power Plant	1,000 MW	Pangasinan
Pagbilao Coal-Fired Power Plant	700 MW	Quezon Province

Table 26: Privatized NPC-IPP contracts

A.3. Establishment of the WESM by PEMC

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

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

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

Due to tight supply and demand situation in the Visayas grid, the full implementation of the WESM was deferred. For the meantime, the WESM in the Visayas grid is operated on a per trial basis.

B. Transmission Sector

This sector is responsible in the efficient delivery of generated electricity to the DUs load centers. In addition, it is required by EPIRA to provide all electricity users an open and non-discriminatory access to the electricity transmission system. Being a monopoly business by nature, the transmission rate is subject to the regulation of the ERC.

The EPIRA likewise required the privatization of TRANSCO through an outright sale or concession contract to be performed by PSALM. Last December 2007, the Monte Oro Grid Resources Corporation (Monte Oro) with a bid of US$3.95 billion was declared as the highest bidder for the 25-year concession contract for TRANSCO. The privatization was formalized upon turn-over of the 25-year concession of TRANSCO to the National Grid Corporation of the Philippines, company formed by Monte Oro, last 14 January 2009.

C. Distribution Sector

The distribution of electricity to end-users is considered as a common carrier business requiring national franchise. A DU has the obligation to provide distribution and connection services to its customers. As of 2009, there are 119 electric cooperatives, 16 privately owned utilities and 8 local-government owned utilities. The largest distribution companies remains with the MERALCO with a franchise area covering the entire Metro Manila and other neighboring provinces like Bulacan, Laguna and Cavite. For the electric cooperatives, the EPIRA mandated the National Electrification Administration ("NEA") to implement programs to strengthen its technical capability and financial viability.

Even after the enactment of the EPIRA, ownership, operation and maintenance of distribution lines remains a monopoly of distribution utilities. Similar to the transmission, distribution function is under the regulation of the ERC. The distribution utilities before implementing a change in the distribution rates have to seek ERC approval. Currently, the ERC adopted the performance based methodology in regulating the tariffs of distribution and transmission companies. Under this methodology, the distribution and transmission companies are either incentivized or penalized for their performance.

To serve the demand of its end-users, the DUs have the option to source power in the least cost manner from the WESM and/or through a bilateral contract with a generation company. In order to encourage participation in the WESM, the EPIRA requires that for the first five (5) years from the establishment of the WESM, DUs must source no more than 90% of their power sources from bilateral power supply contracts. The bilateral power supply contracts between DUs and generation companies will be approved first by the ERC before the same is implemented. The approval of this contract has to go through a stringent process, including public hearings, publications and posting of notices in each of the municipalities and cities covered by their respective franchise areas.

D. Supply Sector

Supply of electricity means the sale of electricity by a party other than a generator or a distributor in the franchise area of a DU using the wires of the DU concerned. Under the restructured power industry, the supply sector was separated from the business of distribution utilities to make this sector a competitive market. This sector is not considered a public utility operation and eligible suppliers are not required to secure a national franchise. However, a private entity could perform or participate in this sector of the industry if it has obtained a RES License from the ERC. As of October 28, 2009, there are 10 suppliers who were granted a RES License namely:

1. GN Power Ltd. Co.
2. Aboitiz Energy Solutions, Inc.
3. Trans-Asia Oil and Energy Development Corp.
4. GNPower Mariveles Coal Plant Ltd. Co.
5. First Gen. Energy Solutions, Inc.
6. Cabanatuan Electric Corporation.
7. Masinloc Power Partners Co. Ltd.
8. Premier Energy Resources Corp.
9. Team Philippines Energy Corp.
10. Adventenergy Inc.

Being a competitive market, the rate to be charged by the RES to its customers is not regulated by the ERC. Operation of this sector will commence upon the declaration of the Open Access and Retail Competition.

E. Declaration of Open Access and Retail Competition

The most and highly anticipated reform under the EPIRA is the ERC's declaration of the Open Access and Retail Competition. Prior to its declaration, all end-users are captive customers of distribution utilities with regard to sourcing of power. Customers of DUs have no option to choose their suppliers which can provide a more reliable supply of electricity and most importantly more competitive electricity rate. However, upon declaration of the Open Access and Retail Competition, Contestable Customers will gain the option to choose their own electricity suppliers.

Initially, end-users with a monthly average peak demand of at least 1 MW for the preceding 12 months will be considered as Contestable Customers. Two years thereafter, the threshold level for the contestable market will be lowered to 750 KW then it will be reduced continuously until it reaches the household demand level.

The ERC will declare Open Access and Retail Competition upon fulfillment of the following conditions:

1) Establishment of the WESM;
2) Approval of the unbundled transmission and distribution wheeling-charges;
3) Initial implementation of the cross-subsidy removal scheme;

4) Privatization of at least seventy percent (70%) of the total capacity of generating assets of NPC in Luzon and Visayas; and
5) Transfer of the management and control of at least seventy percent (70%) of the total energy output of power plants under contract with NPC to the IPP Administrators (Privatization of NPC-IPP Contracts).

To date, the first four conditions are already met, while the fifth condition is yet to be achieved. With PSALM's strong commitment to carry-out its duties, the fulfillment of the fifth condition is expected to happen sometime in the near future.

However, the non-fulfillment of the fifth condition did not stop the Government from its objective to lower the electricity rates. On December 5, 2008, the ERC approved the Power Supply Option Program ("PSOP") or the Interim Open Access allowing qualified generation companies and RES to contract the supply of electricity directly with eligible end-users.

ENERGY DEMAND AND SUPPLY

Energy Demand

The increase in the demand for power is attributed to many factors, one of which is the country's economic growth as measured by GDP. Over the years, the GDP as published by the NSO increased from ₱1.08 billion in 2003 to ₱ 1.59 billion in 2008. This caused the increase in the demand for energy in the Philippines. During the last six years, the total increase in the demand for electricity is approximately 14.89% from 52,940,537 GWh in 2002 to 60,820,985 MWh in 2008.

Grid	2003	2004	2005	2006	2007	2008
Luzon	40,485,013	42,389,644	42,562,730	42,424,421	44,339,741	45,316,792
Visayas	5,944,594	6,480,696	6,762,352	6,945,759	7,381,763	7,532,437
Mindanao	6,510,930	7,087,090	7,242,659	7,413,949	7,890,283	7,971,756
Total	52,940,537	55,957,430	56,567,741	56,784,130	59,611,788	60,820,985

Table 27: Philippine electricity consumption (in MWh) for 2003 to 2008
Source: DOE 2008 Power Statistics

Likewise for the same period, the Philippine grid system peak demand has increased by 779 MW from 8,275 MW in 2003 to 9,054 MW in 2008.

Grid	2003	2004	2005	2006	2007	2008
Grid						
Luzon	6,149	6,323	6,443	6,466	6,643	6,674
Visayas	995	1,025	1,037	1,066	1,102	1,176
Mindanao	1,131	1,177	1,149	1,228	1,241	1,204
Total	**8,275**	**8,525**	**8,629**	**8,760**	**8,986**	**9,054**

Table 28: Philippine peak demand (in MW) for 2003 to 2008
Source: DOE 2008 Power Statistics

Table 29 shows the breakdown of the Philippine Grid total energy consumption for the years 2003 to 2008.

	2003	2004	2005	2006	2007	2008
Philippines						
Residential	15,356,581	15,920,237	16,031,358	15,830,201	16,375,589	16,644,230
Commercial	11,106,046	11,785,181	12,245,447	12,679,048	13,470,414	14,136,004
Industrial	15,188,292	15,011,992	15,705,160	15,888,141	16,521,717	17,030,903
Others	1,069,072	1,358,549	1,177,437	1,274,783	1,641,317	1,394,977
Total sales	**42,719,994**	**44,075,959**	**45,159,402**	**45,672,173**	**48,009,038**	**49,206,114**
DUs' own-use	3,410,464	4,653,913	4,591,167	4,227,443	3,994,270	3,934,746
System loss (DUs)	6,810,078	7,227,558	6,817,172	6,884,514	7,608,480	7,680,125
Total consumption	**52,940,537**	**55,957,430**	**56,567,741**	**56,784,130**	**59,611,788**	**60,820,985**

Table 29: Total Philippine energy consumption for 2003-2008
Source: DOE 2008 Power Statistics

Energy Supply

For the source of power generation, the country as of the year 2008 has a total installed capacity of 15,681 MW and total dependable capacity of 13,049 MW. Out of these sources of energy, the fossil fuel based power plants remain to be the dominant source of energy with coal-fired power plants having the highest share at 26.87% followed by oil-based power plants with a share of 21.38%. The chart below shows a comparison of the Philippine installed and dependable capacity segmented on a per fuel type.

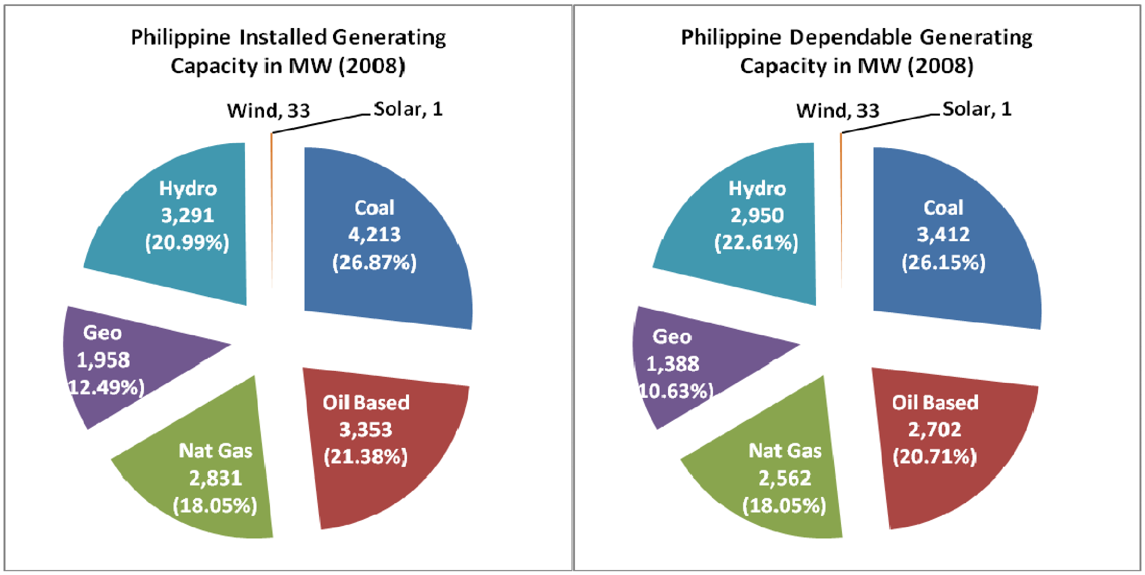


Figure 7: Installed and dependable generating capacity
Source: Department of Energy

Currently, the Visayas grid is experiencing problems in the supply of power. To address deficit in power supply particularly in the Cebu, Negros and Panay sub-grids, as an interim measure, the DOE has directed PEMC to establish and operate the Visayas Supply Augmentation Auction Program ("VSAAP"). The VSAAP has been given an operational period of 14 months starting June 2009. It has been announced that the VSAAP will be an introduction to the commercial operations of the Visayas WESM, commencement of which will be contingent upon the approval of the DOE. The WESM is envisioned to initially develop two main markets, the (1) energy market, and the (2) reserve market. With the energy market in Luzon being continuously developed and established, PEMC has set commercial operations of its reserve market to start at the beginning of 2010.

Generation Mix

Although coal-fired power plants have the biggest contribution in the total installed and dependable capacity, it only ranked second to the natural gas power plans with regard to power generation. For the last four years, the natural gas power plants mainly located in the Luzon Grid grab the highest share in terms of power generation. In 2008, the share of coal-fired power plants dropped by 1,088,302 MWh. Based on DOE's report, the said decline is due to annual maintenance of major coal-fired power plants in Luzon.

	2003	2004	2005	2006	2007	2008
Coal	14,938,748	16,194,412	15,257,178	15,294,066	16,837,096	15,748,794
Oil-based	7,170,115	8,504,321	6,141,444	4,664,799	5,148,006	4,868,333
Combined Cycle	438,755	738,437	90,608	238,870	652,834	513,442
Diesel	5,509,409	6,253,077	5,716,977	4,152,144	4,161,675	3,660,388
Gas Turbine	41,972	82,277	25,295	193	9,045	36,485
Oil	1,179,979	1,430,529	308,564	273,593	324,452	658,018
Natural Gas	13,139,410	12,384,467	16,860,917	16,365,960	18,789,414	19,575,855
Geothermal	9,822,444	10,281,550	9,902,443	10,465,279	10,214,688	10,722,780
Hydro	7,869,820	8,592,681	8,386,773	9,939,413	8,563,433	9,842,534
Wind	0	0	17,469	53,235	57,842	61,386
Solar	0	0	1,517	1,376	1,309	1,304
Total Generation	**52,940,537**	**55,957,430**	**56,567,740**	**56,784,130**	**59,611,788**	**60,820,985**

Table 30: Philippine generation mix for 2003 to 2008
Source: DOE 2008 Power statistics

CONSUMPTION

With 2010 GDP growth target of 2.6% to 3.6% set by NEDA, Philippines' peak demand is expected to increase. Per its Power Development Plan, DOE forecasts that peak demand, through 2014, will grow at a compounded annual growth rate of 4.0%, 5.7% and 6.0% in Luzon, Visayas and Mindanao, respectively; by 2014 aggregate peak demand is expected to reach 9,397 MW, 1,850 MW and 2,112 MW in Luzon, Visayas and Mindanao, respectively. Visayas is experiencing a shortage in power supply, and additional shortage in power supplies are expected in Mindanao by 2009-2010 and in Luzon by 2010-2011.

In Luzon, electricity consumption of residential and industrial customers account for approximately 52% of total electricity consumption. The commercial customer segment accounts for about 26.0% of total electricity sales and has the highest annual growth rate at 5.9%. This growth can largely be attributed to the opening of new shopping malls in rural centers and surge in the business process outsourcing industry. The annual growth rate in residential and industrial sales is about 2.8% and 4.5%, respectively.
On the supply side, official forecasts predict a shortage in generation capacity by 2011. This is based on projections of DOE and historical peak demand and growth figures. The lack of construction of new major power plants, especially in the Luzon Grid, supports this forecast. However, the recent success in the privatization of major power plants (e.g. the 600 MW Calaca Coal Plant, 620 MW Limay Combined Cycle Plant, the 192.5 MW Palinpinon Geothermal power plant, and 112.5 MW Tongonan Geothermal power plant) is expected to provide additional generation capacity; these plants' net dependable capacities are expected to increase from previous levels, which are substantially lower than their rated capacities. This is expected to mitigate or delay the predicted shortage.

In addition to the improvement in the current capacities of the newly privatized NPC generating assets, the construction and commercial operation of new projects will help address the looming shortage of power. Table 31 shows the committed and indicative power projects in the pipeline.

	Luzon	Visayas	Mindanao	**Philippines**
Committed Projects	38.3	269.0	210.0	**517.3**
Indicative Projects	1,950.0	600.0	850.0	**3,400.0**

Table 31: Committed and indicative power projects (nationwide, in MW)
Source: 2006 Power Development Plan

Philippine Coal Industry

The information in this section is derived from a report by the Philippine Chamber of Coal Mines, Inc. (PHILCOAL). This report was neither prepared nor independently verified by the Company or the Lead Underwriter. The information may not be consistent with information compiled by other sources.

COAL RESOURCES

The Philippines' total coal resource potential based on data of the DOE as of December 31, 2007 has been estimated at 2.37 billion MT of which the total in-situ reserves and total mineable reserves amounted to about 438.70 million MT and 329.34 million MT, respectively.

The coal resources are scattered throughout the major islands of the Philippine archipelago. Of the total in-situ reserves, about 34.2% is located in Semirara Island, Antique; 18,.8% in Cagayan Valley (Cagayan and Isabela); 15.9% in Surigao; 15.4% in South Cotabato; 8.7% in Zamboanga; 2.7% in Cebu; and the remaining 38.5% is distributed in various provinces of the country.

According to the Evaluation Report by Robertson in 1977 and updated by Wardell-Armstrong in 1985, majority of Philippine coal resources are sub-bituminous with heating values ranging 7,000-9,400 BTU/lb. Bituminous coal reserves (10,700-12,100 BTU/lb) are found in Zamboanga Sibugay, Quezon, Catanduanes, Masbate and Southern Cebu. Likewise, vast lignite reserves with an average of 4,600 BTU/lb are located in Cagayan and Isabela.

Philippine coal are mostly formed during Miocene age (23-25 million years ago) and located in moderately to highly disturbed areas like lagoon to willow marine environments. Notably, coal in the Philippines is soft to dense and sometimes swells and pinches.

COAL PRODUCTION

For the last 10 years from 1999 to 2008, the country's coal production has generally sustained a steady increase from 1.18 million MT in 1999 to 3.16 million MT in 2005 and finally to 3.98 million MT in 2008 as presented in Table 32. However, the production dropped in 2001 and 2006 due to slowdown in demand in the local market and decrease in SCC's production due to the adverse effects of heavy rains. The sharp rise from 2006 to 2007 was attributed to the substantial expansion of SCC's output with the commencement of its coal export to international buyers. SCC's open mine in Semirara Island, Antique has accounted for more than 80% of the yearly domestic coal production.

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Production	1.177	1.353	1.230	1.665	2.030	2.726	3.163	2.588	3.737	3.977
Importation	4.858	6.814	7.601	6.417	7.035	7.510	6.656	7.344	7.729	9.209
Consumption	6.416	8.749	8.184	8.431	8.513	9.667	10.036	10.062	10.215	12.235

Table 32: Coal production, importation and consumption (in million MT)
Source: DOE

For the year 2008, local coal production reached 3.98 million MT, which was 6.4% higher than the 2007 production of 3.74 million MT. Of the 2008 output Table 33, the largest share of 86.4% (3.44 million MT) came from the Company; 6.0% (0.24 million MT) from MG Mining and Energy Corporation in Surigao; 1.5% (0.06 million MT) from the government-owned PNOC-Exploration Corporation in Zamboanga Sibugay; and the rest sourced from other coal contractors and small-scale coal mining permittees.

Province	Production (MT)	Percentage (%)	Coal Contractor
LUZON			
Albay (Batan Island)	24,533	0.61	Rock Energy
	15,092	0.40	Samaju
	7,322	0.20	Lima Coal
	5,870	0.15	Ibalong Resources
	297	0.07	Small-Scale Mining
VISAYAS			
Antique (Semirara Island)	3,471,596	87.30	SCC
Cebu	14,353	0.36	Adlaon
	1,097	0.03	SKI
	15,225	0.30	Ibalong
	32,941	0.61	Small-Scale Mining
Negros	1,259	0.03	Calatrava
	31,085	0.80	Small-Scale Mining
MINDANAO			
Surigao del Sur	238,385	6.00	MG Mining & Energy
Zamboanga Sibugay	60,894	1.53	PNOC-EC
	3,770	0.10	Filsystems
	52,862	1.33	Small-Scale Mining
TOTAL	**3,976,581**		

Table 33: Coal production in the Philippines (2008)
Source: DOE

As of December 31, 2008, the Philippines has a total of 46 existing and valid coal operating contracts of which 19 are for exploration and 27 for development and production. Of this total number of contracts, 14 are in Luzon, 14 in Visayas and 18 in Mindanao.

COAL IMPORTATION

For the last 10 years (1999-2008), the Philippines has been heavily dependent on imported coal to meet its coal requirements. During the said period, the general trend of coal importation has been increasing as shown in Table 32. From 4.86 million MT in 1999, the importation grew to 7.60 million MT in 2001; declined to 6.42 million MT in 2002; rose to 7.51 million MT in 2004; decreased to 6.66 million MT in 2005; and soared steadily to 9.21 million MT in 2008.

The increase in importation during the period could be attributed to the additional capacities in coal-based power generation, i.e., 2 x 647 MW Sual in Pangasinan (1999), 1 x 511 MW Mauban in Quezon (2000), and 2 x 116 MW Steag in Misamis Oriental (2006). Sual and Mauban are using imported coal while Steag can use blended coal (local coal is sourced from Semirara Island).The decline in importation in 2002 and 2005 was compensated by the rise in local production in said years.

However, for the last 7 years (2002-2008), the average ratio of coal importation to local coal production decreased to 2.8 : 1 from the average ratio of 5.1 : 1 from 1999 to 2001.

For the year 2008, the total coal importation was 9.21 million MT which was 19.1% higher than 2007 importation of 7.73 million MT. Of the 2008 importation outlined in Table 34, the largest share of 80% (7.35 million MT of steaming coal) was sourced from Indonesia; 12% (1.11 million MT of steaming coal) from China; 3.8% (0.36 million MT of anthracite coal) from Vietnam; 3.6% (0.33 million MT of steaming coal) from Australia; and 0.6% (0.06 million MT of steaming coal) from Russia.

	Indonesia	China	Vietnam	Australia	Russia	Total
Volume	7,348,140	1,111,120	357,881	331,808	60,000	9,208,949
Percentage	80.0	12.0	3.8	3.6	0.6	100.0

Table 34: 2008 coal importation from different countries (in MT)
Source: DOE

COAL CONSUMPTION

From 1999 to 2008, the country's coal consumption has steadily risen from 6.42 million MT in 1999 to 9.67 million MT in 2004 and further to 12.24 million MT in 2008. The increase in coal consumption during the period was the result of the commissioning of three coal-fired thermal power plants as previously mentioned. Also, other industries (garment, canning, chemical, coconut oil mill, etc.) with small boilers have shifted from oil-fired to coal-fired due to rising and volatile oil prices.

For the year 2008, the total coal consumption was 12.24 million MT which was 19.8% higher than the 2007 consumption of 10.22 million MT. Of the 2008 consumption, as shown in Table 35, the power generation sector had the highest share of 71.7% (8.77 million MT); cement manufacturing had 25.0% (3.06 million MT); and other industries had 3.3% (0.40 million MT).

	Power	Cement	Other Industries	Total
Consumption	8.769	3.063	0.403	**12.235**
Percentage	71.7	25.0	3.3	

Table 35: 2008 coal consumption by sector (in million MT)
Source: DOE

As of the end of year 2008, as shown in Table 36, the country has a total of nine coal-fired thermal power plants with a total rated capacity of 4,212 MW**.** Of these nine plants, four (Masinloc, Pagbilao, Sual and Mauban) use purely imported coal and five (Calaca, Naga, Steag, Toledo and APEC) use imported and local coal. Seven plants have a pulverized coal (PC) combustion technology while Toledo plant has an atmospheric fluidized bed (AFB) combustion technology and APEC uses circulating fluidized bed (CFB) combustion technology.

Power Plant	Rated Capacity	Company	Type of Boiler	Type of Coal
Calaca (Batangas)	2 x 300	DMCI (former NPC)	PC	Local & Imported
Masinloc (Zambales)	2 x 300	AES (former NPC)	PC	Imported
Sual (Pangasinan)	2 x 647	TEAM Energy	PC	Imported
Pagbilao (Quezon)	2 x 364	TEAM Energy	PC	Imported
Mauban (Quezon)	1 x 511	Quezon Power	PC	Imported
Steag (Misamis Or.)	2 x 116	Steag	PC	Local & Imported
Toledo (Toledo City)	2 x 44	Global Business	AFB	Local & Imported
Naga (Cebu)	1 x 54; 1 x 55	Salcon	PC	Local & Imported
APEC (Pampanga)	1 x 50	APEC	CFB	Local & Imported
TOTAL	**4,212**			

Table 36: List and capacity (in MW) of existing coal-fired thermal power plants in the Philippines

There are also about 15 cement plants in the country, some of which utilize imported coal and others use blended coal. Other industries numbering about 14 also use coal. Alcohol, garment/textile, canning, coconut oil, rubber, plastic and seaweeds processing plants utilize local coal while steel and ore processing, fertilizer and chemical plants use imported coal and blended coal.

There are 3 major coal terminals located in Bauan, Batangas (Luzon); Naga, Cebu (Visayas); and Malangas, Zamboanga Sibugay (Mindanao) that are being operated by the government-owned PNOC Exploration Corporation. Wharfs that can accommodate Panamax vessels with capacity of 65,000-70,000 MT are found in coal-fired power plants and wharfs that can unload coal from small vessels are found in some cement plants and other industrial plants. Coal is delivered by trucking to some users without on-site wharf/pier.

COAL PRICES

For the last five years (2004-2008), the prices of steaming coal from three major source countries as shown in Table 37 have been different. Indonesia coal was the cheapest in 2005, 2006 and 2007; China coal was the cheapest in 2004; and Australia coal was the cheapest in 2008. The prices of Indonesia coal continued to drop from 2004 to 2006, then rose from 2007 to 2008. The prices of China coal have steadily increased from 2004 to 2008 except for 2006. The prices of Australia coal continued to decline from 2004 to 2008 except for 2007.

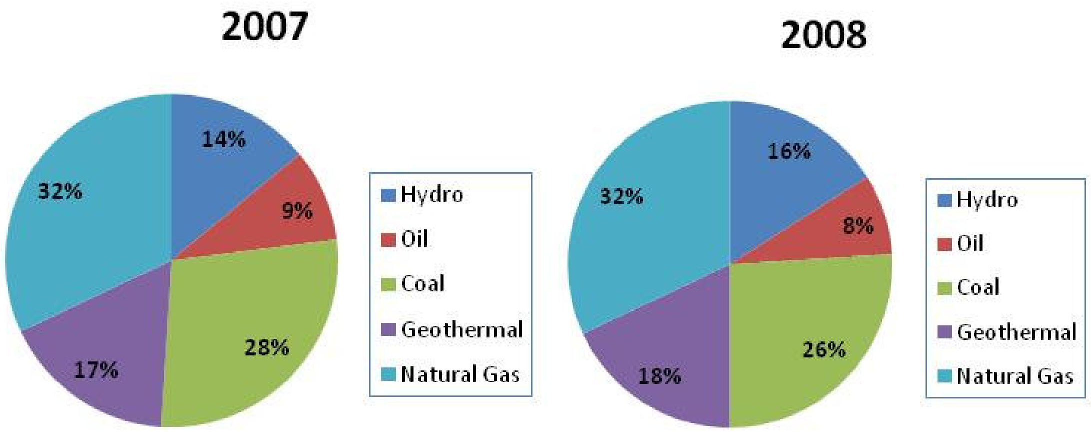
The increases in prices of steam coal from Indonesia and China in the past two years can be attributed to the tight supply from China which has continued to experience an increasing domestic demand for coal as the world’s fastest-growing major economy. This coal situation in China has benefited Indonesia, which has achieved higher prices with increasing coal exports.

	2004	2005	2006	2007	2008
Indonesia	54.19	48.47	41.10	56.76	117.86
China	31.44	70.00	61.12	74.76	107.87
Australia	77.82	67.39	59.34	65.51	59.34

Table 37: Prices (C&F) of imported steaming coal @ 6,100 kcal/kg (in $/MT)
Source: DOE

POWER AND ENERGY MIX

The contribution of coal to the Philippine power mix in 2007 was 28%, which then decreased to 26% in 2008 because of the increase in the share of geothermal and hydroelectric, as shown in Figure 8. In 2008, the Philippines' total installed generating capacity was estimated at 15,672 MW, of which 26.9% (4,213 MW) was coal-based.

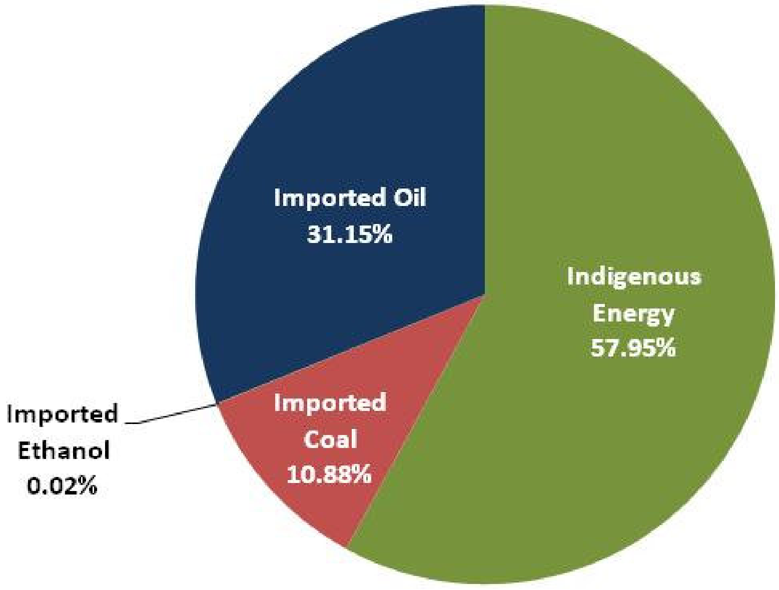


2008 Total Installed Generating Capacity: 15,672 MW

Figure 8: 2007 and 2008 power mix

Source: DOE

For 2008, the total amount of energy utilized in the Philippines was comparable to about 39.72 million tons of oil equivalent (MTOE). Coal accounted for 15.68% (of which 10.88% was imported and 4.80% was locally produced).



The breakdown of indigenous energy is as follows: Coal (4.80%), Oil (1.80%), Nat. Gas (8.04%), Geothermal (23.22%), Hydro (6.17%), Wind/Solar (0.01%), Biomass (13.78%) & CME/Ethanol (0.13%)

Figure 9: 2008 energy mix

2008 Total Energy Supply: 39.72 million tons of oil equivalent (MTOE)

Source: DOE

COAL SUPPLY AND DEMAND FORECAST

Based on the coal supply and demand forecast in the 2007-2014 Philippine Energy Plan Update by the Department of Energy as shown in Table 38, the coal demand (in million MT @ 10,000 BTU/lb) was projected to reach 12.83 in 2009 and grow to 14.00 in 2011 and further to 15.28 in 2014. This growth in the demand was expected to be brought about by the putting up of additional coal-fired thermal power plants with an estimated total capacity of 2,760 MW Table 39. The country's current generating capacity of 15,672 MW requires additional capacity of 4,100 MW from 2008 to 2017.

	2009	2010	2011	2012	2013	2014
DEMAND	**12.83**	**13.69**	**14.00**	**14.42**	**14.79**	**15.28**
Power generation	10.74	11.57	11.86	12.25	12.60	13.06
Industry	2.09	2.12	2.14	2.17	2.19	2.22
SUPPLY						
Production	4.28	4.77	5.14	5.80	5.97	6.60
Importation	8.55	8.92	8.86	8.62	8.82	8.68

Table 38: Coal supply and demand forecast (in million MT @ 10,000 BTU/lb)
Source: DOE's 2007-2014 PEP Update

Project	Capacity (MW)	Proponent	Location	Target Completion	Status
LUZON					
Expansion Project (CFB)	1 x 50	Asia Pacific Energy Corp.	Pampanga	2010	Indicative
Bataan Project	2 x 300	GN Power	Bataan	2012	Indicative
Subic Project	2 X 150	Redondo Peninsula Energy	Zambales	2012	Indicative
Mauban Expansion	1 x 500	Quezon Power	Quezon	2014	Indicative
Pagbilao Expansion	1 x 400	Team Energy	Quezon	-	Indicative
VISAYAS					
Toledo Expansion (CFB)	3 x 82	Global Business	Cebu	2010	Committed
Iloilo Project (CFB)	2 x 82	Global Business	Iloilo	2010	Committed
Iloilo Project (CFB)	1 x 100	DMCI Power	Iloilo	2012	Indicative
KEPCO Project (CFB)	2 x 100	KEPCO	Cebu	2011	Committed
MINDANAO					
Sarangani Project (CFB)	2 x 100	Conal Holdings	Sarangani	2012	Indicative
TOTAL	**2,760**				

Table 39: Committed and indicative coal-fired power plant projects
Source: DOE

In order to meet the rising coal demand, the local production (in million MT @ 10,000 BTU/lb) was projected at 4.28 in 2009 and increasing to 5.14 in 2011 and to 6.60 in 2014. This expansion in production is predicted as SCC increases its output from 3.5 million MT in 2008 to 4.0 million MT in 2009 and to 5.0 million MT in 2010 and onwards. Also, more coal operating contracts are expected to be awarded in addition to the 46 coal operating contracts (as of the end of 2008) because of continuing Philippine Energy Contracting Round (PECR) being conducted by the DOE where some potential coal areas are offered for coal operating contracts for exploration through bidding to interested companies. The discovery of coal reserves in commercial quantities through intensive exploration will lead to subsequent development and production.

The shortfall in the domestic supply will be compensated by coal importation but the ratio of coal importation to local production will continue to decline from 1.99:1 in 2009 to 1.72:1 in 2011 and to 1.32:1 in 2014. This shows that the contribution of local coal to the country's coal requirement will steadily increase in the years to come considering that majority of the coal-fired power plant projects Table 39 will adopt the circulating fluidized bed ("CFB") combustion technology which can use blended coal.

Moreover, there are some potential mine-mouth power plant projects, namely: 2x50 MW in Cagayan; 1x50 MW in Isabela; and 1x200 MW in South Cotabato/Sultan Kudarat. In these areas, there are existing coal contractors that are considering the said projects to develop and produce the coal reserves in their contract areas.

OUTLOOK

The coal sector has steadily grown in the last 10 years and will sustain its growth in the short and long term as the demand for this fossil fuel will continue to rise. The projected increase in coal demand will be attributed to the additional capacity in coal-based power generation totaling about 2,760 MW from year 2010 to year 2014.

The local coal is foreseen to increase its share to the country's total coal requirement because most of the coal-fired power plant projects will use CFB boilers which can utilize blended coal (imported and local). Also, due to the rising and volatile oil prices, the cheaper energy resources like coal, hydroelectric and geothermal will be the better option for power generation. The increasing demand for local coal is expected to be met considering that more coal operating contracts will be awarded through the continuing DOE's Philippine Energy Contracting Round which is attracting more investors in coal exploration and subsequent development and production.

The country will continue to import coal since the domestic coal supply will not fully meet the increasing demand. However, the ratio of coal importation to local production, which used to be at an average of 5.1:1 from 1999 to 2001 and 2.8:1 from 2002 to 2008, will continue to decline to 1.99:1 in 2009, and further to 1.32:1 in 2014. This clearly indicates that the country's dependence on imported coal will be reduced as the country will be producing and using more indigenous coal.

The prices of imported coal from major source countries (Indonesia and China) will remain to be stable and rising as they have been in the last two years. The price of local coal will therefore continue to be firm and increasing since it is usually pegged at import parity. Also, because of rising and volatile oil prices, coal will remain to have a price advantage.

The market will remain tight because China, as the world's fastest-growing major economy, will continue to limit its coal exports because of its rising domestic demand for steam coal as in the recent years. This coal situation in China which has led to congested ports, delayed coal shipments and increasing freight costs will definitely support the rise in coal price and will put pressure on other Asia-Pacific coal producers. Also, this situation will benefit Indonesia, which will achieve higher coal prices with increasing coal exports. Indonesia will remain to be the Philippines' largest source of imported steam coal because of its proximity to the Philippines.

Market Information

The Common Shares of the Company are traded on the PSE under the symbol of SCC. The Company's common stock was first listed on the PSE in November 28, 1983.

The table below sets out the high and low sales prices for the Company's Common Shares as reported on the PSE for the periods indicated.

	2007				2008				2009			
(In ₱)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
High	27.50	29.50	43.00	49.50	60.00	62.00	64.00	43.50	35.50	42.50	41.50	55.00
Low	14.75	25.00	25.00	34.50	40.00	46.00	43.00	29.50	22.25	25.50	39.00	37.50

	2010			
(In ₱)	Q1	Q2*	Q3	Q4
High	60.00	78.00		
Low	47.00	65.00		

**April 1-30*
Source: Bloomberg

On June 10, 2010, the closing price of the Company's shares on the PSE was ₱77.00 per share.

Approval for the listing of the Rights Shares is being obtained from the PSE. The Rights Shares are expected to be listed on the PSE on July 19, 2010.

Summary of Financial Information

The following presents a summary of financial information for the Company and should be read in conjunction with the Auditors' Report, the Financial Statements and notes thereto, and the section "Management Discussion and Analysis of Financial Condition and Results of Operations". The summary financial information presented below for three years ended December 31, 2009, 2008, and 2007 were derived from the Company's audited financial statements. Summary financial information for the first three months of 2010 and 2009 are derived from the Company's financial statements. The financial statements are prepared in accordance with the PFRS.

INCOME STATEMENT

(In Million Pesos)	**Unaudited**		**Audited**		
	For the three months ended March 31		For the years ended December 31		
	2010	**2009**	**2009**	**2008**	**2007**
Sales and services	6,093	3,231	11,943	8,490	6,467
Cost of sales and services	4,246	2,577	9,362	6,944	5,194
Gross profit	1,847	654	2,581	1,546	1,273
Operating expenses	1,028	317	(749)	(459)	(324)
Finance costs	202	10	(112)	(101)	(140)
Finance revenue	(1)	(1)	52	77	40
Foreign exchange gains (losses)	(1)	8	47	(83)	103
Equity in losses of affiliates	(11)	1	(39)	(2)	
Other income	8	(30)	92	54	9
Net income before income tax	621	350	1,872	1,033	961
Provision for income tax	27	52			
Current	-	52	5	(291)	(334)
Deferred	27	-	58	53	6
Net income	594	299	1,809	796	633

BALANCE SHEET

(In Million Pesos)	**Unaudited**	**Audited**		
	As of March 31	For the years ended December 31		
	2010	**2009**	**2008**	**2007**
ASSETS				
Current assets				
Cash and cash equivalents	1,077	112	27	237
Short-term cash investment	-	370	986	1,413
Receivables – net	2,433	1,254	1,877	1,252
Inventories	2,358	3,085	1,383	1,453
Other current assets	521	760	226	206
Total Current Assets	6,319	5,581	4,498	4,561
Noncurrent assets				
Property, plant and equipment	18,299	17,819	1,106	1,904
Investments and advances	245	244	223	81
Deferred tax assets	-	-	-	12
Other noncurrent assets	169	184	284	-
Total noncurrent assets	18,714	18,247	1,613	1,997
Total Assets	25,105	23,828	6,111	6,558

BALANCE SHEET
(In Million Pesos)

	Unaudited	**Audited**		
	As of March 31	For the years ended December 31		
	2010	**2009**	**2008**	**2007**
LIABILITIES AND EQUITY				
Current liabilities				
Trade and other payables	5,136	2,858	1,143	670
Notes payable	7,886	793	-	-
Current portion of long-term debt	111	1,866	389	730
Income tax payable	-	-	58	40
Payable to related parties	-	792	46	13
Customers' deposits		1	1	9
Total Current Liabilities	13,134	5,517	1,637	1,462
Noncurrent liabilities				
Long-term debt - net of current portion	1,429	8,364	137	398
Deferred tax liabilities	72	72	14	68
Provision for decommissioning and site rehabilitation	14	15	13	13
Pension liability	13	13	9	5
Total non-current liabilities	1,530	8,464	174	482
Total liabilities	14,664	13,981	1,811	1,944
Equity				
Capital stock	296	297	297	297
Additional paid-in capital	1,577	1,577	1,577	1,577
Deposit for future stock subscriptions	5,402	5,402		
Retained earnings	3,694	3,100	2,956	3,270
Cost of shares held in treasury	(529)	(529)	(529)	(529)
Total equity	10,441	9,847	4,301	4,615
Total Liabilities and Equity	**25,416**	23,828	6,111	6,558

CASH FLOWS
(In Million Pesos)

	Unaudited		**Audited**		
	For the three months ended March 31		For the years ended December 31		
	2010	**2009**	**2009**	**2008**	**2007**
Cash flows from operating activities	2,412	1,329	4,146	1,735	2,174
Cash flows from investing activities	(840)	(1,318)	(9,311)	(590)	(41)
Cash flows from financing activities	(1,239)	(128)	4,635	(1,784)	(992)
Net increase (decrease) in cash and cash equivalents	595	(141)	(530)	(638)	1,140
Cash and cash equivalents, beginning	481	1,012	1,012	1,651	510
Cash and cash equivalents, ending	1,077	871	482	1,012	1,651

Management's Discussion and Analysis of Financial Condition and Results of Operation

The following management's discussion and analysis of the Company's financial condition and results of operations should be read in conjunction with the Company's audited consolidated financial statements as of and for the years ended December 31, 2009 and 2008 and the unaudited interim condensed consolidated financial statements as of and for the three-month periods ended March 31, 2010 and 2009 prepared in accordance with PAS 34 and reviewed by SGV & Co. in accordance with PSRE 2410, including the related notes thereto, contained in this Prospectus. In evaluating the Company's business, investors should carefully consider all of the information contained in "Risk Factors".

March 31, 2010 vs. March 31, 2009
Results of Operations

Towards the end of 2009, the Company negotiated to buy new mining equipment worth $32.25 million. These included three units 16-tonner excavators, 25 units 100-tonner dumptrucks, support equipment and spare parts and accessories. These equipment started arriving at the site in November 2009 until the first quarter of this year.

With these new mining equipment, mining capacity was further augmented, such that total material excavation posted a new record of 19,447,774 bank cubic meters (bcm) in the current period. With a strip ratio of 9.8:1, ROM coal produced was at 1,849,130 MT, comprised of 1,449,400 MT of clean coal and 399,730 MT of washable coal. Net product coal produced during the quarter totaled 1,672,346 MT.

Exploratory drilling activities beyond the ultimate pit limit of Panian mine have been ongoing during the period, as well as construction activities to complete another loading facility. The additional loading facility is expected to support logistics for the increasing mining capacity and growing demand for Semirara coal.

Demand for Semirara coal remained strong during the quarter, such that sales also marked another historical high of 2,007,530 MT. Ending coal inventory closed at 413,372 MT.

The increase in mining capacity brought about by the acquisition of new mining equipment was reflected by the 20% growth in Total Material movement in the current quarter, resulting in 19,447,774 bcm as compared to first quarter 2009 Total Material movement of 16,205,095 bcm.

The strip ratio is lower in the first quarter of 2010 at 9.8:1 compared to 18.13:1 for the same period in 2009. Consequently, ROM coal production is 121% higher for the first quarter of 2010 at 1,849,130 MT as against 834,893 MT for the first quarter of 2009. Net product coal likewise increased by 116% at 1,689,238 MT for the first three months ended March 31, 2010 as against 780,340 MT for the same period in 2009.

Ending inventory also posted an increase of 198% at 413,373 MT for the first three months ended March 31, 2010 compared to 138,743 MT for the same period in 2009.

March 31, 2010 vs. December 31, 2009
Financial Position

High coal sales during the period sufficiently offset the 28% decrease in composite FOB price, such that total Coal Revenues recorded a 34% increase from ₱3.23 billion in Q1 2009 to ₱4.30 billion, inclusive of sales to the Power Plant, for Q1 2010. After eliminating entries, the current period's consolidated Revenues posted an 89% increase over Q1 2009 Revenues.

Meanwhile, due to economies of scale and lower strip ratio, cost of coal sold dropped by 8% to ₱2.38 billion for Q1 2010 from ₱2.58 billion in Q1 2009. However, consolidated cost of sales, inclusive of the costs incurred by the Power Plant amounting to ₱1.83 billion, is 63% higher in Q1 2010 from its Q1 2009 level.

The resulting consolidated gross profit indicated growth of 188% for Q1 2010 to ₱1.88 billion, as compared to Q1 2009 results of ₱654.21 million. Consolidated gross profit margin likewise recorded a 31% improvement in Q1 2010 as compared with Q1 2010 margin of 20%.

The company's operating expenses reflected a sizeable jump of 111% to ₱670.92 million from ₱317.25 million in Q1 2009 after providing for higher government share during the current period. Consolidated operating expenses increased by 236% to ₱1.06 billion from its Q1 2009 level.

Consolidated finance income, reflecting interest earned from short-term investments, is minimal this year at ₱1.04 million, declining by 11% from Q1 2009 earnings of ₱1.17 million. This is due to the utilization of both company's cash generation on PSALM debt pre-payment to minimize interest expenses.

Consolidated forex gains of ₱11.04 million was recognized after the gains recorded by the Company offset the losses of the Power Plant. In Q1 2009, the Company incurred forex losses amounting to ₱0.57 million.

Finance costs surged after both the Company and the Power Plant incurred interest expenses related to the acquisition of the assets. Consolidated finance costs were at ₱202.24 million, of which ₱62.98 million was incurred by the Company while ₱139.26 was incurred by the Power Plant, is 1,958% more than the minimal finance costs of ₱9.83 million recorded by the Company in Q1 2009.

The Company recognized equity in net income of associated amounting to ₱0.61 million in the Q1 2010, as against losses of ₱8.26 million incurred in Q1 2009. This is due to the positive results of the Company's investment in DMCI Mining Corp.

Other expenses amounted to ₱11.27 million in Q1 2010, offset by the other income generated by the Power Plant amounting to ₱2.94 million. Consolidated other expense ended at ₱8.33 million for Q1 2010, as against other income generation of ₱30.38 million by the Company in Q1 2009 from sale of electricity and insurance claims.

The resulting consolidated income before tax of ₱620.96 million in the first quarter of 2010 reflected a 77% increase over Q1 2009 results of ₱350.06 million.

With the income tax holiday enjoyed by the Company by virtue of its registration with the BOI, no income tax provision was made during the period. In Q1 2009, the Company's income tax provision amounted to ₱58.52 million. Since the Power Plant's application for tax incentive with the BOI was approved during the first quarter of 2010, it recorded income tax provision amounting ₱27.12 million pending final approval of its BOI registration as power generator.

As a result, consolidated net income after tax in Q1 2010 was ₱593.84 million, a 99% increase from Q1 2009 net results of ₱298.53 million. Earnings per share (EPS) reflected a 99% growth at ₱2.14 for Q1 2010 as against Q1 EPS of ₱1.08 for Q1 2009.

December 31, 2009 vs. December 31, 2008
Results of Operations

The year 2009 indicated higher demand for Semirara coal which prompted the Company to further augment its mining capacity and to refleet its old mining equipment to improve production performance.

In order to match the continuous increase in demand for Semirara coal, the Company invested in 37 additional 100-tonner dump trucks, nine excavators, and various support mining equipment, raising the excavation capacity by 69% with total material movement at 60,286,812 bank cubic meters (bcm), compared with 2008 material movement of 35,652,194 bcm. Meanwhile, waste material to coal ratio or strip ratio went up by 16% as operations limited coal extraction to match contracted volume for deliveries. This operational strategy was undertaken to minimize coal quality dissipation due to spontaneous combustion. Coal production nevertheless posted a significant growth of 40% at 4,846,867 MT from 3,470,765 MT produced last year.

The coal washing plant was relocated near the auxiliary stockpile to further enhance coal transporting efficiency. This improvement maximizes cost-efficiency by transporting clean coal through the conveying system and freeing up space to accommodate more clean coal for stockpiling and blending at the coal blending stockyard, allowing more storage flexibility and maintenance of readily available coal for immediate shipment.

Another initiative to improve cost-efficiency is the installation of an Oxy/Acetylene plant for the industrial gases requirements of operations. Oxygen and acetylene gases are now readily available for laboratory use and equipment and facilities repair activities.

Last year, exploration drilling at the eastern side of the Panian Mine yielded promising results with the discovery of significant additional volumes of coal. This year, more exploratory and confirmatory drilling activities were carried out beyond the ultimate limit of the pit. The DENR approved the amendment of the company's Environmental Compliance Certificate, increasing its annual coal production to 8 million MT. Another significant development is the approval by the DOE on the extension of the COC until 2027. This confluence of events further encouraged the Company to enhance its exploration pursuits in Semirara Island for more mineable areas.

Favorable weather conditions during the year gave way for operations to maximize mining activities, such that the Company was able to serve the growing demand during the year and even posted a healthy ending inventory level of 763,577 MT.

High coal prices combined with strong sales resulted to the highest coal revenues posted historically at ₱11.50 billion, showing a 35% growth from 2008 coal revenues of ₱8.49 billion. With the acquisition of the Power Plant in December, the consolidated revenue for 2009 amounted to ₱11.94 billion. Energy sales from December 2 to December 31 2009 amounted to ₱443.49 million.

Although the Company incurred higher fixed and shipping costs in 2009 as a result of intensified mining operations, mine rehabilitation and inflation, economies of scale brought down cost of coal sold per MT by 2% from ₱1,964.21 in 2008 to ₱1,917.98 this year. Non-cash cost is at 12% and 17% of total cost of coal sold in 2009 and 2008, respectively. The decline was due to full depreciation of major equipment, while a portion of new equipment purchases were subject to sale and leaseback. The total cost of coal sold, inclusive of shipping, hauling, and shiploading costs amounted to ₱8.92 billion and ₱6.94 billion in 2009 and 2008, respectively. The recorded cost of energy sales of ₱440.47 million from the power business brought total cost of sales in 2009 to ₱9.36 billion.

Gross profit recorded a growth of 67% from ₱1.55 billion in 2008 to ₱2.58 billion in 2009. This is the result of higher income generation in the coal business, plus additional income from the new investment in the Power Plant.

The Company recorded a 58% increase in operating expenses from ₱458.93 million in 2008 to ₱723.92 million in the current year. Government share, which is a function of net coal revenues, accounted for 63% of the total expense. The balance is comprised of general and administrative expenses, including Philippine Stock Exchange listing fees, business permits, filing fees, Makati payroll and other employee benefits. The power business incurred operating expenses amounting to ₱25.66 million, resulting in consolidated operating expenses of ₱749.58 million in 2009.

The bulk, or 70% of the consolidated finance costs of ₱112.19 million is attributed to the interest cost of the PSALM debt, amounting to ₱78.76 million plus other credit facilities for the acquisition of the Power Plant. The Company's finance costs significantly dropped 67%, from ₱101.24 million in 2008 to ₱33.44 million in 2009, due to the declining long-term loan balances and decelerated further by lower interest rates during the year.

Virtually all of the recorded consolidated finance income of ₱52.75 million was generated by the Company, posting income of ₱52.74 million. Since the Company used more cash in its purchase of equipment and acquisition of the Power Plant, less cash was available for placements and other investments, thus finance income in 2009 dropped by 32%, compared to its 2008 level of ₱77.23 million.

Meanwhile, the Company recorded a significant amount of foreign exchange losses at ₱152.25 million in 2009, 84% more than 2008 losses of ₱82.78 million. This is due to higher foreign exchange rate at settlement date mostly from indent orders of parts and equipment against contract date. On the other hand, the power business booked foreign exchange gains totaling ₱199.95 million, mainly from unrealized forex gain, which correspondingly brought down the peso equivalent of the liability to PSALM on the 60% balance of the purchase price of the Power Plant.

Furthermore, the Company recognized equity in net losses of associates amounting to ₱39.35 million, a sizeable increase from 2008 level of ₱1.77 million. This accounted for the losses incurred by its investments in DMCI Mining Corporation and DMCI Power Corporation at ₱21.99 million and ₱17.36, respectively.

The Company recorded other income of ₱91.77 million in 2009, 69% more than its 2008 level of ₱54.44 million. This is mainly comprised of gains on equipment sale and recoveries from insurance claims. An additional ₱0.50 million was generated by the Power Plant, thus consolidated other income totaled to ₱92.27 million.

The resulting net income before tax posted an 81% growth at ₱1.87 billion from ₱1.03 billion. Provision for income tax fell by 73% at ₱63.29 million from ₱237.02 million in 2008, due to the Company benefiting from the full-year effect of the income tax holiday from its registration with the BOI in 2008. Of the consolidated provision for income tax amounting to ₱63.29 million, ₱57.93 million represented derecognition of deferred tax asset.

Before elimination entries, the parent Company posted a net income after tax of ₱1.79 billion in 2009 from ₱796.40 million in 2008, while the Power Plant generated a net income after tax of ₱63.19 million. Total consolidated net income after tax in 2009 was ₱1.81 billion, a 127% increase from 2008. Consolidated earnings per share correspondingly increased from ₱2.87 in 2008 to ₱6.52 in 2009.

December 31, 2009 vs. December 31, 2008
Financial Position

While the Company generated healthy cash levels during the year with increased income generation from coal sales, most of the accumulated cash was used to finance its acquisition of the Power plant before the year ended. Purchases of mining equipment amounting to ₱2.86 billion, debt repayment of ₱1.47 billion, and payment of cash dividends of ₱1.67 billion decreased cash substantially as well during the year. As a result, the Company's cash and cash equivalents declined by 54% from ₱1.01 billion in 2008 to ₱464.94 billion in 2009. The Power Plant posted an ending cash balance of ₱16.98 million. Consolidated cash and cash equivalents was recorded at ₱481.92 million.

The Company's net receivables also dropped by 46% from ₱1.78 in 2008 to ₱963.24 million in the current period. This is mainly due to the drop in trade receivables from local sales that was slightly offset by the increase in export sales receivables. Toward the end of the year, the Company sold more in the export markets, which had faster receivable turn-over. Export sales were covered by irrevocable standby letters of credit in congruence with the Company's risk management policy. The power business booked receivables amounting to ₱290.85 million, which was mainly comprised of energy sales. The resulting consolidated net receivables totalled ₱1.25 billion, or 23% of total current assets.

As more coal inventory was stockpiled as at the end of the period, the cost of coal inventory increased by 63% to ₱1.47 billion from its 2008 level of ₱896.73 million. Spare parts and supplies increased by 8% from ₱486.49 million in 2008 to ₱527.64 million in 2009. This is due to the increase in mining equipment, which also required more spare parts and materials. The Company's net inventories reflected a 44% increase, from ₱1.38 billion in 2008 to ₱1.99 billion as at the close of the current year. The Power Plant also booked total inventories amounting to ₱1.01 billion. This is mainly comprised of spare parts and supplies. Consolidated inventories represented 55% of total current assets, or ₱3.08 billion.

The 59% increase in the Company's other current assets, from ₱323.73 million in 2008 to ₱515.62 million in 2009, is mainly due to the recording of prepaid income tax, amounting to ₱149.44 million and the increase in advances to suppliers by ₱85.34 million. Other current assets of ₱19.34 million of the Power Plant includes withholding taxes, amounting to ₱13.10 million. Consolidated other current assets formed 13.62% of total current assets at ₱759.89 million.

The Company's total current assets dropped by 6.5% to ₱4.21 billion in 2009 from ₱4.50 billion in 2008. The consolidated total current assets however, ended at ₱5.58 billion, a 24% increase from last year's level with the Power Plant's total current assets of ₱1.64 billion.

The Company's total non-current assets grew by 515% to ₱9.69 billion from the 2008 level of ₱1.61 billion. This was mainly due to the surge in total investments from ₱223.23 million in 2008 to ₱7.40 billion in 2009 as a result of the acquisition of the Power Plant. Net property, plant and equipment doubled from ₱1.11 billion in 2008 to ₱2.21 billion in 2009 with the purchase of new mining equipment for capacity expansion. Other non-current assets posted a 86% decrease from ₱283.75 million in 2008 to ₱39.97 million in 2009 because security deposits for operating lease transactions amounting to ₱270.75 million will already be realizable next year. Consolidated total non-current assets amounted to ₱18.25 billion.

Total consolidated assets ended at ₱23.83 billion, ₱15.70 billion of which accounted for the Power Plant's total assets. Comparatively, the Company's total assets in 2008 stood at ₱6.11 billion.

With the expansion of its business and investments, the Company's total liabilities correspondingly rose by 125% to ₱4.07 billion in 2009 from ₱1.81 billion in 2008. Consolidated total liabilities ended at ₱13.98 billion.

The Company’s total current liabilities, ₱1.64 billion in 2008 increased to ₱3.53 billion in 2009, or 116%. The bulk of 2009 current liabilities is comprised of trade and other payables amounting to ₱2.55 billion, or 72% of total current liabilities. Trade and other payables comprised of: trade payables, payables to related parties, accrued expenses, and payable to the DOE and other government units. Additional credit facilities increased current portion of long term debt by 151% from its 2008 level of ₱389.23 million to ₱977.90 million. In line with its investment in the Power Plant, the Company recorded another ₱2.03 billion current liabilities, resulting to a consolidated total current liabilities of ₱5.52 billion.

Non-current liabilities totalled ₱537.98 million a 209% increase from the 2008 level of ₱173.89 million. The bulk of this is long-term debt – net of current portion, amounting to some ₱474.36 million, or 88% of total non-current liabilities. This account increased with the booking of a loan amounting to $10 million to finance equipment purchase. Consolidated total non-current liabilities rose to ₱8.64 billion as the Power Plant recognized its liability to PSALM, representing 60% of the purchase price to be amortized in 7 years.

Total equity was beefed up, recording deposits for future subscription amounting to ₱5.40 billion, representing deposits made by DMCI-HI and Dacon Corporation for subscription of additional shares of stocks for the Issue. Consolidated equity, net of cost of shares held in treasury, ended at ₱9.84 billion, 129% more than total equity in 2008 of ₱4.30 billion, after a dividend payout amounting to ₱1.65 billion, additional retained earnings from the Company’s income of ₱1.75 billion and the Power Plant’s net income generation of ₱62.93 million, net of eliminating entries,.

As of the end of 2009, the Company’s current ratio stood at 1.19:1, while the consolidated current ratio was 1.01:1. The decline of the current ratio from 2008's 2.75:1 was due in part to the use of more short-term debts to bridge the acquisition of the Power Plant and the use of internally generated cash to fund the acquisition of the power assets from PSALM.

Prior to consolidation, the Company maintained the 2008 debt-to-equity ratio of 0.41:1. Consolidated balance sheets reflected a debt-to-equity ratio 1.42:1.

December 31, 2008 vs. December 31, 2007
Results of Operations

High coal prices compensated for the slight decrease in sales volume, such that coal revenues posted a healthy increase of 32% from year-end 2007 level of ₱6.38 billion to ₱8.45 billion year-end 2008. The slowdown in the Power Plant's operations translated to a 51% drop in coal handling revenues from ₱90.7 million from year-end 2007 to ₱43.99 million year-end 2008. The resulting total revenues showed a 31% improvement to ₱8.49 billion from ₱6.47 billion last year for the years ending December 31, 2008 and 2007, respectively.

A spike in oil prices coupled with the depreciation of the Peso in 2008 from its 2007 level resulted to cost push inflation in 2008. Consequently, per metric ton fuel and lube, materials and supplies, and ship loading costs increased by 74%, 89%, and 62%, respectively. Maintenance costs incurred for industrial facilities and campsite facilities also contributed to the increase in cost per metric ton, as these are charged to production cost. These greatly contributed to the 44% increase in cost of coal sold/MT at ₱2,095.71 this period from ₱1,453.04 last year. Applied to the volumes sold, cost of sales reflected a 34% increase at ₱6.94 billion from ₱5.19 billion in 2007. The non-cash component dropped to 17% by year-end 2008, since most of the new equipment purchased were covered by operating leases, and are therefore not carried in the books of the Company as depreciable assets.

Gross profit rose 22% higher at ₱1.55 billion for the year-ended December 31, 2008 compared to ₱1.27 billion for the same period in 2007. Higher cost of sales/MT is the reason for the decrease in gross profit margin from 20% in 2007 to 18% in 2008.

Government share, which is a function of net coal revenues after operating costs, recorded a corresponding increase by 32% to ₱253.38 million for the year ended 2008 from ₱191.29 million for the same period in 2007. Government share is maintained at the minimum of 3% of coal revenues. General and administrative expenses increased by 54% to ₱205.54 million in 2008 from ₱133.09 million in 2007, as the Company expanded operations. This amount, however, included the recognition of ₱34.04 million wharfage fees billed by the PPA for deliveries made to the Power Plant. Although the Company already paid 50% of the amount, it has contested the payment, citing its exemption under Section 16 (a) of Presidential Decree 972 which provides that the Company is exempt from all taxes except for income tax.

With decreased interest bearing loans, finance costs fell by 28% from ₱140.25 million in 2007 to ₱101.24 million in 2008. Meanwhile, higher placements in 2008 earned higher finance revenues amounting to ₱77.23 million in 2008 from ₱40.20 million in 2007. Fluctuations of the US Dollar against the Peso proved to be unfavorable for the Company as it incurred foreign exchange losses amounting to ₱82.78 million in 2008. The Company recognized foreign exchange gains of ₱102.96 million in 2007.Other income increased by 478% at ₱54.44 million in 2008 from ₱9.42 million last in 2007, mainly from sale of a number of retired dump trucks used as hauling units and recoveries from insurance claims.

Net income before tax increased by 8% to ₱1.03 billion in 2008 from ₱960.77 million in 2007. Provision for current income tax fell by 13% to ₱290.50 million in 2008 from ₱333.67 million in 2007. After provision for net deferred tax liability of ₱53.48 million, net current tax provision is at ₱237.02 million. In September 2008, the Company successfully registered with the BOI as expanding producer of coal, as included in the Investments Priorities Plan of 2007, and in accordance with the provisions of the Omnibus Investments Code of 1997. One of the incentives of a BOI-registered enterprise is an ITH for the registered activity. In the case of the Company, registered activity is the expanded capacity with base figure of 2.71 million MT. Sales volume beyond this base figure is entitled to an ITH for six years from date of registration.

The resulting net income after tax reflects a 26% growth at ₱796.40 million in 2008 from ₱633.28 million in 2007. Earnings per share correspondingly increased by 24% from ₱2.28 in 2007 to ₱2.87 in 2008.

December 31, 2008 vs. December 31, 2007
Financial Position

In 2008, the Company launched a capacity expansion program to meet the demands from the newly developed export markets. Mining equipment amounting to ₱1.68 billion were ordered and paid using internally-generated cash. Most of the new arrivals were later subjected to sale and leaseback transactions, covered by operating leases. Due to timing difference, not all assets purchased in 2008 were covered by sale and leaseback arrangements as at the end of the year. Moreover, cash dividends declared and paid in 2008 amounted to ₱1.11 billion, 233% higher than dividends of ₱333.09 million paid in 2007, translating to a 39% drop in cash and cash equivalents which closed at ₱1.01 billion from ₱1.65 billion beginning balance.

Net receivables increased by 50% from ₱1.25 billion in 2007 to ₱1.88 billion in 2008. The increase was due to the 66% surge in trade receivables, which accounted for the bulk of the item at ₱1.77 billion in 2008 from ₱1.07 billion in 2007. Coal shipments in the later part of 2008 comprised the bulk of trade receivables. Non-trade related receivables, which included the due from related parties and advances to suppliers dropped by 37% in 2008, closing at ₱124.97 million from its ₱196.76 million beginning balance. This is mainly attributed to the decrease in receivables from related parties.

The improvement in weather conditions in December 2008 signaled the end of the force majeure situation. Operations took advantage of the good weather to ramp up production. As a result, coal inventory, which ran at low levels throughout 2008, closed at a more normal level at 0.46 million MT as at the end of the year. This is 12% higher than beginning inventory of 0.41 million MT. The increase in volume, compounded by higher cost of coal inventory, brought ending coal inventory at ₱896.73 million at the end of 2008, 57% higher than the beginning balance of ₱570.81 million. Materials and parts inventory dropped by 45% from its ₱881.86 million beginning balance to ₱486.49 million as at the end of 2008 due to higher utilization of materials and parts for operation and for the rehabilitation and maintenance program of industrial and campsite facilities which the Company implemented. As a result, total inventories maintained almost the same level at ₱1.38 billion, from its beginning balance of ₱1.45 billion because the decrease in parts and materials inventory was offset by the increase in coal inventory cost.

Other current assets recorded a 10% increase from beginning balance of ₱205.99 million to ₱226.11 billion at the end of 2008. The increase is mainly due to the accounting of prepaid rent and insurance of equipment.

The resulting net current assets slightly dropped, but stayed at almost the same level at ₱4.50 billion as at the end of 2008 from its ₱4.56 billion beginning balance.

Non-current assets decreased by a more significant percentage of 19% from its ₱2.00 billion as at the start of the year to ₱1.61 billion at the end of 2008. This was caused mainly by the 42% slump in property, plant and equipment which closed at ₱1.11 billion on December 31, 2008 from its ₱1.90 billion beginning level after booking depreciation cost of old mining equipment and other facilities. Although more mining equipment were purchased in 2008, most of these equipment were not carried in the books of the Company since these are covered by sale and leaseback arrangements with a local leasing company. Investments and advances rose by 176%, from ₱80.87 million spent in 2007 to ₱223.23 million at the end of 2008. Additional investments were made to DMCI Mining Corporation ("DMCI-MC") and DMCI Power during the year. Total investments to these companies amounted to ₱225 million: ₱100 million to DMCI-MC, and ₱125 million to DMCI Power. As at the end of 2008, the Company accounted for 50% share in equity losses of these start-up companies amounting to ₱1.77 million.

Total assets recorded a 7% decline to ₱6.11 billion at the end of 2008 from its ₱6.56 billion beginning balance.

Likewise, total liabilities recorded a slump of 7%, closing at ₱1.81 billion at the end of 2008 from its ₱1.94 billion beginning balance. The 15% increase in current liabilities which closed at ₱1.64 billion at the end of 2008 from its ₱1.46 billion was offset by the 64% drop in non-current liabilities from its ₱482.05 million beginning balance to ₱173.89 million as at the end of 2008.

The 74% increase in trade and other payables from ₱682.43 million at the start of 2008 to ₱1.19 billion at the end of 2008, which included non-interest bearing liabilities to foreign suppliers for open account purchases of equipment and equipment parts and supplies that are normally settled on 30 to 60-day credit terms largely explains the increase in current liabilities.

Income tax payable increased by 45% to ₱58.06 million at the end of 2008 from ₱40.17 million as at the start of the period. Higher income generation led to higher taxable income.

Customer’s deposits represent customer advances for coal deliveries. Delivery commitments to three customers accounted for the ₱8.87 million at the start of 2008. This amount was completely wiped off when deliveries were made during the year. The closing balance in 2008 of ₱1.21 million represents balance of new advances from another local customer.

Debt repayments during 2008 amounting to ₱2.13 billion decreased both current and long-term portions to ₱389.23 million and ₱137.07 million, respectively, totaling ₱526.30 million. This effectively decreased total long-term debts by 53% for 2008 from total beginning balance of ₱1.13 billion.

Other non-current liabilities accounts also showed significant movements. Deferred tax liability dropped by 79% in 2008 from its ₱67.60 beginning balance to ₱14.13 as at the end of the year. Provisions for decommissioning and site rehabilitation grew by 8% from ₱12.21 million from the start of 2008 to ₱13.20 million at the end of the year. Pension liability closed at ₱9.50 million, registering a 104% increase from ₱4.66 million at the start of 2008.

The current ratio remained healthy at 2.75:1 at the close of 2008, although this dropped by 12% compared to its 2007 level at 3.12:1.

Despite the 233% increase in total cash dividends paid out in 2008 amounting to ₱1.11 billion as against 2007 cash dividends of ₱333.09 million, stockholders' equity only registered a minimal drop of 7%, closing at ₱4.30 billion from beginning balance of ₱4.61 billion after accounting for net income generation of ₱796.4 million. Debt-to-equity ratio continued to demonstrate the stability of the Company at a low level of 0.43:1 in 2008, a minimal slide from 0.42:1 in 2007.

Key Financial Ratios for the Company

The key financial ratios for the Company are shown in Table 40.

	For the year ended December 31			For the three months ended March 31
	2009	**2008**	**2007**	**2010**
Current Ratio	1.01x	2.70x	3.12x	0.49x
Debt to Equity Ratio	1.42x	0.43x	0.42x	1.43x
Return on Assets	0.12x	0.12x	0.10x	0.04x
Return on Equity	0.26x	0.18x	0.14x	0.09x

Table 40: Financial ratios of the Company

The manner by which the Company calculates the foregoing indicators is as follows:

Current Ratio	Total current assets divided by total current liabilities
Debt-to-Equity Ratio	Total liabilities divided by stockholder's equity
Return on Assets	Net income divided by total assets (average)
Return on Equity	Net income divided by total equity (average)

FINANCIAL STATEMENTS

Financial Statements meeting the requirements of SRC Rule 68, as amended, are attached hereto and incorporated herein by reference.

CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

There are no disagreements with the auditors on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which, if not resolved to their satisfaction, would have caused the auditors to make reference thereto in their reports on the financial statements of the Company.

Interests of Named Experts and Counsel

LEGAL MATTERS

Certain Philippine legal matters in connection with the Offer have been passed upon for the Company by Castillo Laman Tan Pantaleon & San Jose, the legal adviser of the Offer. The aforesaid counsel has no shareholdings in the Company, or any right, whether legally enforceable or not, to nominate persons or to subscribe to the securities of the Company, in accordance with the standards of independence required in the Code of Professional Responsibility and as prescribed by the Supreme Court of the Philippines.

INDEPENDENT AUDITORS

The audited financial statements of the Company as of the years ended December, 31, 2007 and 2008, and for the periods ended December 31, 2006, 2007 and 2008 which are also incorporated by reference in this Prospectus, have been audited by the auditing firm of SyCip Gorres Velayo & Co.

SGV & Co. has acted as the Company's external auditors since 1997. The Company has not had any disagreements on accounting and financial disclosures with its current external auditors for the same periods or any subsequent interim period. SGV & Co. has neither shareholdings in the Company nor any right, whether legally enforceable or not, to nominate persons or to subscribe for the securities in the Company. SGV & Co. has no, and will not receive any, direct or indirect interest in the Company or in any securities pursuant to or in connection with the Offer. The foregoing is in accordance with the Code of Ethics for Professional Accountants in the Philippines set by the Board of Accountancy and approved by the Professional Regulation Commission.

The Company’s Audit Committee reviews and approves the scope of audit work of the independent auditor and the amount of audit fees for a given year. The amount will then be presented for approval by the stockholders in the annual meeting. As regards services rendered by the external auditors other than the audit of financial statements, the scope of, and amount for the same are subject to review and approval by the Audit Committee.

The aggregate fees billed for each of the last two fiscal years for professional services rendered by the external auditor were ₱1.3 million and ₱1.3 million for 2009 and 2008, respectively.

	Audit fees	Other assurance and related fees	Total
2009	₱1.3 million	₱0.00	₱1.3 million
2008	1.3 million	0.00	1.3 million
2007	1.2 million	0.00	1.2 million

Table 41: Audit fees (2007-2009)

There is no arrangement that SGV & Co. named above will receive a direct or indirect interest in the Company in connection with the Offer. SGV & Co. have not acted and will not act as promoter, underwriter, voting trustee, officer or employee of the Company in relation to the Offer.

Properties

DESCRIPTION OF PRINCIPAL PROPERTIES

The principal properties that the Company owns are mine sites and building.

Mine Site

The mine site in Semirara Island, Caluya, Antique, is a leased property from the government. The infrastructures and road network, office administration buildings, and power plants, are some of the improvements made by the Company on the leased area, as well as the following:

Building Offices	
Administration Building	1
Site Office	1
Auxiliary Building	1
Laboratory Building	1
Washing Plant Office	1
Power Plant Shed	1
Product Field Office	1
Service Base/Pit Shop Building	1
Briquetting Building	1
Classrooms for Barangay Semirara	12
Ice Plant	1
Genset Shed at Power Plant	1
Magazine Building	3
Pottery Building	1
Water Refilling Station	1
Classrooms for Divine Word College	6

Housing	
Bachelor's Quarters	6
Ladies Quarters	2
Quadruplex	17
Group Staff house	5
Individual Staff house	3
Laborer's Clusters	36
Food House	2
Molave Heights (Laborer's Unit)	267

Others	
Commissary Building	1
Wet Market	1
Hospital	1
Guardhouse	1
Site Hangar	3
Site Chapel with Convent	1
School Building	1
Smart Cell site	1
Multi-purpose Gym	2

All properties with the net book values are active assets. These are all located in Semirara Island, Caluya, Antique (mine site). All properties are free of any liens and encumbrances except some mining equipments used as collateral for the Company's loans.

The Company also invested in conventional and continuous mining equipments and other equipment worth ₱1.577 Billion and ₱1.095 Billion for years 2005 and 2006, respectively.

The Company invested $150.8 million to SEM-Calaca. The investment is currently booked as deposits for future subscription of the Company in SEM-Calaca.

The Company has no real estate properties. The only properties it has are those stated above.

Mining and Oil Companies

The mining claims are located in Semirara Island, Caluya, Antique covering an area of 3,832 hectares. On March 10, 1999, the Company was granted an Exploration Permit for a period of two years and renewable for a like period for a maximum of 6 years. The Exploration Permit is for limestone, silica and other quarry minerals. On June 28, 2004, the Mines & Geoscience Bureau issued a renewal of the permit. The Company during the term of the Exploration Permit undertook geological mapping, rock sampling and analysis and beneficiation testing. The preliminary exploration conducted by the company indicates a considerate resource of limestone, silica and clay with potential commercial value.

LEGAL PROCEEDINGS

Save for the following, the Company and SEM-Calaca are not engaged in any litigation or arbitration proceedings of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened against the Company or SEM-Calaca.

a) HGL Case

On August 28, 1984, HGL Development Corporation ("HGL") entered into a Forest Land Grazing Lease Agreement ("FLGLA No. 184") with the DENR covering a 367-hectare property located at the barrios of Bobog and Pontod, Semirara, Antique. In an Order dated December 6, 2000, the DENR cancelled FLGLA No. 184, citing that the area is covered by Proclamation No. 649 declaring Semirara Island as a Coal Mining Reservation. HGL filed a Motion for Reconsideration of DENR's Order, but such Motion was denied by DENR on December 9, 2002.

As a result of the foregoing, several cases arose, as follows:

1) Culasi Case

HGL Development Corporation, et al. vs. Semirara Mining Corporation
Civil Case No. C-146
RTC Culasi Antique Branch 13

This first case is for recovery of possession of a parcel of land in Semirara Island with prayer for preliminary mandatory injunction which was filed by HGL on November 17, 2003. HGL prayed for the issuance of a preliminary mandatory injunction in order to secure immediate possession of the 367-hectare property covered by FLGLA No. 184. HGL also prayed for actual, moral and exemplary damages and attorney's fees in the total amount of ₱10 million.

To oppose the case, the Company argued that DENR's cancellation of FLGLA No. 184 is already final and executory on the ground that HGL failed to elevate the matter to the Office of the President within the reglementary period provided by law. As such, HGL is deemed to have accepted DENR's denial of its Motion for Reconsideration, when it waived its right to appeal the case to the Office of the President. The Company also claimed exemplary and moral damages and attorney's fees.

HGL's prayer for injunction was granted by the Regional Trial Court ("RTC") on September 16, 2004, and was thereafter affirmed by the Court of Appeals. As such, the Company elevated the matter to the Supreme Court by way of Certiorari with prayer for Temporary Restraining Order ("TRO") and/or Injunction to be issued against HGL, the Court of Appeals, and the RTC of Culasi. The Supreme Court initially granted the TRO in favor of the Company on March 2, 2005. On December 6, 2006, the Supreme Court promulgated its decision which denied the Company's Petition for Certiorari. Despite attempts to reverse the Supreme Court's decision against the Company, this was affirmed with finality on February 14, 2007.

On the basis of the Supreme Court's denial of the Company's request for a TRO, HGL filed a motion to execute the RTC's order for preliminary injunction against the Company. The Company, on the other hand, sought the dismissal of the case with the RTC of Culasi on the basis of forum shopping. On July 16, 2007, the RTC of Culasi dismissed the main case, finding that the filing of two cases by HGL (with the RTC of Culasi and RTC of Caloocan) was a deliberate violation of the rule on forum shopping. RTC Culasi stated in its decision that in both cases, HGL's cause of action rests on the validity of FLGLA No. 184. HGL filed its Motion for Reconsideration but on November 20, 2007, the RTC of Culasi ruled against HGL. No appeal was taken by HGL.

HGL Development Corporation, represented by its President, Henry G. Lim vs. Hon. Rafael L. Penuela, in his capacity as Presiding Judge of RTC-Culasi Antique Branch 13, and Semirara Mining Corporation
G.R. No. 181353
Supreme Court, First Division

This is a Petition for Indirect Contempt filed by HGL with the Supreme Court on February 5, 2008, pertaining to RTC Culasi's (i) denial of HGL's motion for execution; and (b) dismissal of the case on the ground of forum shopping. HGL alleged that the dismissal of the Culasi Case constitutes indirect contempt as HGL was not able to implement the Supreme Court's decision dated December 6, 2006 (which affirmed the earlier order of RTC Culasi in granting HGL's Preliminary Mandatory Injunction) and resolution dated February 14, 2007. The Company has filed its Comments/Opposition to the Petition. Subsequently, the Supreme Court required the parties to submit their respective Memoranda on March 2009. This case is still pending as of the date of this Prospectus.

2) Caloocan Case

HGL vs. DENR and Semirara Mining Corporation
Civil Case No. C-20675
RTC Caloocan City Branch 121

This is a case for specific performance in order to compel DENR to perform its obligations under the FLGLA, filed on November 17, 2003.

On March 2, 2004, the Company intervened in the proceedings. Together with the DENR, a Motion to Dismiss this case was filed on the ground of lack of cause of action/jurisdiction and forum shopping. Said Motions to Dismiss were denied. As such, a Petition for Review was filed by the Company with the Court of Appeals, explained below. DENR also filed a Petition for Review with the Court of Appeals, explained below. The cases filed by the Company and DENR eventually reached the Supreme Court, in G.R. No. 177844 and G.R. No. 180401, also explained below.

After the Supreme Court's ruling in favor of the Company in G.R. No. 177844 became final on July 2, 2008, the Company again sought the dismissal of the case pending before RTC Culasi on the ground of forum shopping. While RTC Culasi granted the dismissal, RTC Caloocan denied the

Motion to Dismiss and cited Supreme Court decision on G.R. No. 180401 instead. The Supreme Court decisions, as mentioned, are discussed in detail below.

Since RTC Caloocan denied the Company's Motion to Dismiss on the basis of the second Supreme Court decision (G.R. No. 180401), the Company filed a Motion for Reconsideration with RTC Caloocan on January 20, 2009. This Motion was likewise dismissed by RTC Caloocan in its Order dated June 24, 2009. As its basis, RTC Caloocan said that it has no authority to sustain the Motion to Dismiss and the Motion for Reconsideration filed by the Company based on the argument that the rulings of RTC Culasi have become immutable and unalterable because of HGL's failure to appeal the same in accordance with law. There is still a pending Supreme Court case on this matter which the RTC cannot preemptively decide on.

In connection with the denial of its Motion for Reconsideration, the Company filed its Petition for Certiorari with the Court of Appeals on September 14, 2009.

i. Case filed by the Company with the Court of Appeals

Semirara Mining Corporation vs. HGL
G.R. No. 92238
Court of Appeals

Due to the RTC Caloocan's denial of the Company's Motion to Dismiss the case, this Petition for Review was filed by the Company with the Court of Appeals on the basis of lack of jurisdiction. The Court of Appeals granted the Company's Petition and subsequently denied HGL's Motion for Reconsideration. As such, HGL filed a Petition for Certiorari with the Supreme Court.

Semirara Mining Corporation vs. Hon. Adoracion G. Angeles, HGL Development Corporation
G.R. No. 177844
Supreme Court, Second Division

Due to the denial by the Court of Appeals of HGL's Motion for Reconsideration, a Petition for Certiorari was filed by HGL on November 14, 2007, which was denied by the Supreme Court. The Supreme Court likewise denied with finality on July 2, 2008 HGL's Motion for Reconsideration. This decision was used as basis of RTC Culasi to finally dismiss the case of HGL.

ii. Case filed by DENR with the Court of Appeals

DENR vs. HGL
G.R. SP No. 92311
Court of Appeals

Due to RTC Caloocan's denial of DENR's Motion to Dismiss the case, this Petition for Review was filed by DENR with the Court of Appeals. On November 6, 2007, the Court of Appeals denied the Petition. DENR filed a Petition for Certiorari with the Supreme Court.

DENR vs. HGL
G.R. No. 180401
Supreme Court, First Division

Due to the Court of Appeals' denial of DENR's Petition for Review, the latter filed this Petition for Certiorari with the Supreme Court. Similar to the Court of Appeals, the Supreme Court denied this Petition on February 4, 2008. DENR then filed a Motion for Reconsideration on March 25, 2008, which was later denied by the Supreme Court with finality.

b) PPA Dispute

This is a case which stemmed from a letter issued by the PPA of Batangas to the Company demanding payment of the amount of ₱34,036,568.06 as wharfage fees on shipments of coal to the National Power Corporation ("NPC") that were landed in the port of Calaca, Batangas from 1988 to 2007. The assessment was based on PPA's findings that the Company was the owner/shipper and supplier of coal from the Company to NPC.

On March 14, 2008, the Company paid 50% of the assessment under protest. On March 31, 2008, the Company filed its Notice of Protest/position paper to support its position that: (a) NPC, and not the Company, is the party liable for wharfage fees for the subject coal shipments; (b) under the Coal Development Act of 1976, the Company is exempt from all taxes, including wharfage fees; and (c) the right of PPA to collect wharfage fees has already prescribed. PPA issued a memorandum containing its opinion on the Company's liability. The Company thereafter filed its comment. On June 4, 2008, PPA referred the Company's Position Paper to the PPA's Legal Services Department for appropriate action.

On December 7, 2009, the Company received a copy of the decision of the PPA dated October 20, 2009 denying the Company's request for refund. Accordingly, the Company filed its Motion for Reconsideration on December 16, 2009 seeking reconsideration of said decision.

c) Tax Refund / Credits

Semirara Mining Corporation vs. Commissioner of Internal Revenue
CTA Case No. 7717
Court of Tax Appeals, First Division

In this petition, the Company claims for a refund or issuance of a Tax Credit Certificate in the amount of ₱11,847,055.07, representing the final withholding value-added taxes ("VAT") erroneously withheld by NPC on its payments for the month of December 2005 for the Company's coal sales. The Company's position is that NPC erroneously deducted and withheld the 5% final withholding VAT from its payments to the Company because the latter's sales of coal to NPC remain exempt from VAT pursuant to Section 16 (a) of Presidential Decree No. 972 (1976) and Section 5.2 of the Coal Operating Contract in relation to Section 109 (K) of Republic Act No. 9337 (2005). This position was confirmed by the Commissioner of Internal Revenue ("CIR") when it issued BIR Ruling No. 0006-2007 on March 7, 2007.

On October 15, 2009, the CTA rendered a Decision granting the Company's petition for refund in the amount of ₱11,847,055.07, representing the final VAT erroneously withheld by NPC on sales of coal for the month of December 2005. The CIR moved for reconsideration of the CTA's Decision. On November 21, 2009, the Company filed its comment thereon. The motion for reconsideration remains pending to date.

Semirara Mining Corporation vs. Commissioner of Internal Revenue
CTA Case No. 7727 & 7783
Court of Tax Appeals, First Division

Similar to the previous case, this is a consolidated case for refund or issuance of a Tax Credit Certificate in the amount of ₱86,108,626.19, representing the final withholding VAT erroneously withheld by NPC on its payments for the 1st and 2nd quarters of 2006. The Company has already submitted its formal offer of evidence and as of date, the case is already for BIR's presentation of evidence.

Semirara Mining Corporation vs. Commissioner of Internal Revenue
CTA Case No. 7822 & 7849
Court of Tax Appeals, First Division

Similarly, this is a consolidated case for refund or issuance of a Tax Credit Certificate in the amount of ₱77,253,245.39, representing the final withholding VAT erroneously withheld by NPC on its payments for the 3rd and 4th quarters of 2006. The Company has already submitted its formal offer of evidence and as of date, the case is already for BIR's presentation of evidence.

Semirara Mining Corporation vs. Commissioner of Internal Revenue
CTA Case No. 7867
Court of Tax Appeals, First Division

Similarly, this is a consolidated case for refund or issuance of a Tax Credit Certificate in the amount of ₱15,292,054.93, representing the final withholding VAT erroneously withheld by NPC on its payments for the month of January 2007 for the Company's coal sales.

In its Resolutions dated October 22, 2009 and October 26, 2009, the CTA accepted the admissibility of all the documentary evidence of the Company. On November 26, 2009, the CIR presented its lone witness Teresa Carillo, who is a Revenue Officer 3 at the Large Taxpayer's Division II of the BIR and verbally offered its documentary evidence. The parties will be required to submit their respective memoranda after the CTA resolves the CIR's offer of documentary evidence. Thereafter, the case will be deemed submitted for decision.

d) Business Tax

Semirara Mining Corporation vs. Municipality of Calaca
Civil Case No. 07-180
RTC Makati City Branch 137

This is a complaint filed by the Company on February 26, 2007 for the reversal and cancellation of the tax assessment issued by the Municipality of Calaca for unpaid business taxes covering calendar years 2003, 2004 and 2005 in the aggregate amount of ₱66,685,189.00. The Municipality of Calaca is of the position that the coal delivered to the port of Calaca translates to a business activity for the Company's coal sales conducted within its jurisdiction. The Municipality of Calaca claims that the Company is subject to local business taxes in Calaca because of the existence of an office, which is the situs of the said tax.

The Company maintains that it is not maintaining an office in the Municipality of Calaca, despite delivery of coal to the Power Plant. The Company's office within the Leased Premises is an administrative office maintained by the Company in relation to the Supplemental Agreement.

The case is pending Judicial Dispute Resolution with the RTC.

e) Real Property Tax

Municipality of Caluya vs. Semirara Mining Corporation
Civil Case No. C-051
RTC Culasi Antique Branch 13

On February 19, 2008, the Municipality of Caluya Antique filed a case for enforcement of a compromise agreement against the Company submitted to the RTC on November 17, 2003 and involving the balance of ₱82,979,702.24 in real property taxes imposed on real property located in Semirara Island for the years 1992-2002. In opposing this case, the Company argued that the Motion for Execution has no legal basis and is premature by virtue of a significant clause in the aforementioned compromise agreement requiring the parties to first determine the correctness of the tax assessments which will be subject to the verification of the parties. The case remains pending to date but the parties have on-going negotiations for the possible out-of-court settlement of the case.

f) Labor Related Cases

Edgardo M. Decepeda et al., vs. Semirara Mining Corporation, Victor A. Consunji & NPC
NLRC Case No. RAV IV 09-25418-07-B
NLRC

Edgardo M. Decepeda, et al. filed a Complaint before the National Labor Relations Commission ("NLRC"), Regional Arbitration Branch No. IV (Labor Arbiter Edgar B. Bisana) on September 12, 2007. Complainants are former coal handlers of NPC at the Power Plant. They alleged that the Company became their employer from the time they were displaced by NPC by virtue of a Supplemental Agreement made between the Company and NPC.

Complainants were not absorbed by the Company and are claiming ₱12,592,749 for losses of unpaid wages covering the period September 16, 2004 (time of their displacement) up to September 15, 2007.

The Company's Motion to Dismiss was filed on October 11, 2007 on the basis that there is no employer-employee relationship between the Company and complainants. This case is already submitted for resolution.

National Mines and Allied Workers Union vs. Semirara Mining Corporation and/or Victor A. Consunji/Francisco B. Aragon, Jr.,
NLRC Case No. 00-02001388-07

National Mines and Allied Workers Union *("*NAMAWU") previously represented SMCLU, the local union representing the Company's employees. SMCLU became a legitimate labor organization and later on disaffiliated from NAMAWU. SMCLU opted to collectively bargain with the Company on its own, and no longer through NAMAWU. On this premise, NAMAWU filed a complaint.

On September 17, 2009, the Labor Arbiter found the Company guilty of Unfair Labor Practice and ordered the latter to bargain collectively. The Company on October 26, 2009 filed its Memorandum of Appeal citing the Labor Arbiter's misappreciation of facts and law to the National Labor Relations Commission. NAMAWU filed its opposition thereto. On March 30, 2010, the First Division of the NLRC issued its decision reversing the finding of the Labor Arbiter, thereby dismissing the case against the Company.

g) Complaint with the Office of the Ombudsman

On April 27, 2009 the Company filed an Administrative Complaint for Gross Misconduct with the Office of the Ombudsman, Visayas Area Office, Cebu City, against Mr. Bienvenido Lipayon, the acting regional director of the DENR Environmental Management Bureau based in Iloilo for alleged bias and filing of false reports with the DENR against the Company. Mr. Lipayon caused such false reports to be published in newspaper articles.

h) Others

Atlantic, Gulf and Pacific Company of Manila, Inc. ("AG&P") and
Semirara Mining Corporation vs. Social Security System ("SSS")
Civil Case No. 7441
RTC, Batangas City, Branch 3

This is a case for specific performance to compel the SSS to enforce Social Security Commission (“SSC”) Resolution No. 270 dated April 4, 2001, to accept ₱4,909,410.54 as final settlement of the penalties incurred by AG&P and SCC, and to return to AG&P its owner’s duplicate of Transfer Certificate of Title No. T-112350.

As early as June 8, 2000, AG&P, a subsidiary of DMCI-HI, disclosed to SSS that it failed to remit premium contributions and salary and loan amortizations amounting to ₱7.3 million. AG&P proposed to settle its obligation with SSS through a dacion en pago arrangement. After several negotiations, SSS decided that the dacion en pago arrangement would likewise include the settlement of SCC’s liability for late remittance of contributions. On April 4, 2001, SSC issued Resolution No. 270 wherein AG&P was obliged to convey its 3,500 square meter property in Batangas, with an assessed value of ₱29,750,000.00, to settle the combined liability of AG&P and SCC amounting to ₱30,652,710.71. Upon final reconciliation of accounts, their liability was reduced to ₱29,209,646.00. However, when SSS issued the deed of assignment, it modified the terms of the dacion en pago arrangement by increasing the obligation of the companies to ₱40,846,610.64 and the valuation of the property to ₱35,000,000.00.

On February 13, 2004, AG&P and SCC filed a complaint for specific performance and damages against SSS. SSS moved for the dismissal of the complaint for lack of jurisdiction and non-exhaustion of administrative remedies. In an order dated July 28, 2004, the trial court granted the motion and dismissed the complaint. AG&P and SCC filed an appeal before the Court of Appeals alleging that the trial court erred in its pronouncement that it had no jurisdiction over the subject matter of the complaint and in granting the motion to dismiss.

In a Decision dated August 31, 2005, the Court of Appeals reversed the trial court's challenged order and granted the appeal of AG&P and SCC. The Court of Appeals then ordered the trial court to proceed with the civil case with dispatch. The decision of the Court of Appeals was upheld by the Supreme Court. Due to the foregoing events, the complaint of AG&P and SCC was reinstituted in the trial court.

While the matter remained pending, AG&P and SCC paid their delinquent salary loan accounts in full to avail of the Salary Loan Condonation program. Also, on May 21, 2008, they remitted ₱2 4,353,491.91 to SSS as payment of their principal obligation. AG&P and SCC then proposed to settle their penalty for late remittance amounting to ₱47,945,381.01 through government securities with zero interest coupons. In Resolution No. 595-s.2008 dated October 8, 2008, SSC approved the proposal and required AG&P and SCC to pay the penalty of ₱48,631,786.48 through zero interest government securities with the value of ₱12,157,946.62 each to be delivered within 45 days from their receipt of the resolution. However, the resolution cannot be implemented due to the unavailability of the zero-interest coupons in the market.

On December 11, 2009, AG&P and SCC filed an amended complaint to allege the events that transpired while the case was pending before the Court of Appeals and the Supreme Court. The SSS was required to file its answer within 15 days from its receipt of the amended complaint.

With the recent passage of Republic Act No. 9903, which condones penalties for late or non-remittance of contributions upon full payment thereof, AG&P and SCC are considering the possibility of filing a supplemental complaint and/or of executing a compromise agreement with the SSS.

Rosalino Lopez, et. al. vs. Semirara Mining Corporation, et.al.
COSLAP Case No. 2007-12-112, Commission on the Settlement of Land Problems

This is a Complaint filed before the Commission on the Settlement of Land Problems ("COSLAP") on December 18, 2007. Complainants alleged that they were being forced to vacate their lands by the Company for its coal mining operations in the area. The Complainants also claim for just compensation on the lands they occupy/possess, including the value of their crops and other fruit-bearing trees. It is the Company's position that the complainants do not have a cause of action, as the land in issue is declared to be mineral land. The disputed land could not have been owned by complainants for being outside the commerce of men.

On June 11, 2008, COSLAP denied the Company's prayer for dismissal and ordered mediation between the parties. On the November 26, 2009 mediation, no settlement was reached since the Complainants' demands were not quantified. Complainants have until February 28, 2010 to submit their quantified demands whereupon the Company may counter-offer.

Chino's Machine Shop vs. Semirara Mining Corporation
Case no. 70015
RTC Pasig City Branch 71

Ramon S. Matias, doing business under the name and style of Chino's Machine Shop and Equipment Rental, filed a Complaint against the Company on June 15, 2004, for unpaid bills amounting to ₱452,055.34 arising from a Contract of Lease and Services of Warehouses between the Company and Chino's Machine Shop. Matias also included in the complaint the claim for an alleged assignment of Commodity and Transport Corporation ("CTC") of its receivables from the Company amounting to ₱538,085.01. The Company's defenses include the lack of authenticity/veracity of the Sales Invoices presented and the non-occurrence of the alleged assignment between CTC and Chino's. The case has been submitted for decision.

Semirara Mining Corporation vs. Jebsen & Jessen Communications, Inc. ("Jebsen")

The Company contracted Jebsen to install an internet protocol telephony system. Because of reconfigurations made by Jebsen, the Company's entire telecommunication system became susceptible to hacking. Thus, unauthorized calls were made through the Company's telecommunications system, resulting in telephone charges to the Company amounting to ₱1,692,144.16.

A complaint for damages was filed by the Company on October 9, 2009. This case remains pending to date.

Angelito P. Victorio vs. Semirara Mining Corporation,
MCV Auto Maintenance & Truck Body Builder ("MCV") and/or Ma. Cristina C. De Vega
Civil Case No. 08-8099
MTC Marikina, Branch 76

The Company entered into a contract with MCV for the insulation of three units of reefer van. The complaint was predicated on the alleged assignment of receivables by MCV to Victorio covering the amount of ₱168,000.00. In its answer with cross-claim against De Vega filed on June 20, 2008, The Company posits that the complainant has no cause of action and that assignment is null and void and not binding to the Company. Considering the court has not acquired jurisdiction over defendants MCV and De Vega and being an indispensable party to the case, the Company on March 2, 2009 moved to suspend proceedings, which was granted by the court in its Order dated April 8, 2009.

Semirara Mining Corporation vs. Gothong Lines, Inc.
Civil Case No. 97515.
MTC, Makati, Branch 62

The Company shipped three units of transformers valued at ₱346,950.00 to Ozamis through Gothong Lines, Inc. The transformers were damaged while in transit as a result of the breaking of the landing legs of the trailer where the transformers were loaded. The Company filed suit before the MTC of Makati Branch 62 on February 27, 2009 for sum of money and damages in the total amount of ₱396,950.00. On March 11, 2010, the parties entered into a Compromised Agreement and thereafter, the court issued a judgement based on the Compromised Agreement of even date.

Management and Certain Shareholders

NUMBER OF SHARES OUTSTANDING

As of April 30, 2010, the Company had 626 shareholders of record worldwide holding 296,875,000 common shares.

SHAREHOLDERS

The following table sets forth the Company’s top 20 shareholders as of December 31, 2009:

Rank	Name of Stockholder	Number of Common Shares	Percentage of Ownership of Issued and Outstanding Capital Stock
1	DMCI Holdings, Inc.	163,432,385	55.05%
2	PCD Nominee Corp. (Non-Filipino)	66,663,953	22.46%
3	PCD Nominee Corp.(Filipino)	38,204,040	12.87%
4	Dacon Corporation	16,030,085	5.40%
5	National Development Corporation	11,364,658	3.83%
6	Privatization and Management Office	769,450	0.26%
7	DFC Holdings, Inc.	285,000	0.10%
8	Garcia, Jaime B.	40,030	0.01%
9	Teng, Ching Bun	15,000	0.01%
10	Amatong, Isagani S.	13,900	0.00%
11	Signey III, Victor D.J.	5,600	0.00%
12	Yap, Raymond A.	5,000	0.00%
13	Marana, Miguel De Castro	3,430	0.00%
14	Amatong, Adrian Michael A.	2,700	0.00%
15	Amatong, Antoinette Marie	2,700	0.00%
16	Ranillo, Anna Michelle A.	2,700	0.00%
17	Marana Jr., Cenon Bienvenido	2,700	0.00%
18	Arica, Joseph Santos	2,000	0.00%
19	Marana, Miguel D. C.	1,200	0.00%
20	Garcia, Exequiel	1,020	0.00%

Table 42: Top 20 shareholders

Directors and Executive Officers

The table below sets forth each member of the Company's Board elected during the most recent annual stockholders' meeting and are to serve until the next annual shareholders' meeting or until their successors have been duly elected and qualified.

Name	Age	Citizenship	Position
David M. Consunji	88	Filipino	Director, Chairman of the Board
Isidro A. Consunji	61	Filipino	Director, Vice-Chairman & CEO
Victor A. Consunji	59	Filipino	Director, President & COO
Cesar A. Buenaventura	80	Filipino	Director
Jorge A. Consunji	57	Filipino	Director
Ma. Cristina C. Gotianun	55	Filipino	Director
Ma. Edwina C. Laperal	47	Filipino	Director
Herbert M. Consunji	57	Filipino	Director
George G. San Pedro	70	Filipino	Director
Victor M. Macalincag	74	Filipino	Independent Director
Federico E. Puno	63	Filipino	Independent Director

The table below sets forth SCC's executive officers in addition to its executive directors listed above as of March 31, 2010.

Name	Age	Citizenship	Position
David M. Consunji	88	Filipino	Chairman
Isidro A. Consunji	61	Filipino	Vice-Chairman/CEO
Victor A. Consunji	58	Filipino	President/COO
Nestor D. Dadivas*	59	Filipino	Chief Finance Officer
Junalina S. Tabor*	46	Filipino	Chief Finance Officer
George G. San Pedro	69	Filipino	VP-Operations/Resident Manager
George B. Baquiran	65	Filipino	VP-Special Projects
Ma. Cristina C. Gotianun	55	Filipino	VP-Administration
Jaime B. Garcia	53	Filipino	VP-Procurement & Logistics
John R. Sadullo	39	Filipino	Corporate Secretary

**Note: In the organizational meeting of the Board on May 13, 2010, Junalina S. Tabor was appointed as the CFO of the Company*

BOARD OF DIRECTORS AND EXECUTIVE OFFICERS

The business experience of each of the Company's directors and officers covering the past five years are described below.

David M. Consunji, 88, Filipino, is the Chairman of the Board of the Corporation. He is a graduate of B.S. Civil Engineering at the University of the Philippines. He is currently the Chairman of the Board of D.M. Consunji, Inc., Dacon Corporation and DMCI Holdings, Inc. He is also a director of Atlantic Gulf & Pacific Co., Inc., and Semirara Cement Corporation. He was the former Secretary of the Department of Public Works, Transportation and Communications from August 23, 1971 to 1975, President of the Philippine Contractors Association, President of International Federation of Asian & Western Pacific Contractors' Association, President of Philippine Institute of Civil Engineers, Vice-President of the Confederation of International Contractors' Association. He also served as the Chairman of the Contractors Association, the Philippine Domestic Construction Board, the Philippine Overseas Construction Board, and the U.P Engineering Research and Development Foundation, Inc.

Isidro A. Consunji, 61, Filipino, is the Vice-Chairman, Chief Executive Officer, and the Chairman of the Nomination and Election Committee of the Corporation. He is a graduate of B.S. Civil Engineering at the University of the Philippines. He is currently the Chairman and CEO of DMCI Mining Corporation, Vice-Chairman of DMCI Masbate Power Corporation and DMCI Concepcion Power Corporation. He is a Director of Dacon Corporation, M&S Company Inc., DMC-Urban Property Developers, Inc., Crown Equities, Inc., Beta Electric Corporation, Semirara Cement Corporation, Universal Rightfield Property Holdings, Inc., and Maynilad Water Services. He is also the President of DMCI Holdings, Inc. He was the former President of the Philippine Constructors Association and Philippine Chamber of Coal Mines, Inc.

Victor A. Consunji, 59, Filipino, is the President and Chief Operating Officer of the Corporation. He is a graduate of A.B. Political Science at the Ateneo de Davao. He is currently the Chairman, President and CEO of SEM-Calaca Power Corporation and Semirara Training Center, Inc.; Chairman and CEO of DMCI Power Corporation; and Chairman of DMCI Concepcion Power Corporation and Divine Word School of Semirara Island, Inc. He is also a Director of D.M. Consunji, Inc., M&S Company, Inc., Dacon Corporation, Sodaco Agricultural Corporation, DMC Urban Property Developers, Inc., Ecoland Properties, Inc., and DMCI Mining Corporation. He is also the President of Sirawai Plywood & Lumber and DMCI Masbate Power Corporation.

Jorge A. Consunji, 57, Filipino, is a Director of the Corporation. He is a graduate of B.S. Industrial Management Engineering at the De La Salle University. He is currently the Chairman of DMCI Masbate Power Corporation, and Director of DMCI Holdings, Inc., Dacon Corporation, DMCI Project Developers, Inc., SEM-Calaca Power Corporation, Cotabato Timberland Co., Inc., M&S Company, Inc., Sodaco Agricultural Corporation, DMCI Mining Corporation, DMCI Power Corporation, DMCI Concepcion Power Corporation, Eco-Process & Equipment Phils. Inc., and Maynilad Water Services, Inc. He is also the President & COO of D.M. Consunji, Inc. and Royal Star Aviation, Inc.; and Vice-President of Divine Word School of Semirara Island, Inc. He was the former Chairman of the Board of Contech Panel Mfg., Inc., and of Wire Rope Corp. of the Philippines. He was the former President of ACEL and Former First Vice-President of Phil. Constructors Association. He is a member of Baguio Country Club, Manila Golf Club, Metropolitan Club, Inc., and Wack Wack Golf & Country Club.

Cesar A. Buenaventura, 80, Filipino, is a Director of the Corporation. He is a graduate of B.S. Civil Engineering at the University of the Philippines. He finished his M.S. Civil Engineering as Fulbright Scholar at the Lehigh University, Pennsylvania. He is currently the President of Atlantic Gulf & Pacific Company of Manila (AG&P) and Vice-Chairman of DMCI Holdings, Inc. He is a director of Montecito Properties, Inc., Pilipinas Shell Petroleum Corporation, Philippine American Life Insurance Company, PetroEnergy Resources Corporation, iPeople, Inc., Paysetter Holdings Limited and Paysetter International, Inc., and Semirara Cement Corporation. He is the founding Chairman of Pilipinas Shell Foundation, Inc.; President of the Benigno S. Aquino Foundation; and Member, Board of Trustees, Asian Institute of Management. He was the Chief Executive Officer of Shell Group of Companies in 1975 and appointed member of the Monetary Board of the central Bank of the Philippines. He was also a member of the Board of Directors of the Philippine International Convention Center in 1981, Regents of the University of the Philippines and a Senior Adviser of Jardine Davies. He was a director of the Philippine National Bank, Asian Bank, AB Capital Investment Corporation, Ayala Corporation, Benguet Corporation, First Philippine Holdings Corporation, Ma. Cristina Chemical Industries and Philippine Airlines, Inc.

Herbert M. Consunji, 57 years old, Filipino, is a Director of the Corporation. In the past five years, he has held and currently holds the following positions: (a) Chairman of Subic Water & Sewerage Corporation, (b) Director & Vice President & Chief Financial Officer of DMCI Holdings, Inc., (d) Director of DMCI Project Developers, Inc., (e) Director & Chief Operating Officer of Maynilad Water Services, Inc., (f) Director of DMCI Power Corporation, (g) Director of DMCI Mining Corporation and (h) Director and Treasurer of SEM-Calaca Power Corporation. He is also President of Village Parks, Inc. and Partner, H.F. Consunji & Associates.

Victor C. Macalincag, 74, Filipino, is an Independent Director and the Chairman of the Audit Committee of the Corporation. He is a holder of a Bachelor of Business Administration (BBA) degree from the University of the East and a Certified Public Accountant (CPA). He completed his academic requirements for a Masteral Degree in Economics and is a fellow of the Economic Development Institute of the World Bank. He is presently the Chairman of AZ Development Managers, Inc. He is an Independent Director of Crown Equities, Inc. and Merchants' Bank. He is a consultant of First Metro Securities Brokerage Corporation. He is a Director of Finman General Insurance Corp., Universal LRT-7 and Republic Glass Holdings, Inc. He was an Independent Director of Merchants' Bank. He was formerly the Undersecretary of Finance from 1986 to 1991, Deputy Minister of Finance from 1981 to 1986, Treasurer of the Philippines from 1983 to 1987, President of Trade & Investment Development Corporation of the Philippines (TIDCORP) from 1991 to 2001. He was also a director of the Home Guarantee Corporation from 1979 to 2001, the Philippine Overseas Construction Board from 1991 to 2001, the Philippine Long Distance Telephone Company from 1988 to 1995, the National Power Corporation from 1978 to 1986 and the Regent of Manila Hotel from 1984 to 1986. He was also a director of Philippine Aerotransport, Inc., Paper Industries Corporation of the Philippines, Lumang Bayan Realty Corporation and Manila Midtown Development Corporation.

George G. San Pedro, 70, Filipino, is a Director, Vice-President for Operation and Resident Manager of the Corporation. He is a graduate of B.S. Civil Engineering at the University of the Philippines. He used to work for D.M. Consunji, Inc., Dacon Wood Based Companies, DMC-CERI, and CONBROS Shipping Corporation. Currently, he is the President of Divine Word School of Semirara Island, Inc. and Vice-President of Semirara Training Center, Inc.

Federico E. Puno, 63, Filipino, is an Independent Director of the Corporation. He is a graduate of B.S. Civil Engineering at the University of the Philippines. He took up his M.S. Industrial Administration at the Camegie Mellon University, Pittsburgh, U.S.A. He is President and Chief Executive Officer of TeaM Energy Corporation. He was the President/CEO of San Roque Power Corporation. He was also the Director of Forum Pacific, Inc., Independent Director of Republic Glass Holdings, Corp. and Director of Pampanga Sugar Dev. Corp. He was a Director of the Manila Electric Company. He was the President of Anchor Steel Industries; President of National Power Corporation; President of Asahi Glass Corp.; President of Republic Glass Holdings, Corp.; Head of the Chief Financial and Management Services of the Ministry of Energy; Assistant Treasurer of the Bureau of Treasury and (Ministry of Finance); Vice-President-Finance of the Phil. National Oil Company; and Vice-President-Finance/Senior Vice-President-Finance and Administration of the National Power Corp.

Ma. Cristina C. Gotianun, 55, Filipino, is a Director and the Chairman of the Remuneration and Compensation Committee of the Corporation. She is a graduate of B.S. Business Economics at the University of the Philippines and majored in Spanish at the Instituto de Cultura Hispanica in Madrid, Spain. She is currently a Director and Corporate Secretary of Dacon Corporation and Vice-President for Finance & Administration/CFO of D.M. Consunji, Inc. She is the Finance Director of DMC-Project Developers, Inc., and Director of SEM-Calaca Power Corporation, DMCI Power Corporation, DMCI Masbate Power Corporation and DMCI Concepcion Power Corporation. She is also the Treasurer & CFO of DMCI Power Corporation, Treasurer of DMCI Masbate Power Corporation, DMCI Concepcion Power Corporation, and Assistant Treasurer of DMCI Holdings, Inc.

Ma. Edwina C. Laperal, 48, Filipino, is a Director of the Corporation. She is a graduate of B.S. Architecture at the University of the Philippines. She also took her Master's Degree in Business Administration in the same University. She is currently the Director and Treasurer of DMCI Holdings, Inc., and DMCI Project Developers, Inc.; Treasurer of Dacon Corporation and DMC Urban Property Developers, Inc.; and D.M. Consunji, Inc.

George B. Baquiran, 65, Filipino, is the Vice-President for Special Projects and has held said position for the past five years. He is a graduate of B.S. Geology and also a holder of a Master's Degree in Geology at the University of the Philippines. He has held the position of Vice-President held the position of Vice-

President for Energy Exploration from June 1979 to January 1982; AVP, Exploration from April 1979 to June 1979; Manager, Exploration from February 1977 to March 1979 in Vulcan Industries and Mining Corporation. He is the Project Director of DMCI Concepcion Power Corporation.

Nestor D. Dadivas, 59, Filipino, is the Chief Finance Officer. He is a graduate of B.S. in Commerce at the University of San Agustin, Iloilo City, summa cum laude, major in Accounting, Banking and Finance and Business, and is a Certified Public Accountant. He is also a holder of a Master's Degree in Business Management at the Asian Institute of Management, major in Finance. He is currently a Director DMCI Power Corporation, DMCI Masbate Power Corporation, SEM-Calaca Power Corporation, and DMCI Concepcion Power Corporation. He is also the President of DMCI Power Corporation. He was the Vice-President for Finance of Phelps Dodge Philippines, Inc. and a member of its Executive Committee, and Senior Vice-President for Atlas Fertilizer Corp. He was Head of Corporate Planning for the Elizalde and Company in 1976.

Jaime B. Garcia, 53 years old, Filipino, is the Vice-President for Procurement and Logistics. He is a graduate of B.S. Management and Industrial Engineering at Mapua Institute of Technology. He took also his Master's in Business Administration at De La Salle University in 1994 and Masters in Business Economics at the University of Asia & the Pacific in 1998. He is currently holding the position of Director of Royal Star Aviation, Inc., and Semirara Cement Corporation, Senior Manager-Purchasing of M&S Company, Inc., and DMC Construction Equipment Resources, Inc. He is an Industrial Engineer by profession.

Junalina S. Tabor, 46 years old, Filipino, is the OIC-Chief Finance Officer. She is a graduate of Bachelor in Science in Commerce, major in Accounting at Saint Joseph College and is a Certified Public Accountant. She took her Master's in Public Administration at the University of the Philippines in 1993. Prior to joining the Corporation in 1997, she was the State Auditor I, II, & III of the Commission on Audit from 1993 to 1997, respectively.

John R. Sadullo, 39, Filipino, is the Corporate Secretary. He is a graduate of A.B. major in Political Science at the University of Santo Tomas. He is a holder of a Bachelor of Laws Degree at the San Beda College of Law. He took the bar exam in 1996 and was admitted in 1997. He currently holds the position of Legal Counsel and Corporate Secretary of the Company; and Corporate Secretary of the following corporations: (a) DMCI Masbate Power Corporation; (b) DMCI Concepcion Power Corporation; (c) SEM-Calaca Power Corporation; (d) Semirara Cement Corporation and (e) Divine Word School of Semirara Island, Inc. He is also the Assistant Corporate Secretary of Semirara Training Center, Inc. and previously the Corporate Secretary of DMCI Mining Corporation.

SENIOR MANAGEMENT

The directors of the Company are elected at the annual stockholders' meeting to hold office until the next succeeding annual meeting and until their respective successors have been elected and qualified.

Officers are appointed or elected annually by the Board of Directors at its organizational meeting following the Annual Meeting of Stockholders, each to hold office until the corresponding meeting of the Board of Directors in the succeeding year or until a successor will have been elected, appointed or will have been qualified.

Aside from the Directors and Executive Officers enumerated above, there are no other employees holding significant executive/officer positions in the Company.

SIGNIFICANT EMPLOYEES

The Company has no employee who is not an executive officer but is expected to make a significant contribution to the business.

FAMILY RELATIONSHIPS

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

INVOLVEMENT IN CERTAIN LEGAL PROCEEDINGS

None of the directors and officers were involved in any bankruptcy proceeding in the past five years, nor been convicted by final judgment in any criminal proceeding, nor been subject to any order, judgment or decree of competent jurisdiction, permanently enjoining, barring, suspending, or otherwise limiting their involvement in any type of business, securities, commodities or banking activities, nor found in action by any court or administrative body to have violated a securities or commodities law.

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

> *Rodolfo V. Cruz, et al, v. Isidro A. Consunji, Edwina C. Laperal, Cesar A. Buenaventura, et al,*
> *IS Nos. 03-57411-I, 03-57412-I, 03-57413-I, 03-57414-I, 03-57415-I, 03-57446-I and 03-57447-I*
> *Department of Justice, National Prosecution Service*
>
> A complaint has been filed for violation of Article 315 (2) (a) of the Revised Penal Code, as qualified by Presidential Decree No. 1689. Private complainants claim to have been induced to buy shares of stock of Universal Leisure Club (“UL Club”), on the representation that as members, they will enjoy the facilities of a project known as “a network of 5 world clubs” to be developed by Universal Leisure Corporation (“UL Corporation”), the project proponent and the seller of the UL Club shares. UL Corporation, however, failed to develop the project. Mr. Isidro A. Consunji, Mrs. Edwina C. Laperal and Mr. Cesar A. Buenaventura were named as respondents pursuant to their being directors of UL Club, UL Corporation and Universal Rightfield Property Holdings, Inc. (“URPHI”), the latter being the parent of UL Corporation.
>
> In its first Indorsement dated December 9, 2003, the City Prosecutor for Mandaluyong City, acting on a motion for inhibition filed by complainants, through counsel, recommended that further proceedings be conducted by the Department of Justice. In an order dated February 3, 2004, the Department of Justice designated State Prosecutor Geronimo Sy to conduct the preliminary investigation of this case. The last pleading filed is a notice of change of address dated June 27, 2008 filed by complainants’ counsel. This case remains pending.

EXECUTIVE COMPENSATION

Information as to the aggregate compensation paid or accrued during the last three calendar years and to be paid in the ensuing calendar year to the Company’s Chief Executive Officer and all officers and directors as a group unnamed is as shown in Table 43.

Name & Principal Position	Year	Salary	Bonus	Other Annual Compensation
Isidro A. Consunji				
Vice-Chairman & CEO				
Victor A. Consunji				
President and COO				
Nestor D. Dadivas**				
Chief Finance Officer				
Jaime B. Garcia				
VP-Procurement & Logistics				
George G. San Pedro				
VP & Resident Manager				
	2008	10,431,980.00	-	2,862,802.19
	2009	10,431,980.00	28,105,882.36	3,402,802.19
	2010	10,431,980.00	28,105,882.36	*3,402,802.19
All other Directors and Officers as a group	2008	5,423,600.83	-	1,434,766.57
	2009	5,350,280.00	11,001,176.47	3,674,766.57
	2010	5,350,280.00	11,001,176.47	*3,674,766.57

Table 43: Summary of executive compensation

* *Estimated*

** *In the organizational meeting of the Board on May 13, 2010, Junalina S. Tabor was appointed as the CFO of the Company*

COMPENSATION OF DIRECTORS

The members of the Board receive a standard per diem for attendance in Board meetings. In 2009, the Company paid a total of ₱2.86 million for directors' per diem. For 2010, the Company has allocated ₱2.86 million for directors' per diem. Other than payment of the per diem, there are no arrangements pursuant to which any director of the Company was compensated, or is to be compensated, directly or indirectly, during the year ended December 31, 2009 and the ensuing year, for any service provided as a director. There are no other compensatory plans or arrangements with respect to any named executive officer.

OTHER ARRANGEMENTS

There are no other arrangements pursuant to which the directors of the Company are compensated, or are to be compensated, directly or indirectly, by the Company for services rendered by such directors as of the date of this Prospectus.

EMPLOYMENT CONTRACTS AND CHANGE-IN-CONTROL ARRANGEMENTS

Executive officers are appointed by the Board to their respective offices. The Company does not enter into employment contracts with its executive officers. There is no compensatory plan or arrangement with respect to an executive officer which results or will result from the resignation, retirement or termination of such executive officer's employment with the Company and its subsidiary other than standard benefits provided under the Company's retirement plan covering all regular full-time employees, or from a change-in-control of the Company, or a change in an executive officer's responsibilities following a change-in-control of the Company.

WARRANTS AND OPTIONS OUTSTANDING

As of the date of this Prospectus, there are no outstanding warrants or options held by the Company's president, named executive officers, and all directors and officers, as a group.

Security Ownership of Certain Record and Beneficial Shareholders

SECURITY OWNERSHIP OF HOLDERS OF MORE THAN 5% OF THE COMPANY'S VOTING SECURITIES

Table 44 sets out the Security Ownership of Record and Beneficial Owners of more than 5% of the Company's Shares as of March 15, 2010 (excluding treasury shares totalling 19,302,300).

Title of Class	Name, Address of record owner	Name of Beneficial Owner + Relationship with Record Owner	Citizenship	Amount / Nature of Record ("R") / Beneficial ("B") Ownership	Percent of Class
Common	DMCI Holdings, Inc. 3/F DACON Building, 2281 Don Chino Roces Ave., Makati City	Same as record owner	Filipino	163,432,385 R	58.88
Common	PCD Nominee Corp (NF)	Hongkong and Shanghai Banking Corp. Ltd. holds 52,280,686 shares or 18.83%	Other Alien	79,025,362 B	28.47
Common	Dacon Corporation 3/F DACON Building, 2281 Don Chino Roces Ave., Makati City	Same as record owner	Filipino	16,030,085 R	05.78

Table 44: Security ownership of record and beneficial owners of more than 5%

Other than the persons named above, there are no other beneficial owners of more than 5% of the company's outstanding capital stock that are known to the Company.

SECURITY OWNERSHIP OF DIRECTORS AND MANAGEMENT

Table 45 sets out the security ownership of the Company's management as of March 15, 2010.

Title of class	Name of beneficial owner	Amount and nature of beneficial ownership	Citizenship	Percentage
Common	David M. Consunji	10 shares	Filipino	0.00
Common	Isidro A. Consunji	64,010 shares	Filipino	0.02
Common	Victor A. Consunji	10 shares	Filipino	0.00
Common	Cesar A. Buenaventura	5,010 shares	Filipino	0.00
Common	Jorge A. Consunji	10 shares	Filipino	0.00
Common	Ma. Cristina C. Gotianun	99 shares	Filipino	0.00
Common	Ma. Edwina C. Laperal	101 shares	Filipino	0.00
Common	Herbert M. Consunji	10 shares	Filipino	0.00
Common	George G. San Pedro	25,030 shares	Filipino	0.01
Common	Victor C. Macalincag	250,010 shares	Filipino	0.09
Common	Federico E. Puno	50,010 shares	Filipino	0.02
Common	George B. Baquiran	-	Filipino	-
Common	Nestor D. Dadivas*	-	Filipino	-
Common	Jaime B. Garcia	40,030 shares	Filipino	0.01
Common	Junalina S. Tabor*	-	Filipino	-
Common	John R. Sadullo	-	Filipino	-
Aggregate Ownership of all directors and officers as a group		**434,340 shares**		

Table 45: Security ownership of the Company's management

**Note: In the organizational meeting of the Board on May 13, 2010, Junalina S. Tabor was appointed as the CFO of the Company*

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

VOTING TRUST HOLDERS OF 5% OR MORE

The Company is not aware of the existence of persons holding more than five percent (5%) of the Company's common shares under a voting trust or similar agreement.

CHANGES IN CONTROL

The Company is not aware of any change in control or any arrangement that may result in a change in control of the Company since the beginning of its fiscal year.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

There has been no transaction or proposal for the last two years, to which the SCC was or is party, in which any of the directors, executive officers or nominees for director has direct or indirect material interest.

Other than those disclosed in the Company's Financial Statements, the Company has not entered into any other related party transactions.

Related Party Transactions

Related parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making the financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities. In the regular course of business, the Company's significant transactions with related parties include the following:

a) Continuing Indemnity Agreement dated September 3, 1998 with DMCI-HI and certain related parties whereby the Company, in consideration for guarantees extended by DMCI-HI and related parties in the form of Real Estate Mortgage (REM), standby letters of credit and other credit lines or facilities to secure the Company's indebtedness to various banks and creditors, agreed to indemnify and hold DMCI-HI and related parties free from and against any and all claims, liabilities, demands, actions, costs, expenses and consequences of whatever nature which may arise or result from said corporate guarantees. The Company further agreed to pay a fixed interest rate per annum on all sums or monies paid by DMCI-HI and related parties by reason of or in connection with the said corporate guarantees, letters of credit, credit facilities or REM; real properties of this affiliate were already freed from lien effective at the time when these old equipment loan were fully paid. The loans contracted in 2005 and 2006 were still guaranteed by DMCI-HI. Guarantee fees incurred amounted to ₱0.17 million, ₱0.88 million and ₱2.34 million for periods ended March 31, 2010, 2009 2008, respectively. These are included under finance costs in the profit or loss.

b) DMC-Construction Equipment Resources, Inc. ("DMC-CERI"), an affiliate, has transactions with the Company for services rendered relating to the Company's coal operations. These included services for the confirmatory drilling for coal reserve evaluation of identified potential areas, exploratory drilling of other minerals within Semirara Island, dewatering well drilling along cut-off wall of Panian mine and fresh water well drilling for industrial and domestic supply under an agreement. Expenses incurred for said services amounted to ₱16.08 million, ₱4.47 million and ₱3.93 million for the periods ended March 31, 2010, 2009 and 2008, respectively. These are included under Cost of Sales - Outside services.

   DMC-CERI also provides to the Company marine vessels for use in the delivery of coal to its various customers. The coal freight billing is on a per metric ton basis plus demurrage charges when delay will be incurred in the loading and unloading of coal cargoes. Expenses (at gross amount) incurred for these services amounted to ₱155.31 million, ₱138.86 million and ₱81.16 million for periods ended March 31, 2010, 2009 and 2008 respectively, and are included under Cost of Sales - Shipping, hauling and shiploading costs. The reported expense of the Company is net of freight payment by NPC (billing is C&F).

c) M&S Company, Inc. rents out various equipment used in the Company's operations. Also, M&S Company, Inc. supplies the rough lumber used by the Company in its various projects and the seedlings to be planted on the areas surrounding the pit, in compliance with the agreement between the Company and DENR. Rough lumbers purchased amounted to ₱4.59 million, ₱14.20 million and ₱1.64 million for period ending March 31, 2010, 2009 and 2008 respectively. The related rental expense amounted to ₱22.87 million for the periods ended March 31, 2010, 2009 and 2008. This is included under other expenses of the production cost for the quarter.

d) D.M. Consunji, Inc. ("DMCI") had transactions with the Company representing equipment rental and other transactions such as transfer of equipment, hauling and retrofitting services. The related expenses amounted to ₱1.85 million, ₱10.24 million and ₱4.85 million for the periods ended March 31, 2010, 2009 and 2008, respectively. Equipment rentals amounted to ₱25.68 million, ₱5.77 million and ₱0.89 million for the periods ended March 31, 2010, 2009, and 2008, respectively. These are included under contracted services of the production cost for the quarter.

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

f) CSA with DMCI Power Corp. ("DMCI-PC") was entered into September 4, 2007, whereby the Company agreed to sell and DMCI-PC agreed to purchase coal annually for a period of 15 years from May 3, 2009 to May 4, 2024. As of March 31, 2010, DMCI-PC has not yet started commercial operations.

g) Deposit for future subscription of DMC-PC advanced in the amount of ₱15.05 million in August 2009.

h) Cash and operating advances made to DMCI-PC and DMCI-MC, in the amounts of ₱1.2 million and ₱7.5 million, respectively.

At its special meeting held on December 1, 2009, the Company's Board of Directors approved the Company’s investment in the Power Plant with an acquisition cost of $361.7 million. The acquisition was made through SEM-Calaca, which acquired the right to purchase the Power Plant from DMCI-HI. As a result, the Company contributed the total amount of $150.88 million by way of deposits for future subscriptions to SEM-Calaca, which was paid by the latter to PSALM on December 2, 2009, in compliance with the APA and the LLA. As of March 31, 2010, the Company's total deposits for future subscriptions in SEM-Calaca amounted to ₱7.995 billion.

Corporate Governance

The Company's platform on corporate governance is anchored on its manual on the same (the "Manual"). The Manual institutionalizes the principles of good corporate governance in the entire organization. It also lays out the Company's compliance system and identifies the responsibilities of the Board and management in relation to good corporate governance. Under the Manual, the Board is responsible for promoting and adhering to the principles and best practices of corporate governance, fostering the long-term success of the Company and securing its sustained competitiveness in the global environment in a manner consistent with its fiduciary responsibility to its shareholders and employees.

Two independent directors, namely Victor M. Macalincag and Federico E. Puno, sit on the Board of Directors. The Company adopts the definition of independence in the SRC. The Company considers an independent director as one who, except for his director's fees and shareholdings, is independent of management and free from any business or other relationship which materially interferes, or could reasonably be perceived to interfere, with his exercise of independent judgment in carrying out his responsibilities as a director of the Company.

The Board of Directors is supported in its corporate governance functions by three committees: the Compensation and Remuneration Committee, the Nomination and Election Committee, and the Audit Committee. The Compensation and Remuneration Committee is tasked to establish a formal and transparent procedure for developing a policy on executive remuneration and for fixing the remuneration packages of officers and directors. The Nominations and Election Committee evaluates all candidates nominated to the Board in accordance with the Manual. The Audit Committee reviews and approves the Company's financial reports, performs oversight financial management functions, and evaluates and approves internal and external audit plans.

Audit Committee

The Audit Committee provides an oversight of financial management functions, specifically in the areas of managing credit, market, liquidity, operational, legal and other risks and is primarily responsible for monitoring the statutory requirements of the Company. The Audit Committee is responsible for the setting up of an internal audit department and for the appointment of an internal auditor, as well as an independent external auditor. It monitors and evaluates the adequacy and effectiveness of the Company's internal control systems. It ensures that the Board is taking appropriate corrective action in addressing control and compliance functions with regulatory agencies. It also ensures the Company's adherence to corporate principles, best practices and compliance with the Manual on Corporate Governance. The Audit Committee currently comprises Victor C. Macalincag, Victor A. Consunji, and Federico E. Puno. Victor C. Macalincag is the Chairman of the Committee.

Compensation and Remuneration Committee

The Compensation and Remuneration Committee is primarily responsible for establishing a formal and transparent procedure for developing a policy on executive remuneration and for fixing the remuneration packages of corporate officers who are receiving compensation from the Group. It is responsible for providing an oversight of remuneration of senior management and other key personnel and ensuring that compensation is consistent with the Group's culture, strategy and control environment. The Compensation and Remuneration Committee is currently comprised of: Ma. Cristina C. Gotianun, Herbert M. Consunji, and Victor C. Macalincag. Ma. Cristina C. Gotianun is the Chairman of the Committee.

Nomination and Election Committee

The Nomination and Election Committee is primarily responsible for the review and evaluation of the qualifications of all persons nominated to positions requiring appointment by the Board and the assessment of the Board's effectiveness in directing the process of renewing and replacing Board members. The Nomination and Election Committee is currently comprised of: Isidro A. Consunji, Victor C. Macalincag and Federico E. Puno. Isidro A. Consunji is the Chairman of the Committee.

The Manual expresses the Company's policies on disclosure and transparency, and mandates the conduct of communication and training programs on corporate governance. The Manual further provides for the rights of all shareholders and the protection of the interests of minority stockholders. Any violation of the Manual is punishable by a penalty ranging from reprimand to dismissal.

The Board has adopted a corporate governance self-rating system, as monitored by the Compliance Officer. The Compliance Officer ensures that the Board, officers and employees comply with all the leading practices and principles of good corporate governance as embodied in the Manual. The Company also complies with the appropriate self-rating assessment and performance evaluation system to determine and measure compliance with the Manual. At present, there are no plans to amend the Manual.

To supplement the Manual, the Company has adopted a code of ethics conduct to outline its policies in relation to its: customers, Board, management, employees, shareholders and investors, business partners, and the community.

RECOGNITION

The Company ranked among the Top 15 Publicly-Listed Companies in the 2008 “Corporate Governance Scorecard for Publicly-Listed Companies in the Philippines” recognized by the SEC and PSE. Likewise, the Company was among the Top 20 Philippine Listed Companies given the same recognition in good governance practices in 2007. These achievements affirm the Company’s significant and continuing progress in its overall corporate governance framework through the adoption of global best practices promoting higher standards of performance, transparency and accountability to all stakeholders.

In December 2008, the Company’s coal mining activity has been assessed and certified as conforming to International Standards Organization (ISO) 9001:2000, 14001:2004 and OHSAS 18001:2007 Standards on Quality Management System, Environmental Management System and Health and Safety Management System, respectively.

Taxation

The statements made regarding taxation in the Philippines are based on the laws in force at the date hereof and are subject to any changes in law occurring after such date. The following summary does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a decision to invest in the Rights Shares and does not purport to deal with the tax consequences applicable to all categories of investors, some of which (such as dealers in securities) may be subject to special rates. Prospective purchasers of the Rights Shares are advised to consult their own tax advisers concerning the tax consequences of their investment in the Rights Shares.

As used in this section, the term ''resident alien'' refers to an individual whose residence is within the Philippines and who is not a citizen thereof; a ''non-resident alien'' is an individual whose residence is not within the Philippines and who is not a citizen of the Philippines; a non-resident alien who is actually within the Philippines for an aggregate period of more than 180 days during any calendar year is considered a ''non-resident alien engaged in trade or business in the Philippines;'' otherwise, such non-resident alien who is actually within the Philippines for an aggregate period of 180 days or less during any calendar year is considered a ''non-resident alien not engaged in trade or business in the Philippines.'' A ''resident foreign corporation'' is a foreign corporation engaged in trade or business within the Philippines; and a ''non-resident foreign corporation'' is a non-Philippine corporation not engaged in trade or business within the Philippines.

CORPORATE INCOME TAX

In general, a tax of thirty-five per cent is imposed upon the taxable net income of a domestic corporation from all sources (within and outside the Philippines). However, effective January 1, 2009, the corporate income tax rate was reduced to 30% pursuant to Republic Act 9337. Gross interest income from Philippine currency bank deposits and yield from deposit substitutes, trust fund and similar arrangements as well as royalties from sources within the Philippines are however subject to a final withholding tax of twenty per cent of the gross amount of such income.

TAX ON DIVIDENDS

Cash and property dividends received from a domestic corporation by individual shareholders who are either citizens or residents of the Philippines are subject to a final withholding tax at the rate of 10.0%. Cash and property dividends received by non-resident alien individuals engaged in trade or business in the Philippines are subject to a 20.0% final withholding tax on the gross amount thereof, while cash and property dividends received by non-resident alien individuals not engaged in trade or business in the Philippines are subject to a final withholding tax at 25.0% of the gross amount, subject, however, to the applicable preferential tax rates under tax treaties executed between the Philippines and the country of residence or domicile of such non-resident foreign individuals.

Cash and property dividends received from a domestic corporation by another domestic corporation or by resident foreign corporations are not subject to tax while those received by non-resident foreign corporations are subject to withholding tax at the rate of 30.0%.

The 30.0% final withholding tax rate for dividends paid to a non-resident foreign corporation may be reduced depending on whether the country of domicile of the non-resident foreign corporation has an existing tax treaty with the Philippines. A country with a tax treaty may have a reduced preferential tax rate of between 10.0% and 25.0% depending on the provisions of the corresponding tax treaties. On the other hand, the tax rate for a country without a tax treaty may be reduced to 15.0% if (i) the country in which the non-resident foreign corporation is domiciled imposes no tax on foreign sourced dividends or

(ii) if the country of domicile of the non-resident foreign corporation allows a credit against the tax due from the non-resident foreign corporation, for taxes deemed to have been paid in the Philippines equivalent to 15.0%, which represents the difference between the regular income tax rate of 30.0% and the 15.0% tax rate on dividends. Non-resident foreign corporations may opt to claim relief under tax treaties executed between the Philippines and the country of residence or domicile of such non-resident foreign corporation.

Philippine tax authorities have prescribed certain procedures for availment of tax treaty relief. Subject to the approval by Philippine Bureau of Internal Revenue, or BIR, of stockholder's application for tax treaty relief, SCC shall withhold taxes at a reduced rate on dividends to be paid to a non-resident holder, if such non-resident holder provides SCC with proof of residence and if applicable, individual or corporate status. The application for tax treaty relief must be filed with the BIR not later than 15 days before the payment of dividends. Proof of residence for an individual consists of certification from his embassy, consulate, or other equivalent certifications issued by the proper government authority, or any other official document proving residence. If the regular tax rate is withheld by SCC instead of the reduced rates applicable under a treaty, the nonresident holder of the shares may file a claim for refund from the BIR. However, because the refund process in the Philippines requires the filing of an administrative claim and the submission of supporting information, and may also involve the filing of a judicial appeal, it may be impractical to pursue such a refund.

Stock dividends distributed pro-rata to any holder of shares of stock are not subject to Philippine income tax but are subject to documentary stamp tax at the rate of ₱1.00 for every ₱200.00 of the aggregate par value of the shares issued as stock dividends However, the sale, exchange or disposition of shares received as stock dividends by the holder is subject to the capital gains and documentary stamp tax if not sold through the PSE or stock transaction tax if sold through the PSE.

TAX TREATIES

Table 46 lists some of the countries with which the Philippines has tax treaties and the tax rates currently applicable to non-resident holders who are residents of those countries:

	Dividends (%)	Stock transaction tax on sale or disposition effected through the PSE (%)[9]	Capital Gains tax due on disposition of Shares outside the PSE (%)
Canada	25[1]	0.5	Exempt[11]
China	15[2]	Exempt[10]	Exempt[11]
France	25[3]	0.5	Exempt[11]
Germany	15[4]	0.5	5/10[12]
Japan	25[5]	0.5	Exempt[11]
Singapore	25[6]	0.5	Exempt[11]
United Kingdom	25[7]	0.5	Exempt[13]
United States	25[8]	0.5	Exempt[11]

Table 46: Countries which have tax treaties with the Philippines

Notes:

(1) 15% if recipient company controls at least 10% of the voting power of the company paying the dividends.

(2) 10% if the recipient company holds directly at least 10% of the capital of the company paying the dividends.

(3) 15% if the recipient company holds directly at least 15% of the voting shares of the company paying the dividends.

(4) 10% if the recipient company owns directly at least 25% of the capital of the company paying the dividends.

(5) 10% if the recipient company holds directly at least 25% of either the voting shares of the company paying the dividends or of the total shares issued by that company during the period of 6 months immediately preceding the date of payment of the dividends.

(6) 15% if during the part of the paying company's taxable year which precedes the date of payment of dividends and during the whole of its prior taxable year at least 15% of the outstanding shares of the voting stock of the paying company was owned by the recipient company.

(7) 15% if the recipient company is a company which controls directly or indirectly at least 10% of the voting power of the company paying the dividends.

(8) 20% if during the part of the paying corporation's taxable year which precedes the date of payment of dividends and during the whole of its prior taxable year at least 10% of the outstanding shares of the voting stock of the paying corporation was owned by the recipient corporation.

(9) Exempt if the stock transaction tax is expressly covered by the applicable tax treaty or is deemed by the relevant authorities as an identical or substantially similar tax to the Philippine income tax. In BIR Ruling No. ITAD 22-07 dated February 9, 2007, the BIR held that the stock transaction tax cannot be considered as an identical or substantially similar tax on income, and, consequently, ruled that a Singapore resident is not exempt from the stock transaction tax on the sale of its shares in a Philippine corporation through the PSE.

(10) Exempt under Article 2(b) of the RP-China Tax Treaty.

(11) Capital gains are taxable only in the country where the seller is a resident, provided the shares are not those of a corporation, the assets of which consist principally of real property situated in the Philippines, In which case the sale is subject to Philippine taxes.

(12) Under the RP-Germany Tax Treaty, capital gains from the alienation of shares of a Philippine corporation may be taxed in the Philippines irrespective of the nature of the assets of the Philippine corporation. Tax rates are 5% on the net capital gains realized during the taxable year not in excess of ₱100,000 and 10% on the net capital gains realized during the taxable year in excess of ₱100,000.

(13) Under the RP-UK Tax Treaty, capital gains on the sale of the stock of Philippine corporations are subject to tax only in the country where the seller is a resident, irrespective of the nature of the assets of the Philippine corporation.

SALE, EXCHANGE OR DISPOSITION OF SHARES

Capital Gains Tax, if sale was made outside the PSE

Net capital gains realized by a resident or non-resident other than a dealer in securities during each taxable year from the sale, exchange or disposition of shares of stock outside the facilities of the PSE, unless an applicable treaty exempts such gains from tax or provides for preferential rates, are subject to tax as follows: 5.0% on gains not exceeding ₱100,000.00 and 10.0% on gains over ₱100,000.00. An application for tax treaty relief must be filed at least fifteen (15) days before the occurrence of the relevant transaction (and approved) by the Philippine tax authorities in order to obtain an exemption under a tax treaty.

Taxes on Transfer of Shares Listed and Traded on the Philippine Stock Exchange

A sale or other disposition of shares of stock through the facilities of the PSE by a resident or a non-resident holder, other than a dealer in securities, is subject to a stock transaction tax at the rate of 0.5% of the gross selling price or gross value in money of the shares of stock sold or otherwise disposed, unless an applicable treaty exempts such sale from said tax. This tax is required to be collected by and paid to the Philippine Government by the selling stockbroker on behalf of his client. The stock transaction tax is classified as a percentage tax in lieu of a capital gains tax. Under certain tax treaties, the exemptions from capital gains tax discussed herein may not be applicable to the stock transaction tax.

In addition, a VAT of 12.0% is imposed on the commission earned by the PSE-registered broker, and is generally passed on to the client.

DOCUMENTARY STAMP TAX

The original issue of shares is subject to documentary stamp tax ("DST") of ₱1.00 for each ₱200.00, or a fractional part thereof, of the par value of the shares issued. The transfer of shares is subject to a documentary stamp tax of ₱0.75 for each ₱200.00, or a fractional part thereof of the par value of the shares transferred. However, the sale, barter or exchange of shares of stock listed and traded through the local stock exchange shall not be subject to documentary stamp tax for a period of five years from the effectivity of Republic Act 9243 dated February 17, 2004. The said DST exemption expired on March 20, 2009 in accordance with the effectivity period prescribed by Republic Act 9243. On June 30, 2009, the President of the Republic of the Philippines signed into law Republic Act 9648, which permanently exempts the sale, barter or exchange of shares of stock listed and traded through the local stock exchange from the documentary stamp tax. Under Republic Act 9648, the effectivity of such DST exemption was made retroactive to March 20, 2009.

In addition, the borrowing and lending of securities executed under the Securities Borrowing and Lending Program of a registered exchange, or in accordance with regulations prescribed by the appropriate regulatory authority, are likewise exempt from documentary stamp tax. However, the securities borrowing and lending agreement should be duly covered by a master securities borrowing and lending agreement acceptable to the appropriate regulatory authority, and should be duly registered and approved by the BIR.

ESTATE AND GIFT TAXES

The transfer of shares of stock upon the death of an individual holder to his heirs by way of succession, whether such holder was a citizen of the Philippines or an alien, regardless of residence, is subject to Philippine taxes at progressive rates ranging from 5.0% to 20.0%, if the net estate is over ₱200,000. Individual and corporate holders, whether or not citizens or residents of the Philippines, who transfer shares of stock by way of gift or donation are liable to pay Philippine donors' tax on such transfer of shares ranging from 2.0% to 15.0% of the net gifts during the year exceeding ₱100,000. The rate of tax with respect to net gifts made to a stranger (i.e., one who is not a brother, sister, spouse, ancestor, lineal descendant or relative by consanguinity within the fourth degree of relationship) is a flat rate of 30.0%.

Estate and donors' taxes, however, shall not be collected in respect of intangible personal property, such as shares of stock: (a) if the decedent at the time of his death or the donor at the time of the donation was a citizen and resident of a foreign country which at the time of his death or donation did not impose a transfer tax of any character, in respect of intangible personal property of citizens of the Philippines not residing in that foreign country, or (b) if the laws of the foreign country of which the decedent or donor was a citizen and resident at the time of his death or donation allows a similar exemption from transfer or death taxes of every character or description in respect of intangible personal property owned by citizens of the Philippines not residing in that foreign country.

TAXATION OUTSIDE THE PHILIPPINES

Shares of stock in a domestic corporation are considered under Philippine law as situated in the Philippines and the gain derived from their sale is entirely from Philippine sources; hence such gain is subject to Philippine income tax and the transfer of such shares by gift (donation) or succession is subject to the donors' or estate taxes stated above.

The tax treatment of a non-resident holder of shares of stock in jurisdictions outside the Philippines may vary depending on the tax laws applicable to such holder by reason of domicile or business activities and such holder's particular situation. This Prospectus does not discuss the tax considerations on non-resident holders of shares of stock under laws other than those of the Philippines.

EACH PROSPECTIVE HOLDER SHOULD CONSULT WITH HIS OWN TAX ADVISER AS TO THE PARTICULAR TAX CONSEQUENCES TO SUCH HOLDER OF PURCHASING, OWNING AND DISPOSING OF THE OFFER SHARES, INCLUDING THE APPLICABILITY AND EFFECT OF ANY STATE, LOCAL AND NATIONAL TAX LAWS.

The Philippine Stock Market

The information presented in this section has been extracted from publicly available documents which have not been prepared or independently verified by the Company in connection with the sale of the Rights Shares.

BRIEF HISTORY

The Philippines initially had two stock exchanges, the Manila Stock Exchange, which was organized in 1927, and the Makati Stock Exchange, which began operations in 1963. Each exchange was self-regulating, governed by its respective Board of Governors elected annually by its members.

Several steps initiated by the Government have resulted in the unification of the two bourses into the PSE. The PSE was incorporated in 1992 by officers of both the Makati and the Manila Stock Exchanges. In March 1994, the licenses of the two exchanges were revoked. While the PSE maintains two trading floors, one in Makati City and the other in Pasig City, these floors are linked by an automated trading system which integrates all bid and ask quotations from the bourses.

In June 1998, the Philippine SEC granted the PSE a Self-Regulatory Organization (''SRO'') status, allowing it to impose rules as well as implement penalties on erring trading participants and listed companies. On August 8, 2001, PSE completed its demutualization, converting from a non-stock member-governed institution into a stock corporation in compliance with the requirements of the SRC. The PSE has an authorized capital stock of 36.8 million, of which 15.3 million is subscribed and fully paid-up. Each of the 184 member-brokers was granted 50,000 shares of the new PSE at a par value of ₱1.00 per share. In addition, a trading right evidenced by a ''Trading Participant Certificate'' was immediately conferred on each member broker allowing the use of the PSE's trading facilities. As a result of the demutualization, the composition of the PSE Board of Governors was changed, requiring the inclusion of seven brokers and eight non-brokers, one of whom is the President. On December 15, 2003, the PSE listed its shares by way of introduction at its own bourse as part of a series of reforms aimed at strengthening the Philippine securities industry.

The PSE Management deliberates on all applications for listing and, if the listing application is endorsed by theManagement, forwards the application to the PSE board of directors for approval. Classified into financial, industrial, holding firms, property, services, mining and oil sectors, companies are listed either on the Exchange's First Board, Second Board or the newly created Small and Medium Enterprises Board. Each index represents the numerical average of the prices of component stocks. The PSE has an index, referred to as the PSEi, which as at the date hereof reflects the price movements of 30 selected stocks listed on the PSE, based on traded prices of stocks from the various sectors. The PSE shifted from full market capitalization to free float market capitalization effective April 3, 2006 simultaneous with the migration to the free float index and the renaming of the PHISIX to PSEi. With the increasing calls for good corporate governance, PSE has adopted an online daily disclosure system to improve the transparency of listed companies and to protect the investing public.

SELECTED STOCK EXCHANGE DATA

Table 47 sets forth movements in the composite index from 2004 to 2008, and shows the number of listed companies, market capitalization, and value of shares traded for the same period.

Year	Composite Index at Closing	Number of Listed Companies	Aggregate Market Capitalization	Combined Value of Turnover
1999	2,142.9	226	1,937.7	713.9
2000	1,494.5	230	2,577.6	357.6
2001	1,168.1	232	2,142.6	159.5
2002	1,018.4	234	2,083.2	159.7
2003	1,442.4	236	2,973.8	145.4
2004	1,822.8	236	4,766.2	206.6
2005	2,096.0	237	5,948.4	383.5
2006	2,982.5	240	7,172.8	572.6
2007	3,621.6	244	7,978.5	1,338.2
2008	1,872.8	246	4,069.2	763.9
2009	3,052.7	248	6,029.1	994.2

Table 47: Selected stock exchange data

Notes: in ₱ billions

Source: Philippine Stock Exchange, Inc.

TRADING

The PSE is a double auction market. Buyers and sellers are each represented by stock brokers. To trade, bids or ask prices are posted on the PSE's electronic trading system. A buy (or sell) order that matches the lowest asked (or highest bid) price is automatically executed. Buy and sell orders received by one broker at the same price are crossed at the PSE at the indicated price. Transactions are generally invoiced through a confirmation slip sent to customers on the trade date (or the following trading date). Payment of purchases of listed securities must be made by the buyer on or before the third trading day (the settlement date) after the trade. For Small-Denominated Treasury Bonds, settlement is on the day the trade was made.

Trading on the PSE starts at 9:30 am and ends at 12:00 pm with a 10-minute extension during which transactions may be conducted, provided that they are executed at the last traded price and are only for the purpose of completing unfinished orders. Trading days are Monday to Friday, except legal and special holidays.

Minimum trading lots range from 10 to 5,000,000 shares depending on the price range and nature of the security traded. Odd-sized lots are traded by brokers on a board specifically designed for odd-lot trading.

To maintain stability in the stock market, daily price swings are monitored and regulated. Under current PSE regulations, when the price of a listed security moves up by 50.0% or down by 40.0% in one day (based on the previous closing price or last posted bid price, whichever is higher), the price of that security is automatically frozen by the PSE, unless there is an official statement from the relevant company or a government agency justifying such price fluctuation, in which case the affected security can still be traded but only at the frozen price. If the issuer fails to submit such explanation, a trading halt is imposed by the PSE on the listed security the following day. Resumption of trading will be allowed only when the disclosure of the issuer is disseminated, subject again to the trading band.

SETTLEMENT

The Securities Clearing Corporation of the Philippines ("SCCP") is a wholly-owned subsidiary of the PSE, and was organized primarily as a clearance and settlement agency for SCCP-eligible trades executed through the facilities of the PSE. It is responsible for (a) synchronizing the settlement of funds and the transfer of securities through Delivery versus Payment ("DVP") clearing and settlement of transactions of Clearing Members, who are also Trading Participants of the Exchange; (b) guaranteeing the settlement of trades in the event of a Trading Participant’s default through the implementation of its Fails Management System and administration of the Clearing and Trade Guaranty Fund (“CTGF”), and; (c) performance of Risk Management and Monitoring to ensure final and irrevocable settlement.

SCCP settles PSE trades on a 3-day rolling settlement environment, which means that settlement of trades takes place three (3) business days after transaction date (T+3). The deadline for settlement of trades is 12:00 noon of T+3. Securities sold should be in scripless form and lodged under the PDTC’s book entry system. Each Trading Participant maintains a Cash Settlement Account with one of the two existing Settlement Banks of SCCP which are Banco de Oro Unibank, Inc. and Rizal Commercial Banking Corporation. Payment for securities bought should be in good, cleared funds and should be final and irrevocable. Settlement is presently on a broker level.

SCCP implemented its new clearing and settlement system called Central Clearing and Central Settlement (CCCS) last May 29, 2006. CCCS employs multilateral netting whereby the system automatically offsets “buy” and “sell” transactions on a per issue and a per flag basis to arrive at a net receipt or a net delivery security position for each Clearing Member. All cash debits and credits are also netted into a single net cash position for each Clearing Member. Novation of the original PSE trade contracts occurs, and SCCP stands between the original trading parties and becomes the Central Counterparty to each PSE-Eligible trade cleared through it.

SCRIPLESS TRADING

In 1995, the PDTC (formerly the Philippine Central Depository, Inc.), was organized to establish a central depository in the Philippines and introduce scripless or book-entry trading in the Philippines. On December 16, 1996, the PDTC was granted a provisional license by the SEC to act as a central securities depository.

All listed securities at the PSE have been converted into book-entry settlement in the PDTC. The depository service of the PDTC provides the infrastructure for lodgment (deposit) and upliftment (withdrawal) of securities, pledge of securities, securities lending and borrowing and corporate actions including shareholders’ meetings, dividend declarations and rights offerings. The PDTC also provides depository and settlement services for non-PSE trades of listed equity securities. For transactions on the PSE, the security element of the trade will be settled through the book-entry system, while the cash element will be settled through the current settlement banks, Rizal Commercial Banking Corporation and Banco de Oro Unibank, Inc.

In order to benefit from the book-entry system, securities must be immobilized into the PDTC system through a process called lodgment. Lodgment is the process by which shareholders transfer legal title (but not beneficial title) over their shares of stock in favor of PCD Nominee Corporation (‘‘PCD Nominee’’), a corporation wholly owned by the PDTC whose sole purpose is to act as nominee and legal title holder of all shares of stock lodged into the PDTC, or to any entity authorized by the SEC. ‘‘Immobilization’’ is the process by which the warrant or share certificates of lodging holders are canceled by the transfer agent and a new warrant or stock certificate covering all the warrants or shares lodged is issued in the name of PCD Nominee, or any other entity authorized by the SEC, without any jumbo or mother certificate in compliance with the requirements of Section 43 of the Securities Regulation Code (“SRC”). This trust arrangement between the participants and PDTC through PCD Nominee is established by and explained in the PDTC Rules and Operating Procedures approved by the SEC. No consideration is paid for the transfer of legal title to PCD Nominee. Once lodged, transfers of beneficial title of the securities are accomplished via book-entry settlement.

Under the current PDTC system, only participants (e.g. brokers and custodians) will be recognized by the PDTC as the beneficial owners of the lodged equity securities. Thus, each beneficial owner of shares through his participant, will be the beneficial owner to the extent of the number of shares held by such participant in the records of the PCD Nominee. All lodgments, trades and uplifts on these shares will have to be coursed through a participant. Ownership and transfers of beneficial interests in the shares will be reflected, with respect to the participant's aggregate holdings, in the PDTC system, and with respect to each beneficial owner's holdings, in the records of the participants. Beneficial owners are thus advised that in order to exercise their rights as beneficial owners of the lodged shares, they must rely on their participant-brokers and/or participant-custodians.

Any beneficial owner of shares who wishes to trade his interests in the shares must course the trade through a participant. The participant can execute PSE trades and non-PSE trades of lodged equity securities through the PDTC system. All matched transactions in the PSE trading system will be fed through the SCCP, and into the PDTC system. Once it is determined on the settlement date (trading date plus three trading days) that there are adequate securities in the securities settlement account of the participant-seller and adequate cleared funds in the settlement bank account of the participant-buyer, the PSE trades are automatically settled in the SCCP's CCCS system, in accordance with the SCCP and PDTC Rules and Operating Procedures. Once settled, the beneficial ownership of the securities is transferred from the participant-seller to the participant-buyer without the physical transfer of stock certificates covering the traded securities.

If a stockholder wishes to withdraw his stockholdings from the PDTC System, the PDTC has a procedure of upliftment under which PCD Nominee will transfer back to the stockholder the legal title to the shares lodged by surrendering the PCD Nominee certificate to a transfer agent which then issues a new stock certificate in the name of the shareholder and a new PCD Nominee certificate for the balance of the lodged shares. The expenses for upliftment are for the account of the uplifting shareholder.

The difference between the depositary and the registry systems would be on the recording of ownership of the shares in the issuing corporations' books. In the depository set-up, shares are simply immobilized, wherein customers' certificates are canceled and a new certificate is issued in the name of PCD Nominee Corp. Transfers among/between broker and/or custodian accounts, as the case may be, will only be made within the book-entry system of PDTC. However, as far as the issuing corporation is concerned, the underlying certificates are in the nominee's name. In the registry set-up, settlement and recording of ownership of traded securities will already be directly made in the corresponding issuing company's transfer agents' books or system. Likewise, recording will already be at the beneficiary level (whether it be a client or a registered custodian holding securities for its clients), thereby removing from the broker its current ''de facto'' custodianship role.

AMENDED RULE ON LODGMENT OF SECURITIES

On June 24, 2009, the PSE apprised all listed companies and market participants through Memorandum No. 2009-0320 that commencing on July 1, 2009, as a condition for the listing and trading of the securities of an applicant company, the applicant company shall electronically lodge its registered securities with the PDTC or any other entity duly authorized by the SEC, without any jumbo or mother certificate, in compliance with the requirements of Section 43 of the SRC. In compliance with the foregoing requirement, actual listing and trading of securities on the scheduled listing date shall take effect only after submission by the applicant company of the documentary requirements stated in Article III Part A of the PSE's Revised Listing Rules.

Pursuant to the said amendment, the PDTC issued an implementing procedure in support thereof to wit:

"For new companies to be listed at the PSE as of July 1, 2009 the usual procedure will be observed but the Transfer Agent of the companies shall no longer issue a certificate to PCD Nominee Corp. but shall issue a Registry Confirmation Advice, which shall be the basis for the PDTC to credit the holdings of the Depository Participants on listing date. On the other hand, for existing listed companies, the PDTC shall wait for the advice of the Transfer Agents that it is ready to accept surrender of PCNC jumbo certificates and upon such advice the PDTC shall surrender all PCNC jumbo certificates to the Transfer Agents for cancellation. The Transfer Agents shall issue a Registry Confirmation Advice to PCNC evidencing the total number of shares registered in the name of PCNC in the Issuer's registry as of confirmation date."

Annexes

Annex A Unaudited Interim Consolidated Financial Statements as of March 31, 2010 and 2009

Annex B Audited Consolidated Financial Statements as of December 31, 2009 and 2008

Annex C Competent Person's Report on the Remaining Coal Reserves of the Panian Coal Deposit

Parties to the Offer

Issuer

Semirara Mining Corporation
2281 Don Chino Roces Avenue
1231 Makati City

Underwriter

BDO Capital & Investment Corporation
20th Floor, South Tower, BDO Corporate Center
7899 Makati Avenue
0726 Makati City

Legal Counsel

Castillo Laman Tan Pantaleon & San Jose
The Valero Tower
122 Valero St., Salcedo Village
1227 Makati City

Receiving Bank and Stock Transfer Agent

Rizal Commercial Banking Corporation
Yuchengco Tower RCBC Plaza
6819 Ayala Avenue
0727 Makati City

Independent Auditor

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

SEMIRARA MINING CORPORATION AND SUBSIDIARY

UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

AS OF MARCH 31, 2010

(With Comparative Audited Figures as of December 31, 2009)

	March 31, 2010 (Unaudited)	December 31,2009 (Audited)
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 4, 28 and 29)	**₱1,077,544,775**	₱481,920,935
Receivables - net (Notes 3, 5, 17, 28 and 29)	**2,433,025,197**	1,254,095,120
Inventories - net (Notes 3, 6, 8 and 33)	**2,358,694,113**	3,084,879,380
Other current assets (Notes 7 and 29)	**521,753,585**	759,885,070
Total Current Assets	**6,391,017,670**	5,580,780,505
Noncurrent Assets		
Property, plant and equipment - net (Notes 3, 8, 19 , 20 and 33)	**18,299,726,122**	17,818,687,301
Investments and advances (Notes 3 and 9)	**245,045,583**	244,432,588
Other noncurrent assets - net (Notes 3, 10 and 29)	**169,509,853**	184,011,054
Total Noncurrent Assets	**18,714,281,558**	18,247,130,943
	₱25,105,299,228	₱23,827,911,448
LIABILITIES AND EQUITY		
Current Liabilities		
Notes payable (Notes 11, 28 and 29)	**₱7,886,191,385**	₱793,191,385
Current portion of long-term debt (Notes 12, 28, 29 and 33)	**111,430,436**	1,865,789,967
Trade and other payables (Notes 13, 17, 28 and 29)	**5,136,551,319**	2,857,535,375
Total Current Liabilities	**13,134,173,140**	5,516,516,727
Noncurrent Liabilities		
Long-term debt - net of current portion (Notes 12, 28, 29 and 33)	**1,429,680,187**	8,364,484,229
Deferred tax liabilities - net (Notes 3 and 24)	**72,056,929**	72,056,929
Provision for decommissioning and site rehabilitation (Note 3 & 14)	**14,773,138**	14,773,138
Pension liability (Notes 3 and 18)	**13,629,780**	12,935,734
Total Noncurrent Liabilities	**1,530,140,034**	8,464,250,030
Total Liabilities	**14,664,313,173**	13,980,766,757
Equity (Note 15)		
Capital stock	**296,875,000**	296,875,000
Additional paid-in capital	**1,576,796,271**	1,576,796,271
Deposit for future stock subscriptions	**5,402,125,985**	5,402,125,985
Retained earnings (Note 16)		
Unappropriated	**2,994,080,059**	2,400,238,695
Appropriated	**700,000,000**	700,000,000
	10,969,877,315	10,376,035,951
Cost of shares held in treasury (Note 16)	**(528,891,260)**	(528,891,260)
Total Equity	**10,440,986,055**	9,847,144,691
	₱25,105,299,228	₱23,827,911,448

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

SEMIRARA MINING CORPORATION AND SUBSIDIARY

UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE THREE MONTHS ENDED MARCH 31, 2010, 2009 AND 2008

		2009	2008
	2010	(Note 2)	(Note 2)
REVENUE (Note 32)			
Coal	**₱3,602,369,280**	₱3,231,441,607	₱2,163,284,137
Power	**2,491,076,916**	–	–
	6,093,446,196	3,231,441,607	2,163,284,137
COST OF SALES (Notes 17, 19 and 32)			
Coal	**2,375,278,445**	2,577,026,226	1,842,879,664
Power	**1,834,379,101**	–	–
	4,209,657,546	2,577,026,226	1,842,879,664
GROSS PROFIT	**1,883,788,650**	654,415,381	320,404,473
OPERATING EXPENSES (Notes 20 and 32)	**(1,064,943,755)**	(317,252,654)	(91,115,614)
FINANCE INCOME (Notes 22 and 32)	**1,038,731**	1,166,417	17,208,149
FOREIGN EXCHANGE GAINS (LOSSES) - net (Notes 28 and 32)	**11,039,431**	(565,726)	(1,949,839)
FINANCE COSTS (Notes 17, 21 and 32)	**(202,242,232)**	(9,826,462)	(26,095,965)
EQUITY IN NET EARNINGS (LOSSES) OF ASSOCIATES (Notes 9 and 32)	**612,995**	(8,255,745)	–
OTHER INCOME(CHARGES) (Notes 23 and 32)	**(8,329,838)**	30,377,374	(20,020,683)
	(1,262,824,668)	(304,356,796)	(121,973,952)
INCOME BEFORE INCOME TAX	**620,963,982**	350,058,586	198,430,521
PROVISION FOR INCOME TAX (Notes 24 and 32)	**(27,122,620)**	(51,528,997)	(58,516,047)
NET INCOME	**593,841,361**	298,529,589	139,914,474
OTHER COMPREHENSIVE INCOME	**–**	–	–
TOTAL COMPREHENSIVE INCOME	**₱593,841,361**	₱298,529,589	₱139,914,474
Basic / Diluted Earnings per Share (Note 25)	**₱2.14**	₱1.08	₱0.50

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

SEMIRARA MINING CORPORATION AND SUBSIDIARY

UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE THREE MONTHS ENDED MARCH 31, 2010, 2009 AND 2008

	Common Stock (Note 15)	**Additional Paid-In Capital**	**Deposit for Future Stock Subscriptions** (Note 15)	**Unappropriated Retained Earnings** (Notes 2 and 15	**Appropriated Retained Earnings** (Note 16)	**Total**	**Cost of Shares Held in Treasury** (Notes 15 and 16)	**Grand Total**
At January 1, 2010	**₱296,875,000**	**₱1,576,796,271**	**₱5,402,125,985**	**₱2,400,238,695**	**₱700,000,000**	**₱10,376,035,951**	**(₱528,891,260)**	**₱9,847,144,691**
Total comprehensive income for the period	**–**	**–**	**–**	**593,841,363**	**–**	**593,841,363**	**–**	**593,841,363**
At March 31, 2010	**₱296,875,000**	**₱1,576,796,271**	**₱5,402,125,985**	**₱2,994,080,058**	**₱700,000,000**	**₱10,969,877,314**	**(₱528,891,260)**	**₱10,440,986,054**
At January 1, 2009	₱296,875,000	₱1,576,796,271	₱–	₱2,256,119,235	₱700,000,000	₱4,829,790,506	(₱528,891,260)	₱4,300,899,246
Total comprehensive income for the period	–	–	–	298,529,589	–	298,529,589	–	298,529,589
Dividends	–	–	–	(1,665,436,800)	–	(1,665,436,800)	–	1,665,436,800)
At March 31, 2009	₱296,875,000	₱1,576,796,271	₱–	₱889,212,024	₱700,000,000	₱3,462,883,295	(₱528,891,260)	₱2,933,992,035
At January 1, 2008	₱296,875,000	₱1,576,796,271	₱–	₱2,270,011,644	₱1,000,000,000	₱5,143,682,915	(₱528,891,260)	₱4,614,791,655
Total comprehensive income for the period	–	–	–	139,914,475	–	139,914,475	–	139,914,475
Dividends	–	–	–	(1,110,291,200)	–	(1,110,291,200)	–	(1,110,291,200)
Additional Appropriation	–	–	–	(500,000,000)	500,000,000	–	–	–
At March 31, 2008	₱296,875,000	₱1,576,796,271	₱–	₱799,634,919	₱1,500,000,000	₱4,173,306,190	(₱528,891,260)	₱3,644,414,930

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

SEMIRARA MINING CORPORATION AND SUBSIDIARY

UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 2010, 2009 AND 2008

	2010	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**620,963,982**	350,058,587	198,430,156
Adjustments for:			
Depreciation and amortization (Notes 8 and 10)	**645,098,770**	307,317,970	373,536,801
Finance costs (Note 21)	**202,242,232**	9,826,462	26,095,965
Gain on sale of equipment (Notes 8 and 23)	**–**	(11,681,218)	(16,564,875)
Finance income (Note 22)	**(1,038,731)**	(2,245,265)	(17,208,149)
Net unrealized foreign exchange gains	**12,514,613**	5,247,111	1,111,775
Equity in net (earnings) losses of associates	**(612,995)**	8,255,745	-
Pension expense	**750,624**	1,567,097	-
Operating income before changes in working capital	**1,479,918,495**	668,346,489	565,401,673
Decrease (increase) in:			
Receivables	**(1,177,680,076)**	(417,819,267)	(55,570,065)
Inventories	**726,185,268**	277,343,792	372,810,468
Other current assets	**(343,733,411)**	12,951,332	(23,642,013)
Finance Lease			
Increase (decrease) in:			
Trade and other payables	**1,728,158,960**	789,124,410	(375,358,759)
Cash generated from (used in) operations	**2,412,849,236**	1,329,946,756	483,641,304
Interest received	**1,038,731**	(33,992,737)	15,089,319
Interest paid	**261,907,321**	9,546,314	(21,695,649)
Net cash provided by operating activities	**2,675,795,288**	1,305,500,333	477,034,974
CASH FLOWS FROM INVESTING ACTIVITIES			
Decrease (increase) in other noncurrent assets (Note 10)	**284,291,670**	(73,793,260)	(52,826,773)
Proceeds from sale of equipment	**–**	495,739,385	16,564,875
Additions to investments and advances	**–**	(25,000,000)	(95,930,536)
Additions to property, plant and equipment (Notes 8 and 31)	**(1,125,176,763)**	(1,715,593,479)	260,987,804
Net cash used in investing activities	**(840,885,093)**	(1,318,647,354)	128,795,370
CASH FLOWS FROM FINANCING ACTIVITIES			
Availments of debts	**8,457,085,765**	325,865,231	537,080,537
Repayment of debts	**(9,696,372,120)**	(454,100,470)	(500,562,213)
Cash dividends	**-**	-	(1,110,291,200)
Net cash provided by financing activities	**(1,239,286,355)**	(128,235,239)	(1,073,772,876)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**595,623,840**	(141,382,260)	(467,942,532)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**481,920,935**	1,012,409,162	1,650,806,337
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	**1,077,544,775**	871,026,902	1,182,863,805

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

SEMIRARA MINING CORPORATION AND SUBSIDIARY

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

Semirara Mining Corporation (the Parent Company) was incorporated on February 26, 1980. The Parent Company's registered and principal office address is at 2281 Don Chino Roces Avenue, Makati City, Philippines. The Parent Company is a majority-owned (58.88%) subsidiary of DMCI Holdings, Inc. (DMCI-HI), a publicly listed entity in the Philippines. Its ultimate parent company is Dacon Corporation.

The Parent Company's primary purpose is to search for, prospect, explore, dig and drill for mine, exploit, extract, produce, mill, purchase or otherwise, and generally deal in, ship coal, coke, and other coal products of all grades, kinds, forms, descriptions and combinations and in general the products and by-products which may be derived, produced, prepared, developed, compounded, made or manufactured there from within the purview of Presidential Decree No. 972, "*The Coal Development Act of 1976*", and any amendments thereto.

Its wholly owned subsidiary, Sem-Calaca Power Corporation ("SCPC" or "the Subsidiary") was incorporated on November 19, 2009, primarily to acquire, expand and maintain power generating plants, develop fuel for generation of electricity, and sell electricity to any person or entity through electricity markets, among others. SCPC's registered office is at 2nd Floor, DMCI Plaza Building, Pasong Tamo Extension, Makati City.

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

2. Summary of Significant Accounting Policies

Basis of Preparation

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

Statement of Compliance

The unaudited interim condensed financial statements for the three months ended March 31, 2010 have been prepared in accordance with PAS 34, *Interim Financial Reporting*. The unaudited interim condensed financial statements do not include all the information and disclosures required in the annual consolidated financial statements as at December 31, 2009, and should be read in conjunction with the Group's annual consolidated financial statements as at December 31, 2009.

The consolidated statements of financial position as of March 31, 2010 (unaudited) and December 31, 2009 (audited) and the unaudited interim consolidated statements of comprehensive income, changes in equity and cashflows for the three-month period ended March 31, 2010, 2009 and 2008 were prepared for purposes of the preliminary offering circular that is being prepared to be published in connection with the offering of common shares of the Group through a stock rights offering.

Basis of Consolidation

The consolidated financial statements comprise the financial statements of Semirara Mining Corporation and its wholly owned subsidiary, Sem-Calaca Power Corporation, as at March 31, 2010 and for the year then ended (see Note 1). 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.

For comparative purposes, these financial statements are titled "consolidated financial statements".

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

All intra-group 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 unaudited interim consolidated financial statements are consistent with those of the previous financial years except for the adoption of new and amended PFRS and Philippine Interpretations from International Financial Reporting Interpretation Committee (IFRIC) which became effective beginning January 1, 2010.

New Standards and Interpretations

- Philippine Interpretation IFRIC 17, Distributions of Non-Cash Assets to Owners *(effective for annual periods beginning on or after July 1, 2009 with early application permitted)*

Amendments to Standards

- PAS 39 Amendment - Eligible Hedged Items *(effective for annual periods beginning on or after July 1, 2009)*
- PFRS 2 Amendments - Group Cash-settled Share-based Payment Transactions (effective for annual periods beginning on or after January 1, 2010)
- PFRS 1 and PAS 27 Amendments, *Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*
- Amendment PFRS 2, *Vesting Conditions and Cancellations*
- PFRS 7 Amendment, *Improving Disclosures about Financial Instruments*
- Philippine Interpretation IFRIC 9 and PAS 39 Amendments, *Embedded Derivatives*

Improvements to PFRSs 2009

- PFRS 2, *Share-based Payment*
- PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*
- PAS 1, *Presentation of Financial Statements*
- PAS 7, *Statement of Cash Flows*
- PAS 17, *Leases*
- PAS 27, *Consolidated and Separate Financial Statements*
- PAS 36, *Impairment of Assets*
- PAS 38, *Intangible Assets*
- PAS 39, *Financial Instruments: Recognition and Measurement - Eligible Hedged Items*
- Philippine Interpretation IFRIC–9, *Reassessment of Embedded Derivatives*
- Philippine Interpretation IFRIC–16, *Hedge of a Net Investment in a Foreign Operation*

Standards or interpretations that have been adopted and that are deemed to have an impact on the consolidated financial statements are described below

- Amendment to PFRS 3, Business Combinations (Revised) and to PAS 27, Consolidated and Separate Financial Statements
  IFRS 3 (Revised) introduces significant changes in the accounting for business combinations occurring after this date. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs and future reported results. IAS 27 (Amended) requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill, nor will they give rise to gains or losses. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary.

  The changes by IFRS 3 (Revised) and IAS 27 (Amended) will affect future acquisitions or loss of control of subsidiaries and transactions with non-controlling interests. The change in accounting policy was applied prospectively and had no material impact on earnings per share since there was no activity to change its ownership interest in their capacity as owners.

Future Changes in Accounting Policies
The Group has applied the following PFRS and Philippine Interpretations which are not yet effective as of March 31, 2010:

- Philippine Interpretation IFRIC 15, *Agreement for Construction of Real Estate* (effective for annual periods beginning on or after January 1, 2012)
  The Interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The Interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11, *Construction Contracts,* or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion. This Interpretation will have no impact on the consolidated financial statements because the Group does not conduct such activity.

SEC Memorandum Circular (SMC) 8
On July 15, 2009, the SEC issued SMC 8, Series of 2009 which covers scales of fines for non-compliance with the financial reporting requirements of the SEC. The memorandum circular provides guidance on what is considered as material deficiency in the financial statements. Accordingly, the Group has provided additional disclosures for equity and operating expenses under summary of significant accounting policies in compliance with the said memorandum circular.

Financial Instruments
Date of recognition
The Group recognizes a financial asset or a financial liability on the consolidated statement of

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

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

As of March 31, 2010 and December 31, 2009, the Group's financial instruments are of the nature of loans and receivables, and other financial liabilities.

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

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

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

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

Financial asset
Loans and Receivables
Loans and receivables are financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. These are not entered into with the intention of immediate or short-term resale and are not designated as AFS or financial assets at FVPL. These are included in current assets if maturity is within 12 months from the reporting date otherwise; these are classified as noncurrent assets. This accounting policy relates to the consolidated statement of financial position accounts "Cash and cash equivalents" and "Receivables".

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

Financial liabilities
The Group financial liabilities consist of other financial liabilities at amortized cost.

Other financial liabilities
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 effective interest method.

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.

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 effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through use of an allowance account and the amount of loss is charged to the profit or loss during the period in which it arises. Interest income continues to be recognized based on the original effective interest rate 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.

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 profit or loss, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

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.

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.

Where 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.

Where 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 profit or loss.

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

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.

Mine Exploration, Evaluation and Development Costs
Pre-license costs
Pre-license costs are expensed in the period in which they are incurred.

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

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

Exploration and evaluation expenditure incurred on licenses where a Joint Ore Reserves Committee (JORC) compliant resource has not yet been established is expensed as incurred until sufficient evaluation has occurred in order to establish a JORC compliant resource. Costs incurred during this phase are included as part of production cost.

Upon the establishment of a JORC compliant resource (at which point, the Group considers it probable that economic benefits will be realized), the Group capitalizes any further evaluation costs incurred for the particular license to exploration and evaluation assets up to the point when a JORC compliant reserve is established.

Once JORC compliant reserves are established and development is sanctioned, exploration and evaluation assets are tested for impairment and transferred to ‘Mines under construction’. No amortization is charged during the exploration and evaluation phase.

Mines under construction
Upon transfer of ‘Exploration and evaluation costs’ into ‘Mines under construction’, all subsequent expenditure on the construction, installation or completion of infrastructure facilities are capitalized within ‘Mines under construction’. Development expenditure is net of proceeds from all but the incidental sale of ore extracted during the development phase. After production starts, all assets included in ‘Mines under construction’ are transferred to ‘Mining equipment’.

Mine development costs are derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the assets. 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 assets) is included in the profit or loss in the year the item is derecognized.

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 and amortization of assets commence once the assets are put into operational use.

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

	Number of years
Mining equipment	2 to 13 years
Power plant and buildings	10 to 21 years
Roads and bridges	17 years
Other tools and equipment	3 to 5 years

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

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.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on 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 profit or loss in the year the item is derecognized.

Investments and Advances

This account includes investments and advances for future stock acquisition in associates.

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

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

The Group discontinues applying the equity method when their investments in associates are reduced to zero. Accordingly, additional losses are not recognized unless the Group has guaranteed certain obligations of the associates. When the associates subsequently report net income, the Group will resume applying the equity method but only after its share of that net income equals the share of net losses not recognized during the period the equity method was suspended.

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

Other intangible assets
Other intangible assets include computer software.

Intangible assets acquired separately are measured on initial recognition at cost, which comprises its purchase price plus any directly attributable costs of preparing the asset for its intended use. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization on a straight line basis over their useful lives of three (3) to five (5) years and any accumulated impairment losses.

Internally generated intangible assets are not capitalized and expenditure is reflected in the profit or loss in the year in which the expenditure is incurred.

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

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

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

Business Combinations
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.

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 as 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 change to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity. Goodwill is initially measured at cost being the excess of the consideration transferred over the Group’s 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 profit or loss.

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

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

If the initial accounting for a business combination can only be determined on a provisional basis by the end of the period in which the combination is effected because either the fair values to be assigned to the acquiree's identifiable assets, liabilities or contingent liabilities or the cost of the combination can be determined only provisionally, the Parent Company accounts for the combination using those provisional values. The Parent Company recognizes any adjustment to those provisional values as a result of completing the initial accounting within 12 months from the acquisition date.

Impairment of Non-financial Assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when an annual impairment testing for an asset is required, the group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash generating unit's fair value less cost to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that largely independent of those from other assets or group of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses of continuing operations are recognized in the profit or loss in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If any such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If such is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the profit or loss unless the asset is carried at revalued amount, in which case, the reversal is treated as a revaluation increase. After such reversal, the depreciation and amortization charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

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

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. The following specific recognition criteria must also be met before revenue is recognized:

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

Sale of electricity
Revenue from sale of electricity is derived from its primary function of providing and selling electricity to customers of its generated and purchased electricity. Revenue derived from the generation and/ or supply of electricity is recognized based on the actual delivery of electricity, net of adjustments, as agreed upon between parties.

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

Finance income
Finance income is recognized as interest accrues (using the effective interest 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 asset).

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

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

Even though exploration and evaluation assets can be qualifying assets, they generally do not meet the ‘probable economic benefits’ test and also are rarely debt funded. Any related borrowing costs are therefore generally recognized in the profit or loss 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 statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the date less the fair value of plan assets, together with adjustments for unrecognized actuarial gains or losses and past service costs. The value of any asset is restricted to the sum of any past service costs not yet recognized, if any, and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

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

Past-service costs, if any, are recognized immediately in profit or loss, 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 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, except:

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

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

Provisions

Provisions are recognized only when the 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 profit or loss.

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 profit or loss.

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 profit or loss on a straight line basis over the lease term.

Foreign Currency Translation

The Group's financial statements are presented in Philippine pesos, which is the functional and presentation currency. Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency closing rate at the reporting date. All differences are taken to the profit or loss.

Equity

The Group records common stocks at par value and additional paid-in capital in excess of the total contributions received over the aggregate par values of the equity share. Incremental costs incurred directly attributable to the issuance of new shares are deducted from proceeds.

Retained earnings represent accumulated earnings of the Company minus dividends declared.

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 profit or loss 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 other capital reserves.

Earnings per Share (EPS)
Basic EPS is computed by dividing earnings applicable to common stock by the weighted average number of common shares outstanding after giving retroactive effect for any stock dividends, stock splits or reverse stock splits during the year. The Group has no outstanding dilutive potential common shares.

Segment Reporting
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. Financial information on business segments is presented in Note 32.

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

3. Significant Accounting Estimates, Judgments and Assumptions

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

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

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

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 (see Note 27).

Management's Use of Estimates
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 estimates are based on actual 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 impairment losses
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.

In the period ending March 31, 2010, there were no additional provisions for probable losses. Receivables, net of allowance for impairment loss amounted to ₱2,399.12 million and ₱1,254.10 million as of March 31, 2010 and December 31, 2009, respectively (see Note 5).

Estimating stock pile inventory quantities
The Group estimates the stock pile inventory by conducting a topographic survey which is performed by in house surveyors. The survey is conducted on a monthly basis with a reconfirmatory survey at year end. The process of estimation involves a predefined formula which considers an acceptable margin of error of plus or minus 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. Coal pile inventory as of March 31, 2010 and December 31, 2009 amounted to ₱731.60 million and ₱1,743.04 million, respectively (see Note 6).

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.

There were no additional provision made in 2010 and 2009. Spare parts and supplies of the Group, net of allowance for inventory write down of ₱53.29 million, amounted to ₱1,627.10 million and ₱1,341.83 million as of March 31, 2010 and December 31, 2009, respectively
(see Note 6).

Estimating decommissioning and site rehabilitation costs
The Group is legally required to fulfill certain obligations under its Department of Environment and Natural Resources issued Environmental Compliance Certificate when it abandons depleted mine pits. Significant estimates and assumptions are made in determining the provision for mine rehabilitation as there are numerous factors that will affect the ultimate liability. 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.

As of March 31, 2010 the provision for decommissioning and site rehabilitation has a carrying value of ₱14.77. There was no additional provision for the period (see Note 14).

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

could be materially affected by changes in these estimates brought about by changes in the factors mentioned.

The net book value of the property, plant and equipment as of March 31, 2010 and December 31, 2009 amounted to ₱18,299.73 million and ₱17,818.69 million, respectively (see Note 8). The net book value of the software cost as of March 31, 2010 and December 31, 2009 amounted to ₱6.56 million and ₱7.54 million, respectively (see Note 10).

Estimating impairment for nonfinancial assets
The Group assesses impairment on assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the 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.

An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit to which the asset belongs.

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

The net book values of the investments and advances, property, plant and equipment, and software cost as of March 31, 2010 and December 31, 2009 follow:

	03/31/10	12/31/09
Property, plant and equipment (Note 8)	**₱18,299,726,122**	₱17,818,687,301
Investments and advances (Note 9)	**245,045,583**	244,432,588
Software cost (Note 10)	**6,575,196**	7,536,022
	₱18,551,346,901	₱18,070,655,911

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 (see Note 18). 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.

4. Cash and Cash Equivalents

This account consists of:

	March 31, 2010 (Unaudited)	December 31, 2009 (Audited)
Cash on hand and in banks	**₱1,077,544,775**	₱112,200,452
Cash equivalents	**–**	369,720,483
	₱1,077,544,775	₱481,920,935

Cash in banks earns interest at the respective bank deposit rates. Cash equivalents include short-term placements made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short-term placement rates.

5. Receivables

This account consists of:

	March 31, 2010 (Unaudited)	December 31, 2009 (Audited)
Trade (Notes 28 and 29)		
Electricity sales	**₱1,549,346,056**	₱489,245,876
Export coal sales	**179,759,322**	414,815,233
Local coal sales	**662,258,590**	337,326,286
Due from related parties (Notes 17, 28 and 29)	**33,902,048**	9,067,242
Others (Notes 28 and 29)	**31,470,737**	27,352,040
	2,456,736,754	1,277,806,677
Less allowance for impairment losses	**23,711,557**	23,711,557
	₱2,433,025,197	₱1,254,095,120

Trade

Coal sales

Receivables from coal sales are noninterest-bearing and generally have 30 - 45 days' credit terms.

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

Electricity sales
Receivables from electricity sales are claims from power distribution companies for supply and distribution of contracted energy and are generally carried at original invoice amounts less discounts and rebates.

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

Details of the Company's allowance for doubtful accounts follows:

March 31, 2010 (Unaudited)

	Local Coal Sales	**Other Receivables**	**Total**
At January 1, 2010	**₱13,569,447**	**₱10,142,110**	**₱23,711,557**
Reversals	**–**	**–**	**–**
Reclassifications	**–**	**–**	**–**
At March 31, 2010	**₱13,569,447**	**₱10,142,110**	**₱23,711,557**
Individual impairment	**₱13,569,447**	**₱10,142,110**	**₱23,711,557**

December 31, 2009 (Audited)

	Local Coal Sales	**Other Receivables**	**Total**
At January 1, 2009	₱17,018,649	₱9,884,201	₱26,902,850
Reversals (Note 23)	(3,191,293)	–	(3,191,293)
Reclassifications	(257,909)	257,909	–
At December 31, 2009	₱13,569,447	₱10,142,110	₱23,711,557
Individual impairment	₱13,569,447	₱10,142,110	₱23,711,557

6. Inventories

This account consists of:

	March 31, 2010 (Unaudited)	December 31, 2009 (Audited)
Coal inventory at cost (Note 33)	**₱731,596,516**	₱1,743,044,519
Spare parts and supplies at NRV (Note 33)	**1,627,097,597**	1,341,834,861
	₱2,358,694,113	₱3,084,879,380

Spare parts and supplies with original cost of ₱1,680.38 million and ₱580.93 million as of March 31, 2010 and December 31, 2009, respectively, provided with allowance for inventory obsolescence amounting to ₱53.29 million for both periods.

7. Other Current Assets

This account consists of:

	March 31, 2010 (Unaudited)	December 31, 2009 (Audited)
Security deposit - current portion (Note 10)	**₱291,613,296**	₱270,751,295
Advances to suppliers	**195,081,593**	182,964,826
Creditable withholding tax	**166,492,616**	149,441,458
5% input value added tax (VAT) withheld	**150,127,447**	150,127,447
Power sales output value added tax (VAT)	**(311,113,601)**	(32,671,821)
Prepaid rent (Notes 10, 30 and 33)	**12,571,649**	27,719,442
Prepaid insurance and others	**15,480,585**	10,052,423
Environmental guarantee fund	**1,500,000**	1,500,000
	₱521,753,585	₱759,885,070

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

5% input value added tax (VAT) withheld
As a result of the enactment of Republic Act No. 9337 effective November 1, 2005 (see Note 24), NPC started withholding the required 5% input VAT on the VAT exempt coal sales of the Group. On March 7, 2007, the Group obtained a ruling from the Bureau of Internal Revenue which stated that the sale of coal remains exempt from VAT. In 2007, the Group filed a total claim for refund of ₱190.50 million from the BIR representing VAT erroneously withheld by NPC from December 2005 to March 2007, which eventually was elevated to the Court of Tax Appeals (CTA). On October 13, 2009, CTA granted the Parent Company’s petition for a refund on erroneously withheld VAT initially on December 2005 sales amounting to ₱11.85 million. The Commissioner of Internal Revenue moved for reconsideration of the CTA’s Decision. On November 21, 2009, the Parent Company filed its comment thereon. The motion for reconsideration remains pending to date. Management has estimated that the refund will be recovered after three (3) to five (5) years. Consequently, the claim for tax refund was provided with provision for probable loss amounting to ₱42.38 million (see Note 20).

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

8. Property, Plant and Equipment

The rollforward analysis of this account for the period ended March 31, 2010 follows:

	Mining Equipments	**Power Plant and Buildings**	**Roads and Bridges**	**Equipment in Transit and Construction in Progress**	**Total**
At Cost					
At January 1	**₱10,275,144,960**	**₱17,298,698,747**	**₱279,062,950**	**₱562,119,615**	**₱28,415,026,27**
Additions	**734,135,061**	**92,177,938**	**–**	**291,991,397**	**1,118,304,396**

Transfers	**784,552,667**	**–**	**–**	**(784,552,667)**	**–**
Disposals (Note 23)	**(1,738,300)**	**–**	**–**	**–**	**(1,738,300)**
At March 31	**1,792,094,388**	**17,390,876,685**	**279,062,950**	**69,558,345**	**29,531,592,368**
Accumulated Depreciation and Amortization					
At January 1	**8,988,242,727**	**1,338,529,122**	**279,062,950**	**–**	**10,605,834,799**
Depreciation and amortization (Notes 19 and 20)	**300,106,806**	**325,924,642**	**–**	**–**	**626,031,448**
At March 31	**9,288,349,533**	**1,664,453,763**	**279,062,950**	**–**	**11,231,866,246**
Net Book Value	**₱2,503,744,855**	**₱15,726,422,922**	**₱–**	**₱69,558,345**	**₱18,299,726,122**

Equipment in transit and construction in progress account mostly contains purchased mining equipment in transit; as such, no borrowing cost was capitalized in 2010.

Certain mining equipment has been pledged as collaterals to secure the indebtedness of the Group to a local bank as of December 31, 2008 (see Note 12).

9. Investments and Advances

This account consists of:

	March 31, 2010 (Unaudited)	December 31, 2009 (Audited)
Acquisition cost		
At beginning of year	**₱225,000,000**	₱225,000,000
Additions during the year	**25,000,000**	25,000000
	250,000,000	250,000,000
Accumulated equity in net earnings		
Balance at beginning of year	**(41,117,412)**	(1,768,241)
Equity in net income(losses) during the year	**612,995**	(39,349,171)
Balance at end of year	**(40,504,417)**	(41,117,412)
	209,495,583	208,882,588
Advances for future subscriptions	**35,550,000**	35,550,000
	₱245,045,583	₱244,432,588

The Group’s equity in the net assets of jointly controlled entities and the related percentages of ownership are shown below:

	Ownership	**March 31, 2010 (Unaudited)**	December 31, 2009 (Audited)
DMCI Mining Corporation (DMCI-MC)	**50%**	**₱91,640,361**	₱87,911,674
DMCI Power Corporation (DMCI-PC)	**50%**	**153,405,222**	156,520,914
		₱245,045,583	₱244,432,588

On January 18, 2008, the Group entered into a Memorandum of Agreement (MOA) with DMCI-HI, for the following investments:

- DMCI-MC, a corporation engaged in nickel mining and other base metals
- DMCI-PC, a corporation engaged in power generation

The following table summarizes the significant financial information of the Group's associates:

	Three Months Ended March 31			
	2010		2009	
	DMCI - Power	**DMCI- Mining**	DMCI - power	DMCI- Mining
Current Assets	**₱11,825,948**	**₱428,671,342**	90,534,729	285,262,589
Non Current Assets	**46,015,370**	**37,355,143**	241,512,293	48,838,946
	557,841,318	**466,026,485**	332,047,022	334,101,535
Current Liabilities	**(286,392,860)**	**(294,857,035)**	(123,725,499)	(132,983,239)
Net Assets	**₱271,448,458**	**₱171,169,451**	₱208,321,523	₱201,118,296
Total comprehensive income	**(₱6,231,384)**	**₱7,457,374**	(₱3,911,319)	(₱12,600,171)
SMC share in total comprehensive income	**(₱3,115,692)**	**₱3,728,687**	(₱1,955,660)	(₱6,300,086)

DMCI-MC

In March 2007, DMCI-MC entered into a Memorandum of Agreement (MOA) with Fil-Asian Strategic Resources and Properties Corporation (Fil-Asian) wherein Fil-Asian appointed the DMCI-MC to exclusively undertake mining operations in the municipalities of Sta. Cruz and Candelaria, Province of Zambales. The profits of the mining operations will be split equally between the parties. The annual work program shall aim to accomplish five (5) million tons of ore in five (5) years. This agreement shall terminate upon the Group's extraction of five (5) million tons of laterite from the property, or the expiration of five (5) years from the date of the execution of this agreement, whichever comes first.

At the end of second quarter of 2009, DMCI-MC implemented a complete suspension of operations of its nickel and ore mining activities in Sta. Cruz, Zambales.

On October 7, 2009, Benguet Corp. has signed a mining contractorship and off-take agreement with DMCI-MC covering a portion of Benguet's 1,406-hectare Sta. Cruz nickel project located in Sta. Cruz, Zambales. The agreement allows DMCI-MC to explore, develop, mine and sell up to 200,000 metric tons of two percent high grade nickel ore for a period of three (3) years. All cost and related expenses for the exploration, development and mining of the above mentioned areas shall be for the sole account of DMCI-MC. All profits accruing from this Agreement, after deducting the costs and expenses connected with the production of the product, and over and above payment of all taxes and royalty, shall be divided equally between them.

DMCI-PC

On March 12, 2009, the Board of Directors (BOD) authorized the Parent Company to make an additional subscription to the unissued capital stock of DMCI-PC equivalent to 25.00 million shares at ₱1.00 par value or a total subscription price of ₱25.00 million payable in cash. Advances for future subscriptions were also made which amounted to P35.55 million.

10. Other Noncurrent Assets

This account consists of:

	March 31, 2010 (Unaudited)	December 31, 2009 (Audited)
Prepaid rent - noncurrent (Note 30)	**₱144,043,387**	₱144,043,387
Security deposits (Notes 28, 29 and 30)	–	20,862,001
Software cost - net	**6,575,196**	6,575,196
Others	**18,891,271**	11,569,844
	₱169,509,853	₱184,011,254

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

Movements in software cost account follow:

	March 31, 2010 (Unaudited)	December 31, 2009 (Audited)
At Cost		
At January 1	**₱16,112,568**	₱10,102,737
Additions	–	6,009,831
At December 31	**16,112,568**	16,112,568
Accumulated Amortization		
At January 1	**8,576,546**	4,728,626
Amortization (Note 19)	**960,826**	3,847,920
At December 31	**9,537,372**	8,576,546
Net Book Value	**₱6,575,196**	₱7,536,022

11. Notes Payable

Notes payable represent various unsecured peso-denominated short-term promissory notes from local banks which bear interest ranging from 5.50% to 6.75% per annum, and are payable 30 days from date of issuance. The outstanding notes payable as of March 31, 2010 and December 31, 2009 amounted to ₱7,886.19 million and ₱793.19 million, respectively.

12. **Long-term Debt**

This account consists of:

	March 31, 2010 (Unaudited)	December 31, 2009 (Audited)
PSALM (Note 33)	**₱–**	₱9,571,202,577
Deferred purchase payment	**1,429,680,187**	474,363,625
Bank loans	**69,295,478**	133,257,823
Acceptances and trust receipts payable	**42,134,958**	51,450,171
	1,541,110,623	10,230,274,196
Less current portion of:		
PSALM	**–**	1,681,081,972
Bank loans	**69,295,478**	133,257,824
Acceptances and trust receipts payable	**42,134,958**	51,450,171
	111,430,436	1,865,789,967
	₱1,429,680,187	₱8,364,484,229

Long-term debt to PSALM pertains to the deferred portion of the purchase price for the acquisition of the Power Plant with principal balance amounting to US$226.26 million was settled on March 5, 2010.

Details of the bank loans follow:

	Date of	**Outstanding Balance**				**Payment Terms**	**Covenants/**
Loan Type	**Availment**	**03/31/10**	**12/31/09**	**Maturity**	**Interest Rate**		**Collaterals**
		(In Millions)					
Foreign bank loans							
Loan 1	December 14, 2005	**₱52.94**	₱72.20	November 30, 2010	Based on SIBOR plus 1.95% p.a.	Repriceable and payable in 16 equal quarterly installments to commence 2 months after the draw down dates	Unconditional and irrevocable guarantee issued by Komatsu Asia and Pacific Pte Ltd. and other covenants
Other loans	Various availments in 2004 and 2005	**16.35**	61.06	Various maturities in 2009 and 2010	Based on 6-month USD LIBOR plus 1.5% p.a.	Payable in 10 equal consecutive semi-annual installments, the first of which was due and payable 6 months after the starting point	Unconditional and irrevocable guarantee issued by DMCI-HI (Note 18)
Local bank loans							
Loan 1	September 30, 2005	**–**	-	October 5, 2009	9% fixed p.a.	Payable in 48 equal monthly installments commencing on November 5, 2005	Secured by collaterals on mining equipment (Note 8)
		₱69.30	₱133.26				

Deferred purchase payment

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

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

The interest rate applicable to each interest period shall be four percent (4.00%) per annum over the rate 180 days BBA L1BOR on two (2) business days prior to the first day of such interest period.

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

13. Trade and Other Payables

This account consists of:

	March 31, 2010 (Unaudited)	December 31, 2009 (Audited)
Trade	**₱2,335,707,423**	₱1,683,028,961
Due to related parties (Note 17)	**1,626,850,549**	609,143,593
Accrued expenses and other payables	**592,404,777**	348,845,948
Payable to DOE and local government units (Note 26)	**581,588,570**	216,516,873
	₱5,136,551,319	₱2,857,535,375

Trade payables include liabilities amounting to ₱154.37 million (US$3.42 million) and ₱56.79 million (US$1.23 million) as of March 31, 2010 and December 31, 2009, respectively, to various foreign suppliers for open account purchases of equipment and equipment parts and supplies. Trade payables are noninterest-bearing and are normally settled on 30-day to 60-day credit terms.

Details of the accrued expenses and other payables account follow:

	March 31, 2010 (Unaudited)	December 31, 2009 (Audited)
Taxes and licenses	**₱319,741,744**	₱–
Coal freight and hauling	**45,913,202**	–
Withholding taxes	**21,067,627**	27,978,187
Interest	**19,565,582**	15,735,925
Rental	**15,791,265**	14,923,732
Salaries and wages	**7,491,037**	9,320,216
Professional fees	**7,401,786**	7,401,786
Others (Note 27)	**155,432,534**	173,486,102
	₱592,404,777	₱348,845,948

Others include provision for probable legal claims amounting to ₱110.85 million in 2009, these provisions are not discounted as the time of money is not material (see Note 27).

14. Provision for Decommissioning and Site Rehabilitation

The rollforward analysis of this account follows:

	March 31, 2010 (Unaudited)	December 31, 2009 (Audited)
At January 1	**₱14,773,138**	₱13,204,317
Addition	**–**	407,828
Accretion of interest	**–**	1,160,993
At December 31	**₱14,773,138**	₱14,773,138

15. Capital Stock

The details of the Group's capital stock follow:

Common stock - ₱1 par value	
Authorized - 1,000,000,000 shares	₱1,000,000,000
Issued - 296,875,000 shares	296,875,000

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

The number of shares held in treasury is 19,302,200 amounting to ₱528.89 million for the period ended March 31, 2010 and December 31, 2009. No acquisitions were made on 2010, 2009 and 2008. The treasury shares of the Company was sold at P67/share last April 8, 2010.

Deposit for Future Stock Subscriptions
On December 1, 2009, DMCI-HI and Dacon Corporation advanced deposits on future subscriptions of ₱4,500.00 million and ₱902.13 million, respectively.

16. Retained Earnings

Cash Dividends
On March 30, 2009, the BOD authorized the Parent Company to declare and distribute cash dividends of ₱6.00 per share or ₱1,665.44 million to stockholders of record as of April 30, 2009. The said cash dividends were paid on May 15, 2009.

On February 18, 2008, the BOD approved and declared cash dividends of ₱4.00 per share or ₱ 1,110.29 million to stockholders of record as of March 3, 2008. The said cash dividends were paid on March 27, 2008.

On March 26, 2007, the BOD approved and declared cash dividends of ₱1.20 per share or ₱333.09 million to stockholders of record as of April 12, 2007. The said cash dividends were paid on April 30, 2007.

Restrictions

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

On March 18, 2008, the BOD authorized an additional ₱500.00 million appropriation for capital expenditures and expansion and likewise, on November 11, 2008, the BOD approved the reversal of the appropriated retained earnings in the amount ₱800.00 million. The remaining ₱700 million shall continue to be appropriated for capacity expansion and additional investment.

Retained earnings are restricted for the payment of dividends to the extent of the cost of the common shares held in treasury amounting to ₱528.90 million as of March 31, 2010.

17. **Related Party Transactions**

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

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

a. In November 2006, the Group placed a short-term cash investment in DMCI-HI for a period of 180 days amounting to ₱300.00 million which bears interest at a rate of 11% per annum. Interest income earned in 2007 amounted to ₱8.05 million. On March 22, 2007, the short-term cash investment was terminated;

b. Continuing Indemnity Agreement dated September 3, 1998 with DMCI-HI and certain related parties whereby the Group, in consideration for guarantees extended by DMCI-HI and related parties in the form of Real Estate Mortgage (REM), standby letters of credit and other credit lines or facilities to secure the Group's indebtedness to various banks and creditors, agreed to indemnify and hold DMCI-HI and related parties free from and against any and all claims, liabilities, demands, actions, costs, expenses and consequences of whatever nature which may arise or result from said corporate guarantees. The Group further agreed to pay a fixed interest rate per annum on all sums or monies paid by DMCI-HI and related parties by reason of or in connection with the said corporate guarantees, letters of credit, credit facilities or REM; real properties of this affiliate were already freed from lien effective at the time when these old equipment loan were fully paid. The loans contracted in 2005 and 2006 were still guaranteed by DMCI-HI. Guarantee fees incurred amounted to ₱0.17 million, ₱0.88 million and ₱2.34 million for periods ended March 31, 2010, 2009 2008, respectively. These are included under finance costs in the profit or loss (see Note 21);

c. DMC-Construction Equipment Resources, Inc. (DMC-CERI), an affiliate, has transactions with the Parent Company for services rendered relating to the Parent Company's coal operations. These included services for the confirmatory drilling for coal reserve evaluation of identified potential areas, exploratory drilling of other minerals within Semirara Island, dewatering well drilling along cut-off wall of Panian mine and fresh water well drilling for industrial and domestic supply under an agreement. Expenses incurred for said services amounted to ₱16.08 million, P4.47 million and ₱3.93 million for the periods ended March 31, 2010, 2009 and 2008, respectively. These are included under Cost of sales - Outside services (see Note 19);

   DMC-CERI also provides to the Parent Company marine vessels for use in the delivery of coal to its various customers. The coal freight billing is on a per metric ton basis plus demurrage charges when delay will be incurred in the loading and unloading of coal cargoes. Expenses (at gross amount) incurred for these services amounted to ₱155.31 million, ₱138.86 million and ₱81.16 million for periods ended March 31, 2010, 2009 and 2008 respectively, and are included under Cost of sales - Shipping, hauling and shiploading costs (see Note 19). The reported expense of the Group is net of freight payment by NPC (billing is C&F);

d. M&S Company, Inc. rent out various equipments used in the Parent Company's operations. Also, M&S Company supplies the rough lumber used by the Parent Company in its various projects and the seedlings to be planted on the areas surrounding the pit, in compliance with the agreement between the Parent Company and DENR. Rough lumbers purchased amounted to ₱4.59 million, ₱14.20 million and ₱1.64 million for period ending March 31, 2010, 2009 and 2008 respectively. The related rental expense amounted to ₱22.87 million for the periods ended March 31, 2010, 2009 and 2008. This is included under other expenses of the production cost for the quarter.

e. D.M. Consunji, Inc. (DMCI) had transactions with the Parent Company representing equipment rental and other transactions such as transfer of equipment, hauling and retrofitting services. The related expenses amounted to ₱1.85 million, ₱10.24 million and ₱4.85 million for the periods ended March 31, 2010, 2009 and 2008, respectively. Equipment rentals amounted to ₱25.68 million, ₱5.77 million and ₱0.89 million for the periods ended March 31, 2010, 2009, and 2008, respectively. These are included under contracted services of the production cost for the quarter.

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

The following table summarizes the total amount of transactions due to or from related parties as of March 31, 2010 and December 31, 2009:

	March 31, 2010 (Unaudited)	December 31, 2009 (Audited)
Due from related parties (see Note 5)		
Under common control	**₱33,878,351**	₱9,043,545
Others	**23,697**	23,697
	₱33,902,048	9,067,242
Due to related parties (see Note 13)		

Stockholders	**1,052,181,576**	85,231,045
Under common control	**182,961,647**	162,389,000
Others	**391,707,327**	361,523,548
	1,626,850,549	609,143,593
	(₱1,592,948,501)	(₱600,076,351)

The Group has not recorded any impairment losses on its receivables relating to amounts owned by related companies. This assessment is undertaken each financial year.

18. Pension Plan

The Group has a funded, noncontributory defined benefit plan covering substantially all of its employees.

The following table summarizes the components of pension expense for the period in the profit or loss:

	Three Months Ended March 31		
	2010	2009	2008
Current service cost	**₱750,624**	₱750,624	₱750,624
Interest cost on benefit obligation	**–**	–	–
Expected return on plan asset	**–**	–	–
Actuarial gain recognized	**–**	–	–
	₱750,624	₱750,624	₱750,624

The pension liability recognized in the statement of financial position follows:

	March 31, 2010 (Unaudited)	December 31, 2009 (Audited)
Present value of defined benefit obligation	**₱55,069,904**	₱40,981,694
Fair value of plan assets	**28,423,387**	28,423,387
Excess of present value of defined benefit obligation over fair value of plan assets	**26,646,517**	12,558,307
Unrecognized actuarial gain (losses)	**(13,016,737)**	377,427
	₱13,629,780	₱12,935,734

Movements in the present value of defined benefit obligation follow:

	March 31, 2010 (Unaudited)	December 31, 2009 (Audited)
Balance at the beginning of year	**₱54,262,702**	₱39,107,208
Current service cost	**750,624**	3,876,679
Interest cost on benefit obligation	–	3,734,738
Actuarial loss (gain)	–	6,640,504
Benefits paid	**56,578**	903,573
Balance at end of period	**₱55,069,904**	₱54,262,702

Movements in the fair value of plan assets follow:

	March 31, 2010 (Unaudited)	December 31, 2009 (Audited)
Balance at beginning of the year	**₱28,423,387**	₱25,008,190
Expected return on plan assets	**–**	3,415,197
Actuarial gain from plan assets	**–**	–
Balance at end of period	**₱28,423,387**	₱28,423,387

The Group’s plan assets consist mainly of cash.

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

The assumptions used to determine pension benefits of the Group for the years ended March 31, 2010, 2009 and 2008 follow:

	March 31,	December 31	
	2010	2009	2008
	(Unaudited)	(Audited)	(Audited)
Discount rate	**10.75%**	10.75%	9.55%
Salary increase rate	**3.00%**	3.00%	3.00%
Expected rate of return on plan assets	**6.00%**	6.00%	6.00%

The amounts for the current and previous two periods follow:

	Marc h 31,		December 31	
	2009	2009	2008	2007
	(Unaudited)	(Audited)	(Audited)	(Audited)
Present value of defined benefit obligation	**₱55,069,904**	₱54,262,702	₱39,107,208	₱27,760,518
Fair value of plan assets	**28,423,387**	28,423,387	56,919,951	55,374,465
Unfunded obligation	**26,646,517**	12,558,307	(17,812,743)	(27,613,947)
Experience adjustments on plan liabilities	–	(5,651,794)	(12,320,619)	(37,166,703)
Experience adjustments on plan assets	–	1,545,486	–	–

As of March 31, 2010, the Group does not expect any contribution to the pension fund.

19. Cost of Sales and Services

Cost of coal sales consists of:

	Three Months Ended March 31		
	2010	2009	2008
Materials and supplies (Note 17)	**₱484,183,874**	₱702,494,738	₱438,081,991
Outside services (Note 17)	**516,820,953**	605,764,096	120,508,128
Fuel and lubricants	**816,349,281**	523,717,363	494,084,320
Depreciation and amortization (Note 8 & 10)	**272,360,023**	307,317,970	445,211,735
Shipping, hauling and shiploading costs	**97,423,473**	147,938,116	97,625,674

(Note 17)			
Direct labor	**101,464,163**	112,162,499	98,512,562
Production overhead	**86,676,677**	177,631,444	148,855,253
	₱2,375,278,445	₱ 2,577,026,226	₱1,842,879,663

Cost of energy sales in 2010 consists of:

Spot Purchase	**₱511,704,790**
Coal	**965,657,116**
Coal Handling	**10,349,815**
Fuel and lube	**58,364,622**
Depreciation and amortization (Notes 8 and 10)	**288,302,759**
	₱1,834,379,101

20. Operating Expenses

This account consists of:

	Three Months Ended March 31		
	2010	2009	2008
Government share	**₱582,307,641**	₱257,438,912	₱64,619,999
Taxes and licenses	**318,239,461**	1,548,935	1,113,349
Personnel costs	**61,560,598**	27,233,056	14,265,760
Administrative costs	**35,602,768**	12,303,899	3,632,181
Marketing expenses	**33,865,193**	1,827,311	1,861,030
Professional fees	**13,029,132**	11,598,918	569,108
Utilities and repairs and maintenance	**16,936,999**	3,735,507	2,490,267
Depreciation and amortization	**3,401,962**	1,566,116	2,563,920
	₱1,064,943,755	₱317,252,654	₱91,115,614

21. Finance Costs

The finance costs are incurred from the following financial liabilities:

	Three Months Ended March 31		
	2010	2009	2008
Interest on:			
Bank loans	**₱45,580,545**	₱9,263,083	₱17,963,704
Acceptances and letters of credits, other short-term borrowings	**3,065,324**	563,379	8,132,261
Purchase contracts	**153,596,363**	–	–
	₱202,242,232	₱9,826,462	₱26,095,965

22. Finance Income

Finance income is derived from following sources:

	Three Months Ended March 31		
	2010	2009	2008
Interest on:			
Short term placements and temporary investments (Note 17)	**₱707,566**	₱1,166,417	₱17,135,257
Cash in banks	**331,165**	–	72,892
	₱1,038,731	₱1,166,417	₱17,208,149

23. Other Income (Charges)

This account consists of:

	Three Months Ended March 31		
	2010	2009	2008
Gain on sale of equipment	**₱–**	₱11,811,451	₱16,654,875
Recoveries from insurance claims	**–**	13,192,621	–
Miscellaneous (Note 5)	**(8,329,838)**	5,373,302	(36,675,558)
	(₱8,329,838)	₱30,377,374	(₱20,020,683)

24. Income Taxes

The reconciliation of the provision for income tax computed at the statutory income tax rate to the provision for income tax shown in the profit or loss follows:

	Three Months Ended March 31		
	2010	**2009**	2008
Statutory income tax rate	**30.00%**	30.00%	35.00%
Adjustments for:			
Unrecognized deferred tax assets	**–**	14.72	–
Equity in net income	**(0.03)**	2.36	–
Net unrealized forex loss	**1.68**	–	–
Expenses Provisions	**0.93**	–	**–**
Interest income already subjected to final tax at a lower rate - net of nondeductible interest expense	**(0.02)**	(0.33)	(0.19)
Tax-exempt income	**(28.18)**	(32.03)	(5.32)
Change in tax rate	**–**	–	**–**
Effective income tax rate	**4.37%**	14.72%	29.49%

As of March 31, 2010 and December 31, 2009, the significant components of deferred tax assets and liabilities represent the deferred tax effects of the following:

Deferred tax assets on:	
Accrual of expenses	₱23,626,528
Pension costs	–

Allowance for inventory write down	–
Unamortized discount on security deposits	–
Allowance for impairment losses	–
Provision for decommissioning and site rehabilitation	–
	23,626,528
Deferred tax liabilities on:	
Incremental cost of property, plant and Equipment	25,353,248
Net unrealized foreign exchange gains	66,990,976
Unamortized prepaid rent	3,339,233
	95,683,457
Net deferred tax liabilities	(₱72,056,929)

The Republic Act (R.A.) No. 9337 that was enacted into law in 2005 amended various provisions in the existing 1997 National Internal Revenue Code. Among the reforms introduced by the said R.A. was the reduction of the income tax rate from 35% to 30% beginning January 1, 2009.

Board of Investments (BOI) Incentives

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

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

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

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

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

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

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

25. **Basic / Diluted Earnings Per Share**

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

	Three Months Ended March 31		
	2010	2009	2008
Net income	**₱593,841,361**	₱298,529,589	₱139,914,474
Divided by the weighted average number of common shares outstanding	**277,572,800**	277,572,800	277,572,800
Basic / diluted earnings per share	**₱2.14**	₱1.08	₱0.50

For the years ended March 31, 2010, 2009 and 2008, there were no outstanding dilutive potential common shares.

26. **Coal Operating Contract with DOE**

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

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

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

In return for the mining rights granted to the Parent Company, the Government is entitled to receive annual royalty payments consisting of the balance of the gross income after deducting operating expenses, operator's fee and special allowance. The Parent Company's provision for DOE's share (including accrued interest computed at 14% per annum on outstanding balance) under this contract and to the different local government units in the province of Antique, under the provisions of the Local Government Code of 1991, amounted to ₱582.31 million, ₱253.38 million and ₱191.29 million in 2010, 2009 and 2008, respectively. The liabilities, amounting to ₱ 216.52 million and ₱52.73 million are included under the "Trade and other payables" account in the consolidated statement of financial position (see Note 13).

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

27. Contingencies and Commitments

Electricity Sales Contracts

The Asset Purchase Agreement (APA) included a number of Transition Supply Contracts (TSC) to distribution utilities and large load customers located in close proximity to the Power Plant. The volume of energy demand for each of the customers is reflected in their respective TSC. The electricity pricing in the said TSC is tied to the National Power Corporation's (NPC's) Luzon Time of Use (TOU) rate approved by the Energy Regulatory Commission (ERC) which is adjustable by changes in foreign exchange and fuel cost. The said tariff, even if adjustable, is subject to ERC's approval before the same could be implemented. The TSC will expire on various dates in 2010, except for Sun Power Corporation which is part of the TSC's assign to SCPC.

Provision for probable legal claims

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

28. Financial Risk Management Objectives and Policies

The Group has various financial assets such as trade receivables and cash and cash equivalents, 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 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:

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.

March 31, 2010 (Unaudited)

	Interest	Within 1 year	1-2 years	2-3 years	3-4 years	More than4 years	Carrying Value
				(In Thousands)			
Notes payable	5.5-6.75% fixed p.a.	**₱7,886,191**	**₱–**	**₱–**	**₱–**	**₱–**	**₱7,886,191**
Foreign bank loans at floating rate							
$6.64 million loan (USD)	3 month SIBOR plus 1.95% p.a.	**52,945**	**–**	**–**	**–**	**–**	**52,945**
$15.14 million loan (USD)	6 month USD LIBOR plus 1.5% p.a	**16,351**	**–**	**–**	**–**	**–**	**16,351**
Deferred purchase payment	4% pa over the rate 180 days BBA LIBOR	**–**	**1,429,680**	**–**	**–**	**–**	**1,429,680**
Acceptance and trust receipts							
Various letters of credit	8-11% interest rate	**42,135**	**–**	**–**	**–**	**–**	**42,135**
		₱7,997,622	**₱1,429,680**	**–**	**–**	**–**	**₱9,427,302**

December 31. 2009 (Audited)

	Interest	Within 1 year	1-2 years	2-3 years	3-4 years	More than4 years	Carrying Value
				(In Thousands)			
Cash equivalents	5.25% to 6.5%	**₱369,720**	**₱–**	**₱–**	**₱–**	**₱–**	**₱369,720**
Notes payable	5.5-6.75% fixed p.a.	₱793,191	₱–	₱–	₱–	₱–	₱793,191
Long-term debts PSALM	11% fixed rate	1,681,081	1,315,020	1,315,020	1,315,020	3,945,060	9,571,201
Foreign bank loans at floating rate							
$6.64 million loan (USD)	3 month SIBOR plus 1.95% p.a.	72,202	–	–	–	–	72,202
$15.14 million loan (USD)	6 month USD LIBOR plus 1.5% p.a	61,055	–	–	–	–	61,055
Deferred purchase payment	4% pa over the rate 180 days BBA LIBOR	–	474,364	–	–	–	474,364
Acceptance and trust receipts							
Various letters of credit	8-11% interest rate	51,450	–	–	–	–	51,450
		₱2,658,979	₱1,789,384	₱1,315,020	₱1,315,020	₱3,945,060	₱11,023,463

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.

The tables below summarize the maturity profile of the Group's financial assets and liabilities as of March 31, 2010 and December 31, 2009 based on undiscounted contractual payments.

March 31, 2010 (Unaudited)

	Within 1 year	1-2 years	2-3 years	3-4 years	Total
Assets					
Cash and cash equivalents	**₱1,077,544,775**	**₱–**	**₱–**	**₱–**	**₱1,077,544,775**
Receivables					
Trade					
Electricity sales	**1,549,346,056**	–	–	–	**1,549,346,056**
Local coal sales	**662,258,590**	–	–	–	**662,258,590**
Export coal sales	**179,759,322**	–	–	–	**179,759,322**
Due from related parties	**33,902,045**	–	–	–	**33,902,045**
Others	**31,470,737**	–	–	–	**31,470,737**
Security deposits	**291,613,296**	–	–	–	**291,613,296**
	₱3,825,894,821	**₱–**	**₱–**	**₱–**	**₱3,825,894,821**
Liabilities					
Trade and other payables					
Trade	**₱2,335,707,423**	**₱–**	**₱–**	**₱–**	**₱2,335,707,423**
Due to related parties (Note 17)	**1,626,850,549**	–	–	–	**1,626,850,549**
Accrued expenses and other payables	**571,337,150**	–	–	–	**571,337,150**
Notes payable	**7,886,191,385**	–	–	–	**7,886,191,385**
Long-term debt					
Fixed Rate					
Various letters of credit 8-11% interest rate	**42,134,958**	–	–	–	**42,134,958**
Floating Rate					
$15.14 million loan (USD) 6 months USD Libor plus 1.5% per annum	**16,350,923**	–	–	–	**16,350,923**
$6.64 million loan(USD) 3 months SIBOR plus 1.95% per annum	**52,944,555**	–	–	–	**52,944,555**
$31.65 million deferred purchase payment, p.a. over the rate 180 days BBA LIBOR on 2 business days prior to 1st day of interest period	**15,578,120**	**1,429,680,187**	–	–	**1,445,258,307**
	₱12,547,095,063	**₱1,429,680,187**	**₱-**	**₱-**	**₱13,975,775,250**

December 31. 2009 (Audited)

	Within 1 year	1-2 years	2-3 years	3-4 years	Total
Assets					
Cash and cash equivalents	₱481,920,935	₱–	₱–	₱–	₱481,920,935
Receivables					
Trade					
Electricity sales	489,245,876	–	–	–	489,245,876
Local coal sales	337,326,286	–	–	–	337,326,286
Export coal sales	414,815,233	–	–	–	414,815,233
Due from related parties	9,067,242	–	–	–	9,067,242
Others	27,352,040	–	–	–	27,352,040
Security deposits	270,751,295	33,818,372	–	–	304,569,667
	₱2,030,478,907	₱33,818,372	₱–	₱–	₱2,064,297,279
Liabilities					
Trade and other payables					
Trade	₱1,683,028,961	₱–	₱–	₱–	₱1,683,028,961
Due to related parties (Note 17)	609,143,593	–	–	–	609,143,593
Accrued expenses and other payables	320,867,761	–	–	–	320,867,761
Notes payable	793,191,385	–	–	–	793,191,385
Long-term debt					
Fixed Rate					
$361,481,091 payable to PSALM, 11% compounded semi-annually	1,759,837,065	1,315,020,101	1,315,020,101	5,260,080,403	9,649,957,670
Various letters of credit 8-11% interest rate	51,450,171	–	–	–	51,450,171
Floating Rate					
$15.14 million loan (USD) 6 months USD Libor plus 1.5% per annum	61,055,376	–	–	–	61,055,376
$6.64 million loan(USD) 3 months SIBOR plus 1.95% per annum	72,202,448	–	–	–	72,202,448
$4.63 million deferred purchase	1,344,513	474,363,625	–	–	475,708,138

payment, p.a. over the rate 180 days BBA LIBOR on 2 business days prior to 1st day of interest period					
	₱5,352,121,273	₱1,789,383,726	₱1,315,020,101	₱5,260,080,403	₱13,716,605,503

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 11.04% and 88.30% of debts as of March 31, 2010 and December 31, 2009, 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:

	March 31, 2010 (Unaudited)		December 31, 2009 (Audited)	
	U.S. Dollar	**Peso Equivalent**	U.S. Dollar	Peso Equivalent
Assets				
Cash and cash equivalents	**$8,222,961**	**₱371,431,150**	$6,388,441	₱295,145,974
Trade receivables	**3,979,618**	**179,759,322**	8,919,899	412,099,334
Liabilities				
Trade payables	**(3,417,580)**	**(154,372,084)**	(2,094,555)	(96,768,441)
Long-term debt (including current portion)	**(33,185,204)**	**(1,498,975,665)**	(213,400,753)	(9,859,114,789)
Net foreign currency denominated (liabilities)	**(24,400,205)**	**(1,102,157,277)**	($200,186,968)	(₱9,248,637,922)

The spot exchange rates used in 2010 and 2009 were ₱45.17 to US$1 and ₱46.20 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 March 31, 2010 and 2009.

	Increase (decrease) in profit before tax	
Reasonably possible change in the Philippine peso-US dollar exchange rate	**March 31, 2010 (Unaudited)**	December 31, 2009 (Audited)
₱2	**(₱48,800,410)**	(₱1,343,329,140)
(₱2)	**48,800,410**	1,343,329,140

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.

The Group recognized ₱11.04 million and ₱47.70 million net foreign exchange gain (loss) for the period ended March 31, 2010 and December 31, 2009 respectively, arising from the translation of the Group's cash and cash equivalents, trade receivables, trade payables and long-term debt.

Credit Risk

Credit risk is the risk that counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group trades only with recognized, creditworthy third parties. 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, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. 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:

	March 31, 2010 (Unaudited)	December 31, 2009 (Audited)
Trade		
Local sales	**90.00%**	**65.15%**
Export sales	**7.30**	**32.70**
Other receivables	**2.70**	**2.15**
Total	**100.00%**	**100.00%**

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

	Gross Maximum Exposure	
	March 31, 2010 (Unaudited)	December 31, 2009 (Audited)
Cash and cash equivalents	**₱1,077,544,775**	₱481,920,935
Receivables		
Trade		
Local coal sales	**662,258,590**	337,326,286
Export coal sales	**179,759,322**	414,815,233
Electricity sales	**1,549,346,056**	489,245,876
Due from related parties	**33,902,048**	9,067,242
Others	**31,470,737**	27,352,040
Security deposits	**291,613,296**	291,613,296
Total credit risk exposure	**₱3,825,894,825**	₱2,051,340,908

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 March 31, 2010 and December 31, 2009:

	March 31, 2010 (Unaudited)	December 31, 2009 (Audited)
Total paid-up capital	**₱1,873,671,271**	₱1,873,671,271
Deposit for future subscription	**5,402,125,985**	5,402,125,985
Retained earnings - unappropriated	**2,994,080,058**	2,400,238,695
Retained earnings - appropriated	**700,000,000**	700,000,000
Cost of shares held in treasury	**(528,891,260)**	(528,891,260)
	₱10,440,986,055	₱9,847,144,691

29. **Fair Values**

The following tables set forth the carrying values and estimated fair values of the Group’s financial assets and liabilities recognized as of March 31, 2010 and December 31, 2009.

	March 31, 2010 (Unaudited)		December 31, 2009 (Audited)	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Financial Assets				
Loans and receivables:				
Cash and cash equivalents	**₱1,077,544,775**	**₱1,077,544,775**	₱481,920,935	₱481,920,935
Trade				
Electricity sale	**1,549,346,056**	**1,549,346,056**	489,245,876	489,245,576
Local sales	**662,258,594**	**662,258,594**	337,326,286	337,326,286
Export sales	**179,759,322**	**179,759,322**	414,815,233	414,815,233
Due from related parties	**33,902,048**	**33,902,048**	9,067,242	9,067,242
Others	**31,470,737**	**31,470,737**	27,352,041	27,352,041
Security deposits	**291,613,296**	**291,613,296**	291,613,296	296,438,346
Total	**₱3,825,894,821**	**₱3,825,894,821**	₱2,051,340,908	₱2,056,165,958
Financial Liabilities				
Other financial liabilities:				
Notes payable	**₱ 7,886,191,385**	**₱ 7,886,191,385**	₱793,191,385	₱793,191,385
Long-term debt	**1,541,110,623**	**1,571,640,373**	10,230,274,196	10,858,249,006
Trade and other payables				
Trade payables	**2,335,707,423**	**2,335,707,423**	1,683,028,961	1,683,028,961
Accrued expenses and other payables	**571,337,150**	**571,337,150**	320,867,761	320,867,761
Due to related parties	**1,626,850,549**	**1,626,850,549**	609,143,593	609,143,593
Payable to DOE and local government units	**581,588,570**	**581,588,570**	216,516,873	216,516,873
Total	**₱14,452,785,700**	**P14,573,315,450**	₱13,853,022,769	₱14,480,997,579

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

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

The fair values of security deposits are calculated by discounting expected future cash flows at applicable rates for similar instruments using the remaining terms to maturity. The discount rate used ranged from 3.82% to 4.93% in 2010 and 2009.

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
Floating rate loans
The carrying values approximated the fair value because of recent and regular repricing (quarterly) based on market conditions.

Fixed rate loans
Estimated fair value is based on the discounted value of future cash flows using the applicable rates (5%-13%) for similar type of loans.

As of March 31, 2010 and December 31, 2009, the Group does not have financial instruments measured at fair value.

30. **Lease Commitments**

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

As of March 31, 2010 and December 31, 2009, the future minimum lease payments under this operating lease are as follows:

	March 31, 2010 (Unaudited)	December 31, 2009 (Audited)
Within one year	**₱423,574,054**	₱648,771,220
After one year but not more than 2 years	**–**	14,364,414
	₱423,574,054	₱663,135,634

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

As part of the agreement, the Group has the option to buy the parcels of land that form part of the leased premises upon issuance of an Option Existence Notice. As of to date, no Option Existence Notice was issued for the parcel of land. The Group was also required to deliver and submit to the lessor a performance security amounting to ₱34.83 million in the form of Stand-by Letter of Credits (SBLC).

31. Notes to Unaudited Interim Consolidated Statements of Cash Flow

Supplemental disclosure of noncash investing and financing activities follows:

	March 31,	December 31	
	2010	2009	2008
	(Unaudited)	(Audited)	(Audited)
Acquisition of conventional and other mining equipment on account (Notes 12 and 13)	**1,125,176,763**	1,715,593,479	

32. Operating Segments

Segment Information

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

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

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

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

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

The operating segments information for three months ended March 31, 2010, 2009 and 2008 are as follows:

2010

	In thousands			
	Mining	**Power Generation**	**Adjustments and Eliminations**	**Consolidated**
Revenue				
Sales to external customers	**₱3,602,369**	**₱2,491,077**	**-**	**₱6,093,446**
Inter-segment sales	**708,573**	**2,330**	**(₱710,903)**	**–**
Equity in net loss of an	**3,729**	**(3,116)**		

associate			–	613
	4,314,671	2,490,291	(710,903)	6,094,059
Cost of sale	(2,728,041)	(1,546,076)	64,460	(4,209,657)
Depreciation	(355,810)	(288,303)	644,113	–
Gross profit	1,230,820	655,912	(2,330)	1,884,402
Operating expenses	(667,17	(394,025)	(3,402)	(1,064,944)
Operating profit	563,303	261,887	(5,732)	819,458
Other income (charges)				(8,330)
Interest income				1,039
Foreign exchange gain				11,039
Interest expense				(202,242)
Provision for income tax				(27,123)
Net income	₱533,957	₱65,616	(₱5,732)	₱593,841

	In thousands			
	Mining	Power Generation	Adjustments and Eliminations	Consolidated
Operating assets	₱12,641,038	₱18,606,522	(₱6,076,193)	₱25,171,367
Investments and advances	91,640	153,405	–	245,045
	₱12,732,678	₱18,759,927	(₱6,076,193)	₱25,416,412
Operating liabilities	₱5,476,068	₱6,077,423	(₱6,076,193)	₱5,477,298
Notes Payable				7,997,622
Long-term debt				1,541,111
Deferred tax liability				72,057
	₱5,476,068	₱6,077,423	(₱6,076,193)	₱14,975,426
Other disclosures				
Capital expenditure	₱2,850,705	₱15,706,522	₱–	₱18,557,227
Investment in associates	87,912	156,521	–	244,433

2009

	In thousands			
	Mining	Power Generation	Adjustments and Eliminations	Consolidated
Revenue				
Sales to external customers	₱3,231,442	₱–	₱–	₱3,231,442
Inter-segment sales	–	–	–	–
Equity in net earnings (loss) of an associate	(6,300)	(1,956)	–	(8,256)
	3,225,142	(1,956)	–	3,223,186
Cost of sale	(2,269,708)	–	(307,318)	(2,577,026)
Depreciation	(307,318)	–	307,318	–
Gross profit	648,116	(1,956)	–	644,594
Operating expenses	(315,687)	–	(1,566)	(317,253)
Operating profit	332,429	(1,956)	(1,566)	328,907
Other income				30,377
Interest income				1,166
Interest expense				(9,826)
Foreign exchange gain (loss)				(566)
Provision for income tax				(51,529)
Net income	₱302,051	(₱1,956)	(₱1,566)	₱298,529
Operating assets	₱7,018,205	₱–	₱–	₱7,018,205

Investments and advances	103,602	136,374	–	239,976
	₱7,121,807	₱136,374	₱–	₱7,258,181
Operating liabilities	₱2,027,385	₱–	₱–	₱2,027,385
Long-term debt				398,063
Deferred tax liability				14,125
Dividend Payable				1,665,437
	₱2,027,385	₱–	₱–	₱4,214,600
Other disclosures				
Investment in associates	₱ 239,976	₱–	₱–	₱239,976
Capital expenditure	₱ 1,715,593	–	–	1,715,593

2008

	In thousands			
			Adjustments	
		Power	and	Consolidated
	Mining	Generation	Eliminations	
Revenue				–
Sales to external customers	₱2,163,284	₱–	₱–	₱2,163,284
Inter-segment sales	–	–	–	–
	2,163,284	–	–	2,163,284
Cost of sale	(1,397,668)	–	(445,212)	1,842,880
Depreciation	(445,212)	–	445,212	-
Gross profit	320,404	–	–	320,404
Operating expenses	(88,552)	–	(2,564)	(91,116)
Operating profit	231,852	–	(2,564)	229,288
Foreign exchange gain (loss)				(1,950)
Interest income				17,208
Other income (Charges)				(20,021)
Interest expense				(26,096)
Provision for income tax				(58,516)
Net income	₱142,477	₱–	(₱2,564)	₱139,914
Operating assets	₱5,501,363	₱–	₱–	₱5,501,363
Investments and advances	100,000	76,802	–	176,802
	₱5,601,363	₱76,802	₱–	₱5,678,165
Operating liabilities	₱677,829	₱–	₱–	₱677,829
Long-term debt				1,189,635
Deferred tax liability				67,603
Income tax payable				98,683
	₱677,829	₱–	₱–	₱2,033,750
Other disclosures				
Investment in associates	₱176,802	₱–	₱–	₱176,803
Capital expenditure	260,988	–	–	260,988

1. Inter-segment revenues are eliminated on consolidation.
2. Cost of sales does not include depreciation and amortization expense charged during production.
3. Segment asset include investment in associates accounted for by the equity method.
4. Segment liabilities exclude deferred tax liabilities amounting to ₱72.06 million, P14.13 million, and ₱67.60 million in 2010, 2009 and 2008, respectively; and income tax payable amounting to ₱ ₱98.68 million in 2008. Long term bank loans are no longer included as these are managed on a group basis.

5. Capital expenditures consist of additions of property, plant and equipment including assets from the acquisition of business.
6. All non-current assets other than financial instruments are located in the Philippines.

Geographic Information

Revenues from external customers

The financial information about the operation of the Group as of March 31, 2010, 2009 and 2008 reviewed by the management follows:

	Three Months Ended March 31 (In thousands)		
Revenue	**2010**	2009	2008
Local coal sale	**₱1,143,111**	₱2,373,704	₱1,392,022
Export coal sale	**2,459,258**	857,738	771,262
Total	**₱3,602,369**	₱3,231,442	₱2,163,284

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

33. Business Combination

On July 8, 2009, Power Sector Assets and Liabilities Management (PSALM) selected DMCI-HI as the winning bidder for the sale of the 600-megawatt Batangas Coal-Fired Thermal Power Plant (the Power Plant) located in San Rafael Calaca, Batangas.

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

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

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

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

On December 2, 2009, through the Accession, Assignment Agreement (the Agreement) between DMCI-HI, SCPC and PSALM, the SCPC acquired the 2 x 300-megawatt (MW) Power Plant from PSALM. On the same date, the total cash payments made to PSALM are broken down as follow:

1. ₱6.62 billion in peso equivalent using the exchange rate of ₱47.13 representing 40% down payment for US$351.0 million purchase price of the Power Plant; and

2. ₱0.49 billion in peso equivalent using the exchange rate of ₱47.20 representing 40% down payment for US$10.39 million advance rental payment for the 25-year lease of the premises underlying the Power Plant and for purchase orders for parts and services for the Power Plant.

Other provision of the Agreement includes:

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

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

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

In a letter dated December 18, 2009, PSALM claims an additional amount of ₱9.55 million representing the difference between the US$ to Peso exchange rate used for the 40% down-payment of the purchase price versus the ₱47.2 US$ to Peso exchange rate PSALM alleges to be in accordance with the APA. The assessed amount was accrued in 2009 as additional acquisition cost allocated to Property, plant and equipment. Subsequently, the amount was paid by the Group in February 8, 2010.

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

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

After considering the above adjustments, the fair value of the identifiable assets and liabilities as at the date of acquisition were:

Property, plant and equipment (Note 8)	₱15,697,026,189
Materials and supplies (Note 6)	720,931,040
Coal (Note 6)	273,935,933
Prepaid rent (Notes 7 and 10)	150,568,000

Fuel and diesel (Note 6)	86,705,538
Total assets acquired	₱16,929,166,700

Total consideration transferred relating to the acquisition follows:

Cash consideration	₱7,107,740,798
Payable to PSALM (Note 12)	9,767,082,746
Payable to DMCI-HI (Note 17)	54,343,156
Total cost	₱16,929,166,700

The accounting for business combination was done provisionally for the property, plant and equipment due to lack of proper fair value estimate of fixed assets acquired as of to date.

On January 29, 2010, SEM-CALACA Power Corporation (SEM-CAL) paid Power Sector Assets and Liabilities Management Corporation (PSALM) the amount of $100 million or equivalent to P4,670 million as prepayment of the 60% Deferred Balance of the 2 x 300 MW Batangas Coal-Fired Thermal Power Plant's purchase price. The cash used for the prepayment came from Semirara Mining Corporation (SMC) representing deposit for future stock subscription and advances in the amount of P840 million and P4,060 million respectively.

On February 26, 2010, another prepayment to PSALM was made by SEM-CAL amounting to P2,385 million. SEM-CAL resorted to short-term borrowings amounting to P1,600 million to finance the said prepayment, SMC contributed the amount of P535 million as advance to SEM-CAL and the balance of P250 million from the internal cash generation.

On March 5, 2010, the final prepayment of the 60% Deferred Balance was paid by SEM-CAL in the amount of P2,392 million. This was funded by SEM-CAL's short-term borrowings amounting to P1,550 million advances from SMC amounting to P809 million and the balance from the internal cash generation.

34. Other Matters

a. Electric Power Industry Reform Act (EPIRA)

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

Under EPIRA, NPC's generation assets are to be sold through transparent, competitive public bidding, while all transmission assets are to be transferred to the Transmission Company, initially a government-owned entity that is eventually being privatized. The privatization of these NPC assets has been delayed and is considerably behind the schedule set by the Department of Energy (DOE). EPIRA also created PSALM, which is to accept transfers of all assets and assume all outstanding obligations of NPC, including its obligations to IPPs. One of PSALM's responsibilities is to manage these contracts with IPPs after NPC's privatization. PSALM also is responsible for the privatizing at least 70% of the transferred generating assets and IPP contracts no later than three years from the effective date of the law.

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

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

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

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

b. Clean Air Act

On November 25, 2000, the IRR of the Philippine Clean Air Act (PCAA) took effect. The IRR contains provisions that have an impact on the industry as a whole and on SCPC in particular, that need to be complied with within 44 months (or July 2004) from the effectivity date, subject to approval by the DENR. The power plant of SCPC uses thermal coal and uses a facility to test and monitor gas emissions to conform with Ambient and Source Emissions Standards and other provisions of the Clean Air Act and its Implementing Rules and Regulations. Based on SCPC's initial assessment of its power plant's existing facilities, SCPC believes that it is in full compliance with the applicable provisions of the IRR of the PCAA as of December 31, 2009. SCPC is currently complying with the provisions of the Clean Air Act and its IRR.

c. Contract for the Fly Ash of the Power Plant

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

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

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

35. **Approval of Financial Statements**

The consolidated financial statements of Semirara Mining Corporation and Subsidiary as of March 31, 2010 and 2009 and for each of the periods ended March 31, 2010 were endorsed for approval by the Audit Committee on May 5, 2010 and were authorized for issue by the Executive Committee of the BOD on May 13, 2010.

Semirara Mining Corporation and Subsidiary

Consolidated Financial Statements
December 31, 2009 and 2008
and Years Ended December 31, 2009, 2008 and 2007

and

Independent Auditors' Report

SyCip Gorres Velayo & Co.

SGV&Co
Ernst & Young

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Semirara Mining Corporation

We have audited the accompanying consolidated financial statements of Semirara Mining Corporation and Subsidiary, which comprise the consolidated statements of financial position as at December 31, 2009 and 2008, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2009, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Philippine Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Semirara Mining Corporation and Subsidiary as of December 31, 2009 and 2008, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2009 in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.

Jessie D. Cabaluna

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Partner
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Tax Identification No. 102-082-365
PTR No. 2087369, January 4, 2010, Makati City

March 9, 2010

SEMIRARA MINING CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	December 31	
	2009	2008 (Note 2)
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 4, 28 and 29)	**₱481,920,935**	₱1,012,409,162
Receivables - net (Notes 3, 5, 17, 28 and 29)	**1,254,095,120**	1,779,050,330
Inventories - net (Notes 3, 6, 8 and 33)	**3,084,879,380**	1,383,220,166
Other current assets (Notes 7 and 29)	**759,885,070**	323,731,933
Total Current Assets	**5,580,780,505**	4,498,411,591
Noncurrent Assets		
Property, plant and equipment - net (Notes 3, 8, 19 , 20 and 33)	**17,818,687,301**	1,106,064,258
Investments and advances (Notes 3 and 9)	**244,432,588**	223,231,759
Other noncurrent assets - net (Notes 3, 10 and 29)	**184,011,054**	283,749,310
Total Noncurrent Assets	**18,247,130,943**	1,613,045,327
	₱23,827,911,448	₱6,111,456,918
LIABILITIES AND EQUITY		
Current Liabilities		
Notes Payable (Notes 11, 28 and 29)	**₱793,191,385**	₱102,496,739
Current portion of long-term debt (Notes 12, 28, 29 and 33)	**1,865,789,967**	286,736,581
Trade and other payables (Notes 13, 17, 28 and 29)	**2,857,535,375**	1,189,370,180
Income tax payable	**–**	58,060,461
Total Current Liabilities	**5,516,516,727**	1,636,663,961
Noncurrent Liabilities		
Long-term debt - net of current portion (Notes 12, 28, 29 and 33)	**8,364,484,229**	137,065,242
Deferred tax liabilities - net (Notes 3 and 24)	**72,056,929**	14,125,154
Provision for decommissioning and site rehabilitation (Notes 3 and 14)	**14,773,138**	13,204,317
Pension liability (Notes 3 and 18)	**12,935,734**	9,498,998
Total Noncurrent Liabilities	**8,464,250,030**	173,893,711
Total Liabilities	**13,980,766,757**	1,810,557,672
Equity (Note 15)		
Capital stock	**296,875,000**	296,875,000
Additional paid-in capital	**1,576,796,271**	1,576,796,271
Deposit for future stock subscriptions	**5,402,125,985**	–
Retained earnings (Note 16)		
Unappropriated	**2,400,238,695**	2,256,119,235
Appropriated	**700,000,000**	700,000,000
	10,376,035,951	4,829,790,506
Cost of shares held in treasury (Note 16)	**(528,891,260)**	(528,891,260)
Total Equity	**9,847,144,691**	4,300,899,246
	₱23,827,911,448	₱6,111,456,918

See accompanying Notes to Consolidated Financial Statements.

SEMIRARA MINING CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31		
	2009	2008 (Note 2)	2007 (Note 2)
REVENUE (Note 32)			
Coal	**₱11,500,192,811**	₱8,490,045,380	₱6,466,700,620
Power	**443,492,763**	–	–
	11,943,685,574	8,490,045,380	6,466,700,620
COST OF SALES (Notes 17, 19 and 32)			
Coal	**8,921,965,253**	6,943,585,844	5,193,989,609
Power	**440,470,595**	–	–
	9,362,435,848	6,943,585,844	5,193,989,609
GROSS PROFIT	**2,581,249,726**	1,546,459,536	1,272,711,011
OPERATING EXPENSES (Notes 20 and 32)	**(749,582,032)**	(458,925,813)	(324,382,373)
FINANCE INCOME (Notes 22 and 32)	**52,752,896**	77,234,983	40,301,348
FOREIGN EXCHANGE GAINS (LOSSES) - net (Notes 28 and 32)	**47,703,017**	(82,781,003)	102,964,270
FINANCE COSTS (Notes 17, 21 and 32)	**(112,192,664)**	(101,240,084)	(140,251,461)
EQUITY IN NET LOSSES OF ASSOCIATES (Notes 9 and 32)	**(39,349,171)**	(1,768,241)	–
OTHER INCOME (Notes 23 and 32)	**92,268,468**	54,442,772	9,423,888
	(708,399,486)	(513,037,386)	(311,944,328)
INCOME BEFORE INCOME TAX	**1,872,850,240**	1,033,422,150	960,766,683
PROVISION FOR (BENEFIT FROM) INCOME TAX (Notes 24 and 32)			
Current	**5,362,577**	290,501,414	333,672,822
Deferred	**57,931,775**	(53,478,055)	(6,191,133)
	63,294,352	237,023,359	327,481,689
NET INCOME	**1,809,555,888**	796,398,791	633,284,994
OTHER COMPREHENSIVE INCOME	–	–	–
TOTAL COMPREHENSIVE INCOME	**₱1,809,555,888**	₱796,398,791	₱633,284,994
Basic / Diluted Earnings per Share (Note 25)	**₱6.52**	₱2.87	₱2.28

See accompanying Notes to Consolidated Financial Statements.

SEMIRARA MINING CORPORATION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Common Stock (Note 15)	**Additional Paid-in Capital**	**Deposit for Future stock Subscriptions** (Note 15)	**Unappropriated Retained Earnings** (Notes 2 and 15)	**Appropriated Retained Earnings** (Note 16)	**Total**	**Cost of Shares Held in Treasury** (Notes 15 and 16)	**Grand Total**
At January 1, 2009	**₱296,875,000**	**₱1,576,796,271**	**₱–**	**₱2,256,119,235**	**₱700,000,000**	**₱4,829,790,506**	**(₱528,891,260)**	**₱4,300,899,246**
Deposit for future stock subscriptions	**–**	**–**	**5,402,125,985**	**–**	**–**	**5,402,125,985**	**–**	**5,402,125,985**
Net income for the year	**–**	**–**	**–**	**1,809,555,888**	**–**	**1,809,555,888**	**–**	**1,809,555,888**
Dividends	**–**	**–**	**–**	**(1,665,436,428)**	**–**	**(1,665,436,428)**	**–**	**(1,665,436,428)**
At December 31, 2009	**₱296,875,000**	**₱1,576,796,271**	**₱5,402,125,985**	**₱2,400,238,695**	**₱700,000,000**	**₱10,376,035,951**	**(₱528,891,260)**	**₱9,847,144,691**
At January 1, 2008	₱296,875,000	₱1,576,796,271	₱–	₱2,270,011,644	₱1,000,000,000	₱5,143,682,915	(₱528,891,260)	₱4,614,791,655
Net income for the year	–	–	–	796,398,791	–	796,398,791	–	796,398,791
Dividends	–	–	–	(1,110,291,200)	–	(1,110,291,200)	–	(1,110,291,200)
Reversal of appropriation	–	–	–	800,000,000	(800,000,000)	–	–	–
Additional appropriation	–	–	–	(500,000,000)	500,000,000	–	–	–
At December 31, 2008	₱296,875,000	₱1,576,796,271	₱–	₱2,256,119,235	₱700,000,000	₱4,829,790,506	(₱528,891,260)	₱4,300,899,246
At January 1, 2007	₱296,875,000	₱1,576,796,271	₱–	₱1,969,814,010	₱1,000,000,000	₱4,843,485,281	(₱528,891,260)	₱4,314,594,021
Net income for the year	–	–	–	633,284,994	–	633,284,994	–	633,284,994
Dividends	–	–	–	(333,087,360)	–	(333,087,360)	–	(333,087,360)
At December 31, 2007	₱296,875,000	₱1,576,796,271	₱–	₱2,270,011,644	₱1,000,000,000	₱ 5,143,682,915	(₱528,891,260)	₱4,614,791,655

See accompanying Notes to Consolidated Financial Statements.

SEMIRARA MINING CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31		
		2008	2007
	2009	(Note 2)	(Note 2)
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱1,872,850,240**	₱1,033,422,150	₱960,766,683
Adjustments for:			
Depreciation and amortization (Notes 8, 10 and 19)	**1,141,609,910**	1,159,392,307	1,656,778,734
Finance costs (Note 21)	**112,192,664**	101,240,084	140,251,461
Equity in net losses of associates (Note 9)	**39,349,171**	1,768,241	–
Pension expense (Note 18)	**3,745,508**	4,839,774	8,861,276
Donation of school campus (Note 31)	–	–	18,164,254
Gain on sale of equipment (Notes 8 and 23)	**(40,205,597)**	(44,713,500)	(5,173,911)
Finance income (Note 22)	**(52,752,896)**	(77,234,983)	(40,301,348)
Net unrealized foreign exchange losses (gains)	**(168,563,288)**	71,788,836	(41,555,757)
Operating income before changes in working capital	**2,908,225,712**	2,250,502,909	2,697,791,392
Changes in operating assets and liabilities:			
Decrease (increase) in:			
Receivables	**524,955,210**	(625,030,364)	(543,458,037)
Inventories	**(620,071,485)**	(7,161,948)	263,719,356
Other current assets	**(193,127,843)**	(21,002,963)	(21,581,895)
Increase in Trade and other payables	**1,561,774,355**	420,558,669	188,104,222
Cash generated from operations	**4,181,755,949**	2,017,866,303	2,584,575,038
Interest received	**86,501,617**	87,005,291	34,820,344
Interest paid	**(58,900,149)**	(88,561,504)	(116,098,795)
Income taxes paid	**(63,423,038)**	(272,607,496)	(324,074,439)
Net cash provided by operating activities	**4,145,934,379**	1,743,702,594	2,179,222,148
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of equipment	**745,980,367**	1,532,458,450	5,380,800
Additions to property, plant and equipment (Notes 8 and 31)	**(2,860,200,490)**	(1,704,529,706)	(214,754,775)
Acquisition of a business (Note 33)	**(7,107,740,798)**	–	–
Advance rental paid	**(150,568,000)**	–	–
Additions to investments and advances	**(60,550,000)**	(144,128,793)	(80,871,207)
Decrease (increase) in other noncurrent assets (Note 10)	**121,319,196**	(282,366,016)	–
Proceeds from short-term cash investments	–	–	300,000,000
Contribution to the pension plan	–	–	(56,871,980)
Net cash used in investing activities	**(9,311,759,725)**	(598,566,065)	(47,117,162)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net availments of notes payable	**690,694,646**	102,496,739	–
Availments of long-term debt	**1,574,960,402**	1,218,495,299	446,857,219
Deposit for future stock subscriptions (Note 15)	**5,402,125,985**	–	–
Payment of dividends (Note 16)	**(1,665,436,428)**	(1,110,291,200)	(333,087,360)
Repayment of long-term debt	**(1,367,007,486)**	(1,994,234,542)	(1,105,507,731)
Net cash provided by (used in) financing activities	**4,635,337,119**	(1,783,533,704)	(991,737,872)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(530,488,227)**	(638,397,175)	1,140,367,114
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**1,012,409,162**	1,650,806,337	510,439,223
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	**₱481,920,935**	₱1,012,409,162	₱1,650,806,337

See accompanying Notes to Consolidated Financial Statements.

SEMIRARA MINING CORPORATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

Semirara Mining Corporation (the Parent Company) was incorporated on February 26, 1980. The Parent Company's registered and principal office address is at 2281 Don Chino Roces Avenue, Makati City, Philippines. The Parent Company is a majority-owned (58.88%) subsidiary of DMCI Holdings, Inc. (DMCI-HI), a publicly listed entity in the Philippines. Its ultimate parent company is Dacon Corporation.

The Parent Company's primary purpose is to search for, prospect, explore, dig and drill for mine, exploit, extract, produce, mill, purchase or otherwise, and generally deal in, ship coal, coke, and other coal products of all grades, kinds, forms, descriptions and combinations and in general the products and by-products which may be derived, produced, prepared, developed, compounded, made or manufactured there from within the purview of Presidential Decree No. 972, "*The Coal Development Act of 1976*", and any amendments thereto.

Its wholly owned subsidiary, Sem-Calaca Power Corporation ("SCPC" or "the Subsidiary") was incorporated on November 19, 2009, primarily to acquire, expand and maintain power generating plants, develop fuel for generation of electricity, and sell electricity to any person or entity through electricity markets, among others. SCPC's registered office is at 2nd Floor, DMCI Plaza Building, Pasong Tamo Extension, Makati City.

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

2. Summary of Significant Accounting Policies

Basis of Preparation

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

Statement of Compliance

The consolidated financial statements of the Group have been prepared in compliance with Philippine Financial Reporting Standards (PFRS) as issued by the International Accounting Standards Board (IASB).

Basis of Consolidation

The consolidated financial statements comprise the financial statements of Semirara Mining Corporation and its wholly owned subsidiary, Sem-Calaca Power Corporation, as at December 31, 2009 and for the year then ended (see Note 1). 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.

The consolidated financial statements as of December 31, 2008 and for the years ended December 31, 2008 and 2007, as presented herein, were previously reported as the Balance sheet, Statement of income, Statement of changes in stockholders' equity and Statement of cashflow of Semirara Mining Corporation. For comparative purposes, these financial statements are titled "consolidated financial statements".

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

All intra-group 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 years except for the adoption of new and amended PFRS and Philippine Interpretations from International Financial Reporting Interpretation Committee (IFRIC) which became effective beginning January 1, 2009.

New Standards and Interpretations

- Amendments to Philippine Accounting Standard (PAS) 1, *Presentation of Financial Statements*
- PAS 23, *Borrowing Costs* (Revised)
- PFRS 8, *Operating Segments*
- Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes*
- Philippine Interpretation IFRIC 16*, Hedges of a Net Investment in a Foreign Operation*
- Philippine Interpretation IFRIC 18, *Transfers of Assets from Customers*

Amendments to Standards

- Amendment to PFRS 7, *Financial Instruments: Disclosure*
- PAS 32 and PAS 1 Amendments, *Puttable Financial Instruments and Obligations Arising on Liquidation*
- PFRS 1 and PAS 27 Amendments, *Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*
- Amendment PFRS 2, *Vesting Conditions and Cancellations*
- PFRS 7 Amendment, *Improving Disclosures about Financial Instruments*
- Philippine Interpretation IFRIC 9 and PAS 39 Amendments, *Embedded Derivatives*

Improvements to PFRSs 2008 (and 2009)

- PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*
- PAS 1, *Presentation of Financial Statements*
- PAS 16, *Property, Plant and Equipment*
- PAS 19, *Employee Benefits*
- PAS 18, *Revenue*
- PAS 23, *Borrowing Costs*
- PAS 27, *Consolidated and Separate Financial Statements*
- PAS 28, *Investments in Associates*
- PAS 29, *Financial Reporting in Hyperinflationary Economies*
- PAS 31, *Interests in Joint Ventures*

- PAS 36*, Impairment of Assets*
- PAS 38, *Intangible Assets*
- PAS 39, *Financial Instruments: Recognition and Measurement - Eligible Hedged Items*
- PAS 40, *Investment Properties*
- PAS 41, *Agriculture*

Standards or interpretations that have been adopted and that are deemed to have an impact on the consolidated financial statements are described below

- Amendments to PAS 1, *Presentation of Financial Statements*
  The revised standard separates the owner and non-owner changes in equity. The consolidated statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented in a reconciliation of each component of equity. In addition, the Standard introduces the consolidated statement of comprehensive income: it presents all items of recognized income and expense, either in one single statement, or in two linked statements. The Group has elected to present a single statement.

- PAS 23, *Borrowing Costs* (Revised)
  The revised PAS 23 requires capitalization of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. The Group's previous policy was to expense borrowing costs as they were incurred. In accordance with the transitional provisions of the amended PAS 23, the Group has adopted the standard on a prospective basis. Therefore, borrowing costs will be capitalized on qualifying assets with a prevailing commencement date on or after January 1, 2009. In 2009, Equipment-in-transit and construction-in-progress account mostly contains purchased mining equipments that are still in transit, as such, no borrowing cost was capitalized.

- PFRS 8, *Operating Segments*
  This standard requires disclosure information about the Group's operating segments and replaces PAS 14, *Segment Reporting* which requires the determination of primary (business) and secondary (geographical) reporting segments of the Group. Disclosures required by PFRS 8 are presented in Note 32.

- Amendment to PFRS 7, *Financial Instruments: Disclosure*
  The amendments to PFRS 7, *Financial Instruments: Disclosures*, require additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by source of inputs using a three level fair value hierarchy, by class, for all financial instruments recognized at fair value. In addition, reconciliation between the beginning and ending balance for level 3 fair value measurements is now required, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and financial assets used for liquidity management. The liquidity risk disclosures are not significantly impacted by the amendments and are presented in Notes 28 and 29.

- PFRS 1 and PAS 27 Amendments*, Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*
  The amendments to PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards*, allowed an entity to determine the 'cost' of investments in subsidiaries, jointly controlled entities or associates in its opening PFRS financial statements in accordance with

PAS 27, *Consolidated and Separate Financial Statements*, or using a deemed cost method. The amendment to PAS 27 required all dividends from a subsidiary, jointly controlled entity or associate to be recognized in the profit or loss in the separate financial statement. The revision to PAS 27 was applied prospectively. The new requirement affects only the Parent Company's separate financial statement and does not have an impact on the consolidated financial statements.

- PAS 18, *Revenue*
  The amendment adds guidance (which accompanies the standard) to determine whether an entity is acting as a principal or as an agent. The features to consider are whether the entity:

  - Has primary responsibility for providing the goods or service
  - Has inventory risk
  - Has discretion in establishing prices
  - Bears the credit risk

  The Group has assessed its revenue arrangements against these criteria and concluded that it is acting as principal in all arrangements. The revenue recognition policy has been updated accordingly.

Future Changes in Accounting Policies
The Group has not applied the following PFRS and Philippine Interpretations which are not yet effective as of December 31, 2009:

- Amendment to PFRS 3, *Business Combinations* (Revised) and to PAS 27, *Consolidated and Separate Financial Statements* (effective for annual periods beginning on or after July 1, 2009)
  PFRS 3 (Revised) introduces significant changes in the accounting for business combinations occurring after the effective date. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs and future reported results. The amendment to PAS 27 requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes by PFRS 3 (Revised) and PAS 27 (Amended) will affect future acquisitions or loss of control of subsidiaries and transactions with non-controlling interests. PFRS 3 (Revised) will be applied prospectively while PAS 27 (Amended) will be applied retrospectively with a few exceptions.

- Philippine Interpretation IFRIC 15, *Agreement for Construction of Real Estate* (effective for annual periods beginning on or after January 1, 2012)
  The Interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The Interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under

PAS 11, *Construction Contracts*, or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion. This Interpretation will have no impact on the consolidated financial statements because the Group does not conduct such activity.

- Philippine Interpretation IFRIC 17, *Distributions of Non-Cash Assets to Owners* (effective for annual periods beginning on or after July 1, 2009 with early application permitted)
  This Interpretation provides guidance on how to account for non-cash distributions to owners. The Interpretation clarifies when to recognize a liability, how to measure it and the associated assets, and when to derecognize the asset and liability. The Group does not expect the Interpretation to have an impact on the consolidated financial statements as the Group has not made non-cash distributions to shareholders in the past.

Amendments to Standards

- PAS 39 Amendment - *Eligible Hedged Items* (effective for annual periods beginning on or after July 1, 2009)
  The amendment to PAS 39, *Financial Instruments: Recognition and Measurement*, clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. This also covers the designation of inflation as a hedged risk or portion in particular situations. The Group has concluded that the amendment will have no impact on the financial position or performance of the Group, as the Group has not entered into any such hedges.

- PFRS 2 Amendments - *Group Cash-settled Share-based Payment Transactions* (effective for annual periods beginning on or after January 1, 2010)
  The amendments to PFRS 2, *Share-based Payment*, clarify the scope and the accounting for group cash-settled share-based payment transactions. The Group has concluded that the amendment will have no impact on the financial position or performance of the Group as the Group has not entered into any such share-based payment transactions.

Improvements to PFRS 2009
The omnibus amendments to PFRS issued in 2009 were issued primarily with a view to removing inconsistencies and clarifying wording. The amendments are effective for annual periods financial years January 1, 2010 except otherwise stated. The Group has not yet adopted the following amendments and anticipates that these changes will have no material effect on the consolidated financial statements.

- PFRS 2, *Share-based Payment*: clarifies that the contribution of a business on formation of a joint venture and combinations under common control are not within the scope of PFRS 2 even though they are out of scope of PFRS 3, *Business Combinations* (Revised). The amendment is effective for financial years on or after July 1, 2009.

- PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*: clarifies that the disclosures required in respect of non-current assets and disposal groups classified as held for sale or discontinued operations are only those set out in PFRS 5. The disclosure requirements of other PFRSs only apply if specifically required for such non-current assets or discontinued operations.

- PFRS 8, *Operating Segment Information*: clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker.

- PAS 1, *Presentation of Financial Statements*: clarifies that the terms of a liability that could result, at anytime, in its settlement by the issuance of equity instruments at the option of the counterparty do not affect its classification.

- PAS 7, *Statement of Cash Flows*: explicitly states that only expenditure that results in a recognized asset can be classified as a cash flow from investing activities.

- PAS 17, *Leases*: removes the specific guidance on classifying land as a lease. Prior to the amendment, leases of land were classified as operating leases. The amendment now requires that leases of land are classified as either 'finance' or 'operating' in accordance with the general principles of PAS 17. The amendments will be applied retrospectively.

- PAS 36, *Impairment of Assets*: clarifies that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in PFRS 8 before aggregation for reporting purposes.

- PAS 38, *Intangible Assets*: The standard clarifies that if an intangible asset acquired in a business combination is identifiable only with another intangible asset, the acquirer may recognize the group of intangible assets as a single asset provided the individual assets have similar useful lives. Also clarifies that the valuation techniques presented for determining the fair value of intangible assets acquired in a business combination that are not traded in active markets are only examples and are not restrictive on the methods that can be used.

- PAS 39, *Financial Instruments: Recognition and Measurement*: clarifies the following:
  a) that a prepayment option is considered closely related to the host contract when the exercise price of a prepayment option reimburses the lender up to the approximate present value of lost interest for the remaining term of the host contract.
  b) that the scope exemption for contracts between an acquirer and a vendor in a business combination to buy or sell an acquiree at a future date applies only to binding forward contracts, and not derivative contracts where further actions by either party are still to be taken.
  c) that gains or losses on cash flow hedges of a forecast transaction that subsequently results in the recognition of a financial instrument or on cash flow hedges of recognized financial instruments should be reclassified in the period that the hedged forecast cash flows affect profit or loss.

- Philippine Interpretation IFRIC–9, *Reassessment of Embedded Derivatives*: clarifies that it does not apply to possible reassessment at the date of acquisition, to embedded derivatives in contracts acquired in a business combination between entities or businesses under common control or the formation of joint venture.

- Philippine Interpretation IFRIC–16, *Hedge of a Net Investment in a Foreign Operation*: states that, in a hedge of a net investment in a foreign operation, qualifying hedging instruments may be held by any entity or entities within the group, including the foreign operation itself, as long as the designation, documentation and effectiveness requirements of PAS 39 that relate to a net investment hedge are satisfied.

SEC Memorandum Circular (SMC) 8

On July 15, 2009, the SEC issued SMC 8, Series of 2009 which covers scales of fines for non-compliance with the financial reporting requirements of the SEC. The memorandum circular provides guidance on what is considered as material deficiency in the financial statements. Accordingly, the Group has provided additional disclosures for equity and operating expenses under summary of significant accounting policies in compliance with the said memorandum circular.

Financial Instruments

Date of recognition

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

Initial recognition of financial instruments

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

As of December 31, 2009 and 2008, the Group’s financial instruments are of the nature of loans and receivables, and other financial liabilities.

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

Determination of fair value

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

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

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

Financial asset
Loans and Receivables
Loans and receivables are financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. These are not entered into with the intention of immediate or short-term resale and are not designated as AFS or financial assets at FVPL. These are included in current assets if maturity is within 12 months from the reporting date otherwise; these are classified as noncurrent assets. This accounting policy relates to the consolidated statement of financial position accounts "Cash and cash equivalents" and "Receivables".

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

Financial liabilities
The Group financial liabilities consist of other financial liabilities at amortized cost.

Other financial liabilities
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 effective interest method.

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.

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 effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through use of an allowance account and the amount of loss is charged to the profit or loss during the period in which it arises. Interest income continues to be recognized based on the original effective interest rate 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.

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 profit or loss, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

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.

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.

Where 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.

Where 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 profit or loss.

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

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.

Mine Exploration, Evaluation and Development Costs
Pre-license costs
Pre-license costs are expensed in the period in which they are incurred.

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

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

Exploration and evaluation expenditure incurred on licenses where a Joint Ore Reserves Committee (JORC) compliant resource has not yet been established is expensed as incurred until sufficient evaluation has occurred in order to establish a JORC compliant resource. Costs incurred during this phase are included as part of production cost.

Upon the establishment of a JORC compliant resource (at which point, the Group considers it probable that economic benefits will be realized), the Group capitalizes any further evaluation costs incurred for the particular license to exploration and evaluation assets up to the point when a JORC compliant reserve is established.

Once JORC compliant reserves are established and development is sanctioned, exploration and evaluation assets are tested for impairment and transferred to 'Mines under construction'. No amortization is charged during the exploration and evaluation phase.

Mines under construction
Upon transfer of 'Exploration and evaluation costs' into 'Mines under construction', all subsequent expenditure on the construction, installation or completion of infrastructure facilities are capitalized within 'Mines under construction'. Development expenditure is net of proceeds from all but the incidental sale of ore extracted during the development phase. After production starts, all assets included in 'Mines under construction' are transferred to 'Mining equipment'.

Mine development costs are derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the assets. 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 assets) is included in the profit or loss in the year the item is derecognized.

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 and amortization of assets commence once the assets are put into operational use.

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

	Number of years
Mining equipment	2 to 13 years
Power plant and buildings	10 to 21 years
Roads and bridges	17 years
Other tools and equipment	3 to 5 years

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

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.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on 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 profit or loss in the year the item is derecognized.

Investments and Advances

This account includes investments and advances for future stock acquisition in associates.

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

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

The Group discontinues applying the equity method when their investments in associates are reduced to zero. Accordingly, additional losses are not recognized unless the Group has guaranteed certain obligations of the associates. When the associates subsequently report net income, the Group will resume applying the equity method but only after its share of that net income equals the share of net losses not recognized during the period the equity method was suspended.

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

Other intangible assets
Other intangible assets include computer software.

Intangible assets acquired separately are measured on initial recognition at cost, which comprises its purchase price plus any directly attributable costs of preparing the asset for its intended use. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization on a straight line basis over their useful lives of three (3) to five (5) years and any accumulated impairment losses.

Internally generated intangible assets are not capitalized and expenditure is reflected in the profit or loss in the year in which the expenditure is incurred.

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

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

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

Business Combinations
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.

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 as 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 change to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity. Goodwill is initially measured at cost being the excess of the consideration transferred over the Group's 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 profit or loss.

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

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

If the initial accounting for a business combination can only be determined on a provisional basis by the end of the period in which the combination is effected because either the fair values to be assigned to the acquiree's identifiable assets, liabilities or contingent liabilities or the cost of the combination can be determined only provisionally, the Parent Company accounts for the combination using those provisional values. The Parent Company recognizes any adjustment to those provisional values as a result of completing the initial accounting within 12 months from the acquisition date.

Impairment of Non-financial Assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when an annual impairment testing for an asset is required, the group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash generating unit's fair value less cost to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that largely independent of those from other assets or group of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses of continuing operations are recognized in the profit or loss in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If any such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If such is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the profit or loss unless the asset is carried at revalued amount, in which case, the reversal is treated as a revaluation increase. After such reversal, the depreciation and amortization charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

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

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. The following specific recognition criteria must also be met before revenue is recognized:

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

Sale of electricity
Revenue from sale of electricity is derived from its primary function of providing and selling electricity to customers of its generated and purchased electricity. Revenue derived from the generation and/ or supply of electricity is recognized based on the actual delivery of electricity, net of adjustments, as agreed upon between parties.

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

Finance income
Finance income is recognized as interest accrues (using the effective interest 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 asset).

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

Borrowing Costs
Borrowing costs directly relating to the acquisition, construction or production of a qualifying capital project under construction are capitalized and added to the project cost during construction until such time the assets are considered substantially ready for their intended use i.e., when they are capable of commercial production. Where funds are borrowed specifically to finance a project, the amount capitalized represents the actual borrowing costs incurred. Where surplus funds are available for a short term out of money borrowed specifically to finance a project, the income generated from the temporary investment of such amounts is also capitalized and deducted from the total capitalized borrowing cost. Where the funds used to finance a project form part of

general borrowings, the amount capitalized is calculated using a weighted average of rates applicable to relevant general borrowings of the Group during the period. All other borrowing costs are recognized in the profit or loss in the period in which they are incurred.

Even though exploration and evaluation assets can be qualifying assets, they generally do not meet the 'probable economic benefits' test and also are rarely debt funded. Any related borrowing costs are therefore generally recognized in the profit or loss 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 statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the date less the fair value of plan assets, together with adjustments for unrecognized actuarial gains or losses and past service costs. The value of any asset is restricted to the sum of any past service costs not yet recognized, if any, and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

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

Past-service costs, if any, are recognized immediately in profit or loss, 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 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, except:

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

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

Provisions

Provisions are recognized only when the 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 profit or loss.

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 profit or loss.

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 profit or loss on a straight line basis over the lease term.

Foreign Currency Translation
The Group's financial statements are presented in Philippine pesos, which is the functional and presentation currency. Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency closing rate at the reporting date. All differences are taken to the profit or loss.

Equity
The Group records common stocks at par value and additional paid-in capital in excess of the total contributions received over the aggregate par values of the equity share. Incremental costs incurred directly attributable to the issuance of new shares are deducted from proceeds.

Retained earnings represent accumulated earnings of the Company less dividends declared.

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 profit or loss 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 other capital reserves.

Earnings per Share (EPS)
Basic EPS is computed by dividing earnings applicable to common stock by the weighted average number of common shares outstanding after giving retroactive effect for any stock dividends, stock splits or reverse stock splits during the year. The Group has no outstanding dilutive potential common shares.

Segment Reporting
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. Financial information on business segments is presented in Note 32.

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

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

3. Significant Accounting Estimates, Judgments and Assumptions

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

Judgment

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

Determining functional currency

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

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 (see Note 27).

Management's Use of Estimates

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 estimates are based on actual 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 impairment losses
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.

In 2009, there are reversals of provision amounting to ₱3.19 million. The reversal was recognized under the "Other income" account in the profit or loss. Receivables, net of allowance for impairment loss amounted to ₱1,254.10 million and ₱1,779.05 million as of December 31, 2009 and 2008, respectively (see Note 5).

Estimating stock pile inventory quantities
The Group estimates the stock pile inventory by conducting a topographic survey which is performed by in house surveyors. The survey is conducted on a monthly basis with a reconfirmatory survey at year end. The process of estimation involves a predefined formula which considers an acceptable margin of error of plus or minus 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. Coal pile inventory as of December 31, 2009 and 2008 amounted to ₱1,743.04 million and ₱896.73 million, respectively (see Note 6).

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.

There were no additional provision made in 2009 and 2008. Spare parts and supplies of the Group, net of allowance for inventory write down of ₱53.29 million, amounted to ₱1,341.83 million and ₱486.49 million as of December 31, 2009 and 2008, respectively (see Note 6).

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

decommissioning and site rehabilitation costs would increase the production cost and increase noncurrent liabilities. The provision at reporting date represents management's best estimate of the present value of the future rehabilitation costs required. Assumptions used to compute the decommissioning and site rehabilitation costs are reviewed and updated annually.

The discount rate applied in the calculation of the net present value of provision is 4.16% to 5.5% and 6.81% to 6.76% in 2009 and 2008, respectively. Rehabilitation expenditure is largely expected to take place from 2012 to 2027.

As of December 31, 2009 and 2008, the provision for decommissioning and site rehabilitation has a carrying value of ₱14.77 million and ₱13.20 million, respectively (see Note 14).

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

The net book value of the property, plant and equipment as of December 31, 2009 and 2008 amounted to ₱17,818.69 million and ₱1,106.06 million, respectively (see Note 8). The net book value of the software cost as of December 31, 2009 and 2008 amounted to ₱7.54 million and ₱5.37 million, respectively (see Note 10).

Estimating impairment for nonfinancial assets
The Group assesses impairment on assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the 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.

An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit to which the asset belongs.

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

The net book values of the investments and advances, property, plant and equipment, and software cost as of December 31, 2009 and 2008 follow:

	2009	2008
Property, plant and equipment (Note 8)	**₱17,818,687,301**	₱1,106,064,258
Investments and advances (Note 9)	**244,432,588**	223,231,759
Software cost (Note 10)	**7,536,022**	5,374,111
	₱18,070,655,911	₱1,334,670,128

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

In 2009, the Group has various deductible temporary differences from which no deferred tax assets have been recognized. Refer to Note 24 for the balances.

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 (see Note 18). 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.

As of December 31, 2009 and 2008, the balances of the Group's defined benefit obligation and unrecognized actuarial gain follow (see Note 18):

	2009	2008
Present value of defined benefit obligation	**₱54,262,702**	₱39,107,208
Unrecognized actuarial gains	**25,297,504**	27,311,741

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

The accrued balance of unpaid vacation and sick leaves as of December 31, 2009 and 2008 amounted to ₱1.55 million and ₱1.40 million, respectively (see Note 13).

4. Cash and Cash Equivalents

This account consists of:

	2009	2008
Cash on hand and in banks	**₱112,200,452**	₱26,579,217
Cash equivalents	**369,720,483**	985,829,945
	₱481,920,935	₱1,012,409,162

Cash in banks earns interest at the respective bank deposit rates. Cash equivalents include short-term placements made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short-term placement rates.

5. Receivables

This account consists of:

	2009	2008
Trade (Notes 28 and 29)		
Electricity sales	**₱489,245,876**	₱–
Export coal sales	**414,815,233**	7,344,063
Local coal sales	**337,326,286**	1,766,074,476
Due from related parties (Notes 17, 28 and 29)	**9,067,242**	6,607,698
Others (Notes 28 and 29)	**27,352,040**	25,926,943
	1,277,806,677	1,805,953,180
Less allowance for impairment losses	**23,711,557**	26,902,850
	₱1,254,095,120	₱1,779,050,330

Trade

Coal sales

Receivables from coal sales are noninterest-bearing and generally have 30 - 45 days' credit terms.

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

Electricity sales

Receivables from electricity sales are claims from power distribution companies for supply and distribution of contracted energy and are generally carried at original invoice amounts less discounts and rebates.

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

As at December 31, 2009 and 2008, trade receivables and other receivables with a nominal value of ₱23.71 million and ₱26.90 million were impaired and provided for. Movements in the allowance for impairment of receivables were as follows:

2009

	Local Coal Sales	**Other Receivables**	**Total**
At January 1, 2009	**₱17,018,649**	**₱9,884,201**	**₱26,902,850**
Reversals (Note 23)	**(3,191,293)**	**–**	**(3,191,293)**
Reclassifications	**(257,909)**	**257,909**	**–**
At December 31, 2009	**₱13,569,447**	**₱10,142,110**	**₱23,711,557**
Individual impairment	**₱13,569,447**	**₱10,142,110**	**₱23,711,557**

2008

	Local Coal Sales	**Other Receivables**	**Total**
At January 1, 2008	₱12,056,502	₱14,846,348	₱26,902,850
Reclassification	4,962,147	(4,962,147)	–
At December 31, 2008	₱17,018,649	₱9,884,201	₱26,902,850
Individual impairment	₱17,018,649	₱9,884,201	₱26,902,850

6. Inventories

This account consists of:

	2009	2008
Coal inventory at cost (Note 33)	**₱1,743,044,519**	₱896,734,233
Spare parts and supplies at NRV (Note 33)	**1,341,834,861**	486,485,933
	₱3,084,879,380	₱1,383,220,166

Spare parts and supplies with original cost of ₱580.93 million and ₱539.77 million as of December 31, 2009 and 2008, respectively, provided with allowance for inventory obsolescence amounting to ₱53.29 million both in 2009 and 2008.

The cost of coal inventories recognized as expense in the profit or loss amounted to ₱9,094.78 million, ₱6,943.59 million and ₱5,193.99 million for the years ended December 31, 2009, 2008 and 2007, respectively (see Note 19).

7. Other Current Assets

This account consists of:

	2009	2008
Security deposit - current portion (Note 10)	**₱270,751,295**	₱–
Advances to suppliers	**182,964,826**	97,621,328
Creditable withholding tax	**149,441,458**	–
5% input value added tax (VAT) withheld	**117,455,626**	190,500,982
Prepaid rent (Notes 10, 30 and 33)	**27,719,442**	19,967,673
Prepaid insurance and others	**10,052,423**	14,141,950
Environmental guarantee fund	**1,500,000**	1,500,000
	₱759,885,070	₱323,731,933

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

5% input value added tax (VAT) withheld
As a result of the enactment of Republic Act No. 9337 effective November 1, 2005 (see Note 24), NPC started withholding the required 5% input VAT on the VAT exempt coal sales of the Group. On March 7, 2007, the Group obtained a ruling from the Bureau of Internal Revenue which stated that the sale of coal remains exempt from VAT. In 2007, the Group filed a total claim for refund of ₱190.50 million from the BIR representing VAT erroneously withheld by NPC from December 2005 to March 2007, which eventually was elevated to the Court of Tax Appeals (CTA). On October 13, 2009, CTA granted the Parent Company's petition for a refund on erroneously withheld VAT initially on December 2005 sales amounting to ₱11.85 million. The Commissioner of Internal Revenue moved for reconsideration of the CTA's Decision. On November 21, 2009, the Parent Company filed its comment thereon. The motion for reconsideration remains pending to date. Management has estimated that the refund will be recovered after three (3) to five (5) years. Consequently, the claim for tax refund was provided with provision for probable loss amounting to ₱42.38 million (see Note 20).

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

8. Property, Plant and Equipment

The rollforward analysis of this account follows:

2009

	Mining Equipment	Power Plant and Buildings	Roads and Bridges	Equipment in Transit and Construction in Progress	Total
At Cost					
At January 1	₱8,927,359,286	₱1,449,535,036	₱279,062,950	₱209,605,721	₱10,865,562,993
Acquisition of a business (Note 33)	–	15,697,026,189	–	–	15,697,026,189
Additions	2,191,703,508	108,843,673	–	559,653,309	2,860,200,490
Transfers	154,665,201	43,408,474	–	(198,073,675)	–
Disposals (Note 23)	(998,267,572)	–	–	–	(998,267,572)
At December 31	10,275,460,423	17,298,813,372	279,062,950	571,185,355	28,424,522,100
Accumulated Depreciation and Amortization					
At January 1	8,458,905,294	1,021,788,873	278,804,568	–	9,759,498,735
Depreciation and amortization (Notes 19 and 20)	804,854,479	316,734,991	258,382	–	1,121,847,852
Disposals (Note 23)	(275,511,788)	–	–	–	(275,511,788)
At December 31	8,988,247,985	1,338,523,864	279,062,950	–	10,605,834,799
Net Book Value	₱1,287,212,438	₱15,960,289,508	₱–	₱571,185,355	₱17,818,687,301

2008

	Mining Equipment	Power Plant and Buildings	Roads and Bridges	Equipment in Transit and Construction in Progress	Total
At Cost					
At January 1	₱8,930,642,580	₱1,425,618,757	₱279,062,950	₱207,937,003	₱10,843,261,290
Additions	1,551,863,209	23,916,279	–	128,750,218	1,704,529,706
Transfers	127,081,500	–	–	(127,081,500)	–
Disposals (Note 23)	(1,682,228,003)	–	–	–	(1,682,228,003)
At December 31	8,927,359,286	1,449,535,036	279,062,950	209,605,721	10,865,562,993
Accumulated Depreciation and Amortization					
At January 1	7,770,695,515	904,267,126	263,926,447	–	8,938,889,088
Depreciation and amortization (Notes 19 and 20)	943,370,908	117,521,747	14,878,121	–	1,075,770,776
Disposals (Note 23)	(255,161,129)	–	–	–	(255,161,129)
At December 31	8,458,905,294	1,021,788,873	278,804,568	–	9,759,498,735
Net Book Value	₱468,453,992	₱427,746,163	₱258,382	₱209,605,721	₱1,106,064,258

Equipment in transit and construction in progress account mostly contains purchased mining equipment in transit; as such, no borrowing cost was capitalized in 2009.

Certain mining equipment has been pledged as collaterals to secure the indebtedness of the Group to a local bank as of December 31, 2008 (see Note 12).

9. **Investments and Advances**

This account consists of:

	2009	2008
Acquisition cost		
At beginning of year	**₱225,000,000**	₱80,871,207
Additions during the year	**25,000,000**	144,128,793
	250,000,000	225,000,000
Accumulated equity in net earnings		
Balance at beginning of year	**(1,768,241)**	–
Equity in net losses during the year	**(39,349,171)**	(1,768,241)
Balance at end of year	**(41,117,412)**	(1,768,241)
	208,882,588	223,231,759
Advances for future subscriptions	**35,550,000**	–
	₱244,432,588	₱223,231,759

The Group's equity in the net assets of jointly controlled entities and the related percentages of ownership are shown below:

		Carrying Amounts	
	Ownership	**2009**	2008
DMCI Mining Corporation (DMCI-MC)	**50%**	**₱87,911,674**	₱109,901,863
DMCI Power Corporation (DMCI-PC)	**50%**	**156,520,914**	113,329,896
		₱244,432,588	₱223,231,759

On January 18, 2008, the Group entered into a Memorandum of Agreement (MOA) with DMCI-HI, for the following investments:

- DMCI-MC, a corporation engaged in nickel mining and other base metals
- DMCI-PC, a corporation engaged in power generation

The following table summarizes the significant financial information of the Group's associates:

	2009		2008	
	DMCI-PC	**DMC-MC**	DMCI-PC	DMC-MC
Assets				
Current assets	**₱8,901,235**	**₱225,086,326**	₱62,174,370	₱218,236,826
Noncurrent assets	**541,008,336**	**21,771,995**	156,062,456	346,504,106
	549,909,571	**246,858,321**	218,236,826	564,740,932
Liabilities				
Current liabilities	**(272,417,744)**	**(71,034,972)**	(6,003,986)	(123,317,484)
	(₱277,491,827)	**₱175,823,349**	₱212,232,840	₱441,423,448
Net income (loss)	**(₱34,717,965)**	**(₱43,980,377)**	(₱23,340,208)	₱19,803,726

DMCI-MC
In March 2007, DMCI-MC entered into a Memorandum of Agreement (MOA) with Fil-Asian Strategic Resources and Properties Corporation (Fil-Asian) wherein Fil-Asian appointed the DMCI-MC to exclusively undertake mining operations in the municipalities of Sta. Cruz and Candelaria, Province of Zambales. The profits of the mining operations will be split equally between the parties. The annual work program shall aim to accomplish five (5) million tons of ore in five (5) years. This agreement shall terminate upon the Group's extraction of five (5) million tons of laterite from the property, or the expiration of five (5) years from the date of the execution of this agreement, whichever comes first.

At the end of second quarter of 2009, DMCI-MC implemented a complete suspension of operations of its nickel and ore mining activities in Sta. Cruz, Zambales.

On October 7, 2009, Benguet Corp. has signed a mining contractorship and off-take agreement with DMCI-MC covering a portion of Benguet's 1,406-hectare Sta. Cruz nickel project located in Sta. Cruz, Zambales. The agreement allows DMCI-MC to explore, develop, mine and sell up to 200,000 metric tons of two percent high grade nickel ore for a period of three (3) years. All cost and related expenses for the exploration, development and mining of the above mentioned areas shall be for the sole account of DMCI-MC. All profits accruing from this Agreement, after deducting the costs and expenses connected with the production of the product, and over and above payment of all taxes and royalty, shall be divided equally between them.

DMCI-PC
On March 12, 2009, the Board of Directors (BOD) authorized the Parent Company to make an additional subscription to the unissued capital stock of DMCI-PC equivalent to 25.00 million shares at ₱1.00 par value or a total subscription price of ₱25.00 million payable in cash. Advances for future subscriptions were also made which amounted to ₱60.55 million.

10. Other Noncurrent Assets

This account consists of:

	2009	2008
Security deposits (Notes 28, 29 and 30)	**₱291,613,296**	₱251,086,303
Prepaid rent - noncurrent (Note 30)	**150,568,000**	11,130,778
Software cost - net	**7,536,022**	5,374,111
Others	**11,569,644**	16,158,118
	461,286,962	283,749,310
Less current portion of		
Security deposits	**270,751,095**	–
Prepaid rent (Note 7)	**6,524,613**	–
	277,275,708	–
	₱184,011,254	₱283,749,310

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

As of December 31, 2009 and 2008, security deposits with a nominal amount of ₱22.20 million and ₱282.37 million, respectively, were initially recorded at fair value. Movement in the unamortized discount of security deposits follows:

	2009	2008
At January 1	**₱31,279,714**	₱–
Additions	**2,300,375**	34,273,116
Accretion (Note 22)	**(20,623,718)**	(2,993,402)
At December 31	**₱12,956,371**	₱31,279,714

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

Movements in software cost account follow:

	2009	2008
At Cost		
At January 1	**₱10,102,737**	₱4,609,747
Additions	**6,009,831**	5,492,990
At December 31	**16,112,568**	10,102,737
Accumulated Amortization		
At January 1	**4,728,626**	2,879,265
Amortization (Note 19)	**3,847,920**	1,849,361
At December 31	**8,576,546**	4,728,626
Net Book Value	**₱7,536,022**	₱5,374,111

11. Notes Payable

Notes payable represent various unsecured peso-denominated short-term promissory notes from local banks which bear interest ranging from 5.50% to 6.75% per annum, and are payable 30 days from date of issuance. The outstanding notes payable as of December 31, 2009 and 2008 amounted to ₱793.19 million and ₱102.50 million, respectively.

12. Long-term Debt

This account consists of:

	2009	2008
PSALM (Note 33)	**₱9,571,202,577**	₱–
Deferred purchase payment	**474,363,625**	–
Bank loans	**133,257,823**	412,520,575
Acceptances and trust receipts payable	**51,450,171**	11,281,248
	10,230,274,196	423,801,823

(Forward)

	2009	2008
Less current portion of:		
PSALM	**1,681,081,972**	–
Bank loans	**133,257,824**	275,455,333
Acceptances and trust receipts payable	**51,450,171**	11,281,248
	1,865,789,967	286,736,581
	₱8,364,484,229	₱137,065,242

Longterm debt to PSALM pertains to the deferred portion of the purchase price for the acquisition of the Power Plant with principal balance amounting to US$226.26 million translated using ₱46.20 peso-dollar closing exchange rate as of December 31, 2009 (see Note 33).

Details of the bank loans follow:

	Date of	**Outstanding Balance**					
Loan Type	**Availment**	**2009**	**2008**	**Maturity**	**Interest Rate**	**Payment Terms**	**Covenants/Collaterals**
		(In Millions)					
Foreign bank loans							
Loan 1	December 14, 2005	**₱72.20**	₱148.53	November 30, 2010	Based on SIBOR plus 1.95% p.a.	Repriceable and payable in 16 equal quarterly installments to commence 2 months after the draw down dates	Unconditional and irrevocable guarantee issued by Komatsu Asia and Pacific Pte Ltd. and other covenants
Other loans	Various availments in 2004 and 2005	**61.06**	206.67	Various maturities in 2009 and 2010	Based on 6-month USD LIBOR plus 1.5% p.a.	Payable in 10 equal consecutive semi-annual installments, the first of which was due and payable 6 months after the starting point	Unconditional and irrevocable guarantee issued by DMCI-HI (Note 18)
Local bank loans							
Loan 1	September 30, 2005	–	57.32	October 5, 2009	9% fixed p.a.	Payable in 48 equal monthly installments commencing on November 5, 2005	Secured by collaterals on mining equipment (Note 8)
		₱133.26	₱412.52				

The other covenants in loan 1 under the foreign bank loans require the Group to seek prior written notice to the lender in respect of any financial indebtedness for loans or credit extended by the Group to an affiliate and directors and officers in excess of US$3.00 million and US$1.00 million, respectively, or their equivalent in other currencies.

Deferred purchase payment

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

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

The interest rate applicable to each interest period shall be four percent (4.00%) per annum over the rate 180 days BBA L1BOR on two (2) business days prior to the first day of such interest period.

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

13. **Trade and Other Payables**

This account consists of:

	2009	2008
Trade	**₱1,683,028,961**	₱984,870,898
Due to related parties (Note 17)	**609,143,593**	45,761,873
Accrued expenses and other payables	**348,845,948**	106,003,284
Payable to DOE and local government units (Note 26)	**216,516,873**	52,734,125
	₱2,857,535,375	₱1,189,370,180

Trade payables include liabilities amounting to ₱56.79 million (US$1.23 million) and ₱203.63 million (US$4.28 million) as of December 31, 2009 and 2008, respectively, to various foreign suppliers for open account purchases of equipment and equipment parts and supplies. Trade payables are noninterest-bearing and are normally settled on 30-day to 60-day credit terms.

Details of the accrued expenses and other payables account follow:

	2009	2008
Interest	**₱115,735,925**	₱64,012,231
Withholding taxes	**27,978,187**	23,020,711
Rental	**14,923,732**	–
Salaries and wages	**9,320,216**	3,134,031
Professional fees	**7,401,786**	1,261,786
Others (Note 27)	**173,486,102**	13,367,667
	₱348,845,948	₱106,003,284

Accrued interest arising from the acquisition of the Power Plant from PSALM amounted to ₱78.76 million as of December 31, 2009 (see Note 33).

Others include provision for probable legal claims amounting to ₱110.85 million in 2009, these provisions are not discounted as the time of money is not material (see Note 27).

14. **Provision for Decommissioning and Site Rehabilitation**

The rollforward analysis of this account follows:

	2009	2008
At January 1	**₱13,204,317**	₱12,205,198
Addition	**407,828**	–
Accretion of interest	**1,160,993**	999,119
At December 31	**₱14,773,138**	₱13,204,317

15. Capital Stock

The details of the Group's capital stock follow:

Common stock - ₱1 par value	
Authorized - 1,000,000,000 shares	₱1,000,000,000
Issued - 296,875,000 shares	296,875,000

Cost of Shares Held in Treasury

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

The number of shares held in treasury is 19,302,200 amounting to ₱528.89 million for the years then ended December 31, 2009, 2008 and 2007. No acquisitions were made as of December 31, 2009, 2008 and 2007.

Deposit for Future Stock Subscriptions

On December 1, 2009, DMCI-HI and Dacon Corporation advanced deposits on future subscriptions of ₱4,500.00 million and ₱902.13 million, respectively.

16. Retained Earnings

Cash Dividends

On March 30, 2009, the BOD authorized the Parent Company to declare and distribute cash dividends of ₱6.00 per share or ₱1,665.44 million to stockholders of record as of April 30, 2009. The said cash dividends were paid on May 15, 2009.

On February 18, 2008, the BOD approved and declared cash dividends of ₱4.00 per share or ₱1,110.29 million to stockholders of record as of March 3, 2008. The said cash dividends were paid on March 27, 2008.

On March 26, 2007, the BOD approved and declared cash dividends of ₱1.20 per share or ₱333.09 million to stockholders of record as of April 12, 2007. The said cash dividends were paid on April 30, 2007.

Restrictions

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

On March 18, 2008, the BOD authorized an additional ₱500.00 million appropriation for capital expenditures and expansion and likewise, on November 11, 2008, the BOD approved the reversal of the appropriated retained earnings in the amount ₱800.00 million. The remaining ₱700 million shall continue to be appropriated for capacity expansion and additional investment.

Retained earnings are restricted for the payment of dividends to the extent of the cost of the common shares held in treasury amounting to ₱528.90 million as of December 31, 2009.

17. Related Party Transactions

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

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

a. In November 2006, the Group placed a short-term cash investment in DMCI-HI for a period of 180 days amounting to ₱300.00 million which bears interest at a rate of 11% per annum. Interest income earned in 2007 amounted to ₱8.05 million. On March 22, 2007, the short-term cash investment was terminated;

b. Continuing Indemnity Agreement dated September 3, 1998 with DMCI-HI and certain related parties whereby the Group, in consideration for guarantees extended by DMCI-HI and related parties in the form of Real Estate Mortgage (REM), standby letters of credit and other credit lines or facilities to secure the Group's indebtedness to various banks and creditors, agreed to indemnify and hold DMCI-HI and related parties free from and against any and all claims, liabilities, demands, actions, costs, expenses and consequences of whatever nature which may arise or result from said corporate guarantees. The Group further agreed to pay a fixed interest rate per annum on all sums or monies paid by DMCI-HI and related parties by reason of or in connection with the said corporate guarantees, letters of credit, credit facilities or REM; real properties of this affiliate were already freed from lien effective at the time when these old equipment loan were fully paid. The loans contracted in 2005 and 2006 were still guaranteed by DMCI-HI. Guarantee fees incurred amounted to ₱2.62 million, ₱7.91 million and ₱8.07 million in 2009, 2008 and 2007, respectively. These are included under finance costs in the profit or loss (see Note 21);

c. DMC-Construction Equipment Resources, Inc. (DMC-CERI), an affiliate, has transactions with the Parent Company for services rendered relating to the Parent Company's coal operations. These included services for the confirmatory drilling for coal reserve evaluation of identified potential areas, exploratory drilling of other minerals within Semirara Island, dewatering well drilling along cut-off wall of Panian mine and fresh water well drilling for industrial and domestic supply under an agreement. Expenses incurred for said services amounted to ₱166.22 million, ₱117.72 million and ₱113.14 million for the years ended in 2009, 2008, and 2007, respectively. These are included under Cost of sales - Outside services (see Note 19);

DMC-CERI also provides to the Parent Company marine vessels for use in the delivery of coal to its various customers. The coal freight billing is on a per metric ton basis plus demurrage charges when delay will be incurred in the loading and unloading of coal cargoes. Expenses (at gross amount) incurred for these services amounted to ₱500.75 million, ₱246.94 million and ₱241.25 million in 2009, 2008 and 2007, respectively, and are included under Cost of sales - Shipping, hauling and shiploading costs (see Note 19). The reported expense of the Group is net of freight payment by NPC (billing is C&F);

Land lease rental with DMC-CERI amounting to ₱13.44 million was accrued during the year.

d. M&S Company, Inc. rent out various equipments used in the Parent Company's operations. Also, M&S Company supplies the rough lumber used by the Parent Company in its various projects and the seedlings to be planted on the areas surrounding the pit, in compliance with the agreement between the Parent Company and DENR. Rough lumbers purchased amounted to ₱39.01 million, ₱50.99 million and ₱8.38 million for years ended December 31, 2009, 2008, and 2007, respectively. The related rental expense amounted to ₱91.49 million for the years ended December 31, 2009, 2008 and 2007. This is included under other expenses of the production cost for the year.

e. D.M. Consunji, Inc. (DMCI) had transactions with the Parent Company representing equipment rental and other transactions such as transfer of equipment, hauling and retrofitting services. The related expenses amounted to ₱69.01 million, ₱17.21 million and ₱5.65 million for the periods ended December 31, 2009, 2008 and 2007, respectively. Equipment rentals amounted to ₱89.35 million, ₱11.83 million and ₱3.19 million for the years ended December 31, 2009, 2008, and 2007, respectively. These are included under contracted services of the production cost for the year.

f. DMC Urban Property Developers, Inc. (UPDI) had transactions with the Parent Company representing long-term lease on office space and other transactions rendered to the Parent Company necessary for the coal operations. Office rental expense amounted to ₱7.78 million, ₱1.84 million and ₱5.00 million for the years ended December 31, 2009, 2008 and 2007, respectively.

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

The following table summarizes the total amount of transactions due to or from related parties as of December 31, 2009 and 2008:

	2009	2008
Due from related parties (see Note 5)		
Under common control	**₱9,043,545**	₱6,584,001
Others	**23,697**	23,697
	9,067,242	6,607,698

(Forward)

	2009	2008
Due to related parties (see Note 13)		
Stockholders	**85,231,045**	–
Under common control	**162,389,000**	44,349,830
Others	**361,523,548**	1,412,043
	609,143,593	45,761,873
	(₱600,076,351)	(₱39,154,175)

The Group has not recorded any impairment losses on its receivables relating to amounts owned by related companies. This assessment is undertaken each financial year.

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

	2009	2008	2007
Short-term employee benefits	**₱19,519,829**	₱15,009,863	₱13,188,401
Post employment benefits	**1,268,462**	1,456,793	1,604,192
	₱20,788,291	₱16,466,656	₱14,792,593

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

18. **Pension Plan**

The Group has a funded, noncontributory defined benefit plan covering substantially all of its employees.

The following table summarizes the components of pension expense in the profit or loss:

	2009	2008	2007
Current service cost	**₱3,876,679**	₱4,536,956	₱4,202,052
Interest cost on benefit obligation	**3,734,738**	2,212,513	4,659,224
Expected return on plan asset	**(3,415,197)**	–	–
Actuarial gain recognized	**(1,663,057)**	(1,909,695)	–
	₱2,533,163	₱4,839,774	₱8,861,276

The pension liability recognized in the statement of financial position follows:

	2009	2008
Present value of defined benefit obligation	**₱40,981,694**	₱39,107,208
Fair value of plan assets	**28,423,387**	25,008,190
Excess of present value of defined benefit obligation over fair value of plan assets	**12,558,307**	14,099,018
Unrecognized actuarial gain (losses)	**377,427**	(4,600,020)
	₱12,935,734	₱9,498,998

Movements in the present value of defined benefit obligation follow:

	2009	2008
Balance at the beginning of year	**₱39,107,208**	₱27,760,518
Current service cost	**3,876,679**	4,536,956
Interest cost on benefit obligation	**3,734,738**	2,212,513
Actuarial loss (gain)	**6,640,504**	4,597,221
Benefits paid	**903,573**	–
Balance at end of year	**₱54,262,702**	₱39,107,208

Movements in the fair value of plan assets follow:

	2009	2008
Balance at beginning of the year	**₱25,008,190**	₱23,462,704
Expected return on plan assets	**3,415,197**	–
Actuarial gain from plan assets	–	1,545,486
Balance at end of year	**₱28,423,387**	₱25,008,190

The Group's plan assets consist mainly of cash.

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

The assumptions used to determine pension benefits of the Group for the years ended December 31, 2009, 2008 and 2007 follow:

	2009	2008	2007
Discount rate	**10.75%**	9.55%	7.97%
Salary increase rate	**3.00%**	3.00%	10.00%
Expected rate of return on plan assets	**6.00%**	6.00%	2.00%

The amounts for the current and previous two periods follow:

	2009	2008	2007
Present value of defined benefit obligation	**₱54,262,702**	₱39,107,208	₱27,760,518
Fair value of plan assets	**28,423,387**	56,919,951	55,374,465
Unfunded obligation	**12,558,307**	(17,812,743)	(27,613,947)
Experience adjustments on plan liabilities	**(5,651,794)**	(12,320,619)	(37,166,703)
Experience adjustments on plan assets	**(31,911,761)**	1,545,486	–

As of December 31, 2009, the Group does not expect any contribution to the pension fund.

19. **Cost of Sales and Services**

Cost of coal sales consists of:

	2009	2008	2007
Materials and supplies (Note 17)	**₱2,469,067,063**	₱2,289,843,994	₱1,304,615,144
Outside services (Note 17)	**2,290,521,563**	688,021,318	345,638,871
Fuel and lubricants	**1,895,994,109**	1,870,250,075	1,161,726,775
Depreciation and amortization (Notes 8 and 10)	**1,037,072,834**	1,154,232,140	1,651,861,176
Shipping, hauling and shiploading costs (Note 17)	**525,769,005**	380,577,351	253,282,342
Direct labor	**366,772,235**	264,843,502	244,503,934
Production overhead	**336,768,444**	295,817,464	232,361,367
	₱8,921,965,253	₱6,943,585,844	₱5,193,989,609

Cost of energy sales in 2009 consists of:

Coal	₱172,809,840
Spot purchases	154,852,467
Depreciation and amortization (Notes 8 and 10)	96,100,920
Bunker	7,169,892
Coal handling expense	3,387,368
Diesel	2,620,572
Chemicals	1,974,459
Market fees	1,265,307
Lube	289,770
	₱440,470,595

On December 4, 2009, SCPC received from the Philippine Electricity Market Corporation the electronic certificate which evidence the direct membership of the SCPC in the Wholesale Electricity Spot Market (WESM). Being a direct member of the WESM, the Company can sell electricity to its customers assigned by PSALM, sell available power in excess of its customers' electricity requirement in the WESM as spot sales and purchase power directly from the spot market should the need arises. In December 2009, SCPC purchased power from the spot market in the amount of ₱154.85 million.

20. **Operating Expenses**

This account consists of:

	2009	2008	2007
Government share (Note 27)	**₱450,151,548**	₱253,381,663	₱191,290,056
Personnel costs (Notes 18 and 19)	**140,485,645**	87,214,869	67,852,077
Provision for probable loss (Note 7)	**42,384,738**	–	–
Professional fees	**28,373,909**	15,511,658	15,187,397
Transportation and travel	**17,871,246**	12,134,020	10,260,915
Entertainment, amusement and recreation	**9,251,477**	7,628,340	7,018,849
Depreciation	**8,436,156**	6,442,988	4,024,593
Taxes and licenses	**2,729,342**	3,568,231	1,017,989
Office expenses and others	**49,897,971**	73,044,044	27,730,497
	₱749,582,032	₱458,925,813	₱324,382,373

21. **Finance Costs**

The finance costs are incurred from the following financial liabilities:

	2009	2008	2007
Interest on:			
Bank loans	**₱111,031,671**	₱70,134,901	₱124,272,283
Acceptances and letters of credits, other short-term borrowings and accretion of interest on ARO (Note 14)	**1,160,993**	31,105,183	15,274,663
Purchase contracts	**–**	–	704,515
	₱112,192,664	₱101,240,084	₱140,251,461

22. **Finance Income**

Finance income is derived from following sources:

	2009	2008	2007
Interest on:			
Short term placements and temporary investments (Note 17)	**₱28,604,294**	₱69,348,852	₱39,098,278
Cash in banks	**1,514,481**	4,892,729	1,203,070
Accretion on security deposits (Notes 7 and 10)	**20,623,718**	2,993,402	–
Accretion on input vat claim (Note 7)	**2,010,403**	–	–
	₱52,752,896	₱77,234,983	₱40,301,348

23. **Other Income**

This account consists of:

	2009	2008	2007
Gain on sale of equipment	**₱40,205,597**	₱44,713,500	₱5,173,911
Recoveries from insurance claims	**18,173,051**	9,729,272	4,249,977
Miscellaneous (Note 5)	**33,889,823**	–	–
	₱92,268,471	₱54,442,772	₱9,423,888

24. **Income Taxes**

The reconciliation of the provision for income tax computed at the statutory income tax rate to the provision for income tax shown in the profit or loss follows:

	2009	2008	2007
Statutory income tax rate	**30.00%**	35.00%	35.00%
Adjustments for:			
Unrecognized deferred tax assets	**3.81**	–	–
Additional deductible expense from adopt-a-school program	**–**	(0.25)	(0.38)
Interest income already subjected to final tax at a lower rate - net of nondeductible interest expense	**(0.03)**	(0.19)	(0.56)
Tax-exempt income	**(31.06)**	(11.46)	–
Change in tax rate	**–**	(0.22)	–
Effective income tax rate	**3.38%**	22.94%	34.06%

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

	2009	2008
Deferred tax assets on:		
Accrual of expenses	**₱23,626,528**	₱5,645,154
Pension costs	**–**	15,742,603
Allowance for inventory write down	**–**	15,986,077
Unamortized discount on security deposits	**–**	9,383,914
Allowance for impairment losses	**–**	8,070,855
Provision for decommissioning and site rehabilitation	**–**	3,961,295
	23,626,528	58,789,898
Deferred tax liabilities on:		
Incremental cost of property, plant and equipment	**25,353,248**	46,951,572
Net unrealized foreign exchange gains	**66,990,976**	16,633,945
Unamortized prepaid rent	**3,339,233**	9,329,535
	95,683,457	72,915,052
Net deferred tax liabilities	**(₱72,056,929)**	(₱14,125,154)

In 2009, the Group has the following deductible temporary differences that are available for offset against future taxable income or tax payable for which deferred tax assets has not been recognized:

Provision for probable loss	**₱59,191,517**
Allowance for inventory write down	**53,286,925**
Pension costs	**51,065,292**
Preoperating expenses	**25,326,938**
Allowance for doubtful accounts	**23,711,556**
Provision for decommissioning and site rehabilitation	**14,365,311**
Unamortized discount on security deposits	**10,655,997**
	₱237,603,536

The Republic Act (R.A.) No. 9337 that was enacted into law in 2005 amended various provisions in the existing 1997 National Internal Revenue Code. Among the reforms introduced by the said R.A. was the reduction of the income tax rate from 35% to 30% beginning January 1, 2009.

Board of Investments (BOI) Incentives

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

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

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

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

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

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

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

25. **Basic / Diluted Earnings Per Share**

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

	2009	2008	2007
Net income	**₱1,809,555,888**	₱796,398,791	₱633,284,994
Divided by the weighted average number of common shares outstanding	**277,572,800**	277,572,800	277,572,800
Basic / diluted earnings per share	**₱6.52**	₱2.87	₱2.28

For the years ended December 31, 2009, 2008 and 2007, there were no outstanding dilutive potential common shares.

26. Coal Operating Contract with DOE

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

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

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

In return for the mining rights granted to the Parent Company, the Government is entitled to receive annual royalty payments consisting of the balance of the gross income after deducting operating expenses, operator’s fee and special allowance. The Parent Company’s provision for DOE’s share (including accrued interest computed at 14% per annum on outstanding balance) under this contract and to the different local government units in the province of Antique, under the provisions of the Local Government Code of 1991, amounted to ₱450.15 million, ₱253.38 million and ₱191.29 million in 2009, 2008 and 2007, respectively. The liabilities, amounting to ₱216.52 million and ₱52.73 million are included under the “Trade and other payables” account in the cosolidated statement of financial position (see Note 13).

The DOE, through the Energy Resources Development Bureau, approved the exclusion o3f coal produced and used solely by the Parent Company to feed its power plant in determining the amount due to DOE.

27. Contingencies and Commitments

Electricity Sales Contracts
The Asset Purchase Agreement (APA) included a number of Transition Supply Contracts (TSC) to distribution utilities and large load customers located in close proximity to the Power Plant. The volume of energy demand for each of the customers is reflected in their respective TSC. The electricity pricing in the said TSC is tied to the National Power Corporation’s (NPC’s) Luzon Time of Use (TOU) rate approved by the Energy Regulatory Commission (ERC) which is adjustable by changes in foreign exchange and fuel cost. The said tariff, even if adjustable, is subject to ERC’s approval before the same could be implemented. The TSC will expire on various dates in 2010, except for Sun Power Corporation which is part of the TSC’s assign to SCPC.

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

28. Financial Risk Management Objectives and Policies

The Group has various financial assets such as trade receivables and cash and cash equivalents, 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 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:

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.

2009

	Interest	Within 1 year	1-2 years	2-3 years	3-4 years	More than4 years	Carrying Value
				(In Thousands)			
Cash equivalents	5.25% to 6.5%	**₱369,720**	**₱–**	**₱–**	**₱–**	**₱–**	**₱369,720**
Notes payable	5.5-6.75% fixed p.a.	**₱793,191**	**₱–**	**₱–**	**₱–**	**₱–**	**₱793,191**
Long-term debts							
PSALM	11% fixed rate	**1,681,081**	**1,315,020**	**1,315,020**	**1,315,020**	**3,945,060**	**9,571,201**
Foreign bank loans at floating rate							
$6.64 million loan (USD)	3 month SIBOR plus 1.95% p.a.	**72,202**	–	–	–	–	**72,202**
$15.14 million loan (USD)	6 month USD LIBOR plus 1.5% p.a	**61,055**	–	–	–	–	**61,055**
Deferred purchase payment	4% pa over the rate 180 days BBA LIBOR	–	**474,364**	–	–	–	**474,364**
Acceptance and trust receipts							
Various letters of credit	8-11% interest rate	**51,450**	–	–	–	–	**51,450**
		₱2,658,979	**₱1,789,384**	**₱1,315,020**	**₱1,315,020**	**₱3,945,060**	**₱11,023,463**

2008

	Interest	Within1 year	1-2 years	2-3 years	3-4 years	More than 4 years	Carrying Value
				(In Thousands)			
Cash equivalents	5.25% to 6.5%	₱1,012,409	₱–	₱–	₱–	₱–	₱1,012,409
Notes payable							
Various local bank loans	5.5-8.0% fixed p.a	₱102,497	₱–	₱–	₱–	₱–	₱102,497
Long-term debts							
Local bank loans at fixed rate							
Local bank loan	9% fixed p.a	57,315	–	–	–	–	57,315
Foreign bank loans at floating rate							
$6.64 million loan (USD	3-month SIBOR plus 1.95% p.a.	74,265	74,265	–	–	–	148,530
$15.14 million loan (USD)	6-month USD LIBOR plus 1.5% p.a	143,875	62,800	–	–	–	206,675
Acceptance and trsut receipts							
Various letters of credit	8-11% interest rate	11,281	–	–	–	–	11,281
		₱389,233	₱137,065	₱–	₱–	₱–	₱526,298

The following table demonstrates the sensitivity of the Group's profit before tax to a reasonably possible change in interest rates on December 31, 2009 and 2008, with all variables held constant, through the impact on floating rate borrowings.

Basis points (in hundred thousands)	**Effect on profit before tax**			
	2009		2008	
+100	**(₱6,076)**	**(US$131.52)**	(₱3,555)	(US$74.80)
-100	**6,076**	**131.52**	3,555	74.80

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

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.

The tables below summarize the maturity profile of the Group's financial assets and liabilities as of December 31, 2009 and 2008 based on undiscounted contractual payments.

2009

	Within 1 year	1-2 years	2-3 years	3-4 years	Total
Assets					
Cash and cash equivalents	₱481,920,935	₱–	₱–	₱–	₱481,920,935
Receivables					
Trade					
Electricity sales	489,245,876	–	–	–	489,245,876
Local coal sales	337,326,286	–	–	–	337,326,286
Export coal sales	414,815,233	–	–	–	414,815,233
Due from related parties	9,067,242	–	–	–	9,067,242
Others	27,352,040	–	–	–	27,352,040
Security deposits	270,751,295	33,818,372	–	–	304,569,667
	₱2,030,478,907	₱33,818,372	₱–	₱–	₱2,064,297,279
Liabilities					
Trade and other payables					
Trade	₱1,683,028,961	₱–	₱–	₱–	₱1,683,028,961
Due to related parties (Note 17)	609,143,593	–	–	–	609,143,593
Accrued expenses and other payables	320,867,761	–	–	–	320,867,761
Notes payable	793,191,385	–	–	–	793,191,385
Long-term debt					
Fixed Rate					
$361,481,091 payable to PSALM, 11% compounded semi-annually	1,759,837,065	1,315,020,101	1,315,020,101	5,260,080,403	9,649,957,670
Various letters of credit 8-11% interest rate	51,450,171	–	–	–	51,450,171
Floating Rate					
$15.14 million loan (USD) 6 months USD Libor plus 1.5% per annum	61,055,376	–	–	–	61,055,376
$6.64 million loan(USD) 3 months SIBOR plus 1.95% per annum	72,202,448	–	–	–	72,202,448
$4.63 million deferred purchase payment, p.a. over the rate 180 days BBA LIBOR on 2 business days prior to 1st day of interest period	1,344,513	474,363,625	–	–	475,708,138
	₱5,352,121,273	₱1,789,383,726	₱1,315,020,101	₱5,260,080,403	₱13,716,605,503

2008

					Total – Gross
	Within 1 year	1-2 years	2-3 years	3-4 years	(in ₱)
Assets					
Cash and Cash Equivalents	₱1,012,409,162	₱–	₱–	₱–	₱1,012,409,162
Receivables					
Trade					
Local sales	1,766,074,476	–	–	–	1,766,074,476
Export sales	7,344,063	–	–	–	7,344,063
Due from related parties	6,607,698	–	–	–	6,607,698
Others	25,926,943	–	–	–	25,926,943
Security Deposits	–	197,988,201	53,098,102	–	251,086,303
	₱2,818,362,342	₱197,988,201	₱53,098,102	₱–	₱3,167,069,973
Liabilities					
Trade and other payables					
Trade	₱984,870,898	₱–	₱–	₱–	984,870,898
Due to related parties (Note 17)	45,761,873	–	–	–	45,761,873
Accrued expenses and other payables	82,982,573	–	–	–	82,982,573
Notes payable	103,203,383	–	–	–	103,203,383
Long term Debt					
Local bank loans					
Loan 1					
₱234.58 million promissory note					
9.00% per annum	59,705,710	–	–	–	59,705,710
Foreign bank loans					
Loan 1					
US$6.64 million loan					
3 month SIBOR					
Plus 1.95% per annum	74,388,021	74,325,237	–	–	148,713,258
Other Loans					
US$15.14 million loan					
6 month USD LIBOR					
Plus 1.5% per annum	144,006,798	62,849,554	–	–	206,856,352
Acceptances and trust receipt					
Various letters of credits and suppliers debt with various interest rates	11,281,248	–	–	–	11,281,248
	₱1,506,200,504	₱137,174,791	₱–	₱–	₱1,643,375,295

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 88.30% and 30.16% of debts as of December 31, 2009 and 2008, 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:

	December 31, 2009		**December 31, 2008**	
	U.S. Dollar	**Peso Equivalent**	U.S. Dollar	Peso Equivalent
Assets				
Cash and cash equivalents	**$6,388,441**	**₱295,145,974**	$828,243	₱39,358,107
Trade receivables	**8,919,899**	**412,099,334**	154,547	7,344,063
Liabilities				
Trade payables	**(2,094,555)**	**(96,768,441)**	(4,285,231)	(203,634,180)
Long-term debt (including current portion)	**(213,400,753)**	**(9,859,114,789)**	(7,475,029)	(355,213,366)
Net foreign currency denominated (liabilities)	**($200,186,968)**	**(₱9,248,637,922)**	($10,777,470)	(₱512,145,376)

The spot exchange rates used in 2009 and 2008 were ₱46.20 to US$1 and ₱47.528 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 December 31, 2009 and 2008.

Reasonably possible change in the Philippine peso-US dollar exchange rate	Increase (decrease) in profit before tax	
	2009	2008
₱2	**(₱1,343,329,140)**	(₱21,554,940)
(₱2)	**1,343,329,140**	21,554,940

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.

The Group recognized ₱47.70 million and (₱82.78) million net foreign exchange gain (loss) for the years ended December 31, 2009 and 2008, respectively, arising from the translation of the Group's cash and cash equivalents, trade receivables, trade payables and long-term debt.

Credit Risk
Credit risk is the risk that a 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. 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, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. 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:

	2009	2008
Trade		
Local sales	**65.15%**	98.15%
Export sales	**32.70**	0.41
Other receivables	**2.15**	1.44
Total	**100.00%**	100.00%

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

	Gross Maximum Exposure	
	2009	2008
Cash and cash equivalents	**₱481,920,935**	₱1,012,409,162
Receivables		
Trade		
Local coal sales	**337,326,286**	1,766,074,476
Export coal sales	**414,815,233**	7,344,063
Electricity sales	**489,245,876**	–
Due from related parties	**9,067,242**	6,607,698
Others	**27,352,040**	25,926,943
Security deposits	**291,613,296**	251,086,303
Total credit risk exposure	**₱2,051,340,908**	₱3,069,448,645

As of December 31, 2009 and 2008, the credit quality per class of financial assets is as follows:

2009

	Neither past due nor impaired		Past due or Individually Impaired	
	Grade A	Grade B		Total
Cash and cash equivalents	**₱481,920,935**	**₱–**	**₱–**	**₱481,920,935**
Trade				
Electricity sales	**489,245,876**	**–**	**–**	**489,245,876**
Local coal sales	**52,212,414**	**145,754,003**	**139,359,869**	**337,326,286**
Export coal sales	**407,471,171**	**–**	**7,344,062**	**414,815,233**
Due from related parties	**9,067,242**	**–**	**–**	**9,067,242**
Others	**–**	**2,446,099**	**24,905,941**	**26,903,717**
Security deposits	**291,613,296**	**–**	**–**	**291,613,296**
Total	**₱1,731,530,934**	**₱148,200,102**	**₱171,609,872**	**₱2,050,892,585**

2008

	Neither past due nor impaired		Past due or Individually Impaired	
	Grade A	Grade B		Total
Cash and cash equivalents	₱1,012,409,162	₱–	₱–	₱1,012,409,162
Trade				
Local sales	763,031,999	72,668,132	930,374,345	1,766,074,476
Export sales	7,344,063	–	–	7,344,063
Due from related parties	6,607,698	–	–	6,607,698
Others	–	4,180,958	21,745,985	25,926,943
Security deposits	251,086,303	–	–	251,086,303
Total	₱2,040,479,225	₱76,849,090	₱952,120,330	₱3,069,448,645

Cash and cash equivalents are short-term placements and working cash fund placed, invested or deposited in foreign and local banks belonging to top ten (10) banks in the Philippines in terms of resources and profitability, therefore classified under Grade A.

Included under Grade A are accounts considered to be high value and are covered with coal supply and power supply contracts agreements, for trade receivables. The counterparties have a very remote likelihood of default and have consistently exhibited good paying habits. Grade B accounts are active accounts with minimal to regular instances of payment default, due to collection issues. These accounts are typically not impaired as the counterparties generally respond to credit actions and update their payments accordingly. The Group determines financial assets as impaired when probability of recoverability is remote and in consideration of lapse in period which the asset is expected to be recovered.

As of December 31, 2009 and 2008, the aging analysis of the Group's receivables presented per class is as follows:

2009

	Past due but not impaired		Impaired Financial Assets	
	<45 days	45-135 days		Total
Receivables				
Trade - export coal sales	**₱7,344,062**	**₱–**	**₱–**	**₱7,344,062**
Trade - local coal sales	**115,432,444**	**10,357,978**	**13,569,447**	**139,359,869**
Others	**1,327,698**	**13,436,133**	**10,142,110**	**24,905,941**
Total	**₱124,104,204**	**₱23,794,111**	**₱23,711,557**	**₱171,609,872**

2008

	Past due but not impaired		Impaired Financial	
	<45 days	45-135 days	Assets	Total
Receivables				
Trade - local sales	₱877,327,836	₱36,027,859	₱18,060,710	₱931,416,405
Others	3,119,218	9,784,628	8,842,140	21,745,986
Total	₱880,447,054	₱45,812,487	₱26,902,850	₱953,162,391

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 December 31, 2009 and 2008:

	2009	2008
Total paid-up capital	**₱1,873,671,271**	₱1,873,671,271
Deposit for future subscription	**5,402,125,985**	–
Retained earnings – unappropriated	**2,339,199,415**	2,256,119,235
Retained earnings – appropriated	**700,000,000**	700,000,000
Cost of shares held in treasury	**(528,891,260)**	(528,891,260)
	₱9,786,105,411	₱4,300,899,246

29. Fair Values

The following tables set forth the carrying values and estimated fair values of the Group's financial assets and liabilities recognized as of December 31, 2009 and 2008.

	2009		2008	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Financial Assets				
Loans and receivables:				
Cash and cash equivalents	**₱481,920,935**	**₱481,920,935**	₱1,199,684,057	₱1,199,684,057
Trade				
Electricity sale	**489,245,876**	**489,245,576**	–	–
Local sales	**337,326,286**	**337,326,286**	1,766,074,476	1,766,074,476
Export sales	**414,815,233**	**414,815,233**	7,344,063	7,344,063
Due from related parties	**9,067,242**	**9,067,242**	6,607,698	6,607,698
Others	**27,352,041**	**27,352,041**	17,084,803	17,084,803
Security deposits	**291,613,296**	**296,438,346**	251,086,303	255,940,292
Total	**₱2,051,340,908**	**₱2,056,165,958**	₱3,230,862,751	₱3,235,716,740

(Forward)

	2009		2008	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Financial Liabilities				
Other financial liabilities:				
Notes payable	**₱793,191,385**	**₱793,191,385**	₱102,496,739	₱102,496,739
Long-term debt	**10,230,274,196**	**10,858,249,006**	423,801,823	431,403,745
Trade and other payables				
Trade payables	**1,683,028,961**	**1,683,028,961**	966,531,831	966,531,831
Accrued expenses and other payables	**320,867,761**	**320,867,761**	82,982,573	82,982,573
Due to related parties	**609,143,593**	**609,143,593**	45,761,873	45,761,873
Payable to DOE and local government units	**216,516,873**	**216,516,873**	52,734,125	52,734,125
Total	**₱13,853,022,769**	**₱14,480,997,579**	₱1,674,308,964	₱1,681,910,886

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

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

The fair values of security deposits are calculated by discounting expected future cash flows at applicable rates for similar instruments using the remaining terms to maturity. The discount rate used ranged from 3.82% to 4.93% in 2009 and 2008.

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
Floating rate loans
The carrying values approximated the fair value because of recent and regular repricing (quarterly) based on market conditions.

Fixed rate loans
Estimated fair value is based on the discounted value of future cash flows using the applicable rates (5%-13%) for similar type of loans.

As of December 31, 2009 and 2008, the Group does not have financial instruments measured at fair value.

30. Lease Commitments

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

As of December 31, 2009 and 2008, the future minimum lease payments under this operating lease are as follows:

	2009	2008
Within one year	**₱648,771,220**	₱688,927,075
After one year but not more than 2 years	**14,364,414**	344,752,799
	₱663,135,634	₱1,033,679,874

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

As part of the agreement, the Group has the option to buy the parcels of land that form part of the leased premises upon issuance of an Option Existence Notice. As of to date, no Option Existence Notice was issued for the parcel of land. The Group was also required to deliver and submit to the lessor a performance security amounting to ₱34.83 million in the form of Stand-by Letter of Credits (SBLC).

31. Note to Consolidated Statements of Cash Flow

Supplemental disclosure of noncash investing and financing activities follows:

	2009	2008	2007
Acquisition of business (Note 33)	**₱9,571,202,577**	₱–	₱–
Acquisition of conventional and other mining equipment on account (Notes 12 and 13)	**474,363,625**	639,570,147	158,962,249
Assignment of APA and LLA (Note 33)	**54,343,156**	–	–
Donation of school campus	–	–	18,164,254

On August 29, 2007, the BOD approved the donation of a two (2) storey, twelve (12) classrooms with complete basic school provisions situated in Barangay Semirara, Caluya, Antique in favor of the Department of Education - Division of Antique.

32. **Operating Segments**

Segment Information

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

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

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

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

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

2009

	In thousands			
	Mining	**Power Generation**	**Adjustments and Eliminations**	**Consolidated**
Revenue				
Sales to external customers	**₱11,500,193**	**₱443,493**	**₱–**	**₱11,943,686**
Inter-segment sales	**175,039**	**956**	**(175,995)**	**–**
Equity in net loss of an associate	**(21,990)**	**(17,359)**	**–**	**(39,349)**
	11,653,242	**427,090**	**(175,995)**	**11,904,337**
Cost of sale	**(8,050,618)**	**(345,066)**	**(966,752)**	**(9,362,436)**
Depreciation	**(1,045,501)**	**(96,110)**	**1,141,611**	**–**
Gross profit	**2,557,123**	**(14,086)**	**(1,136)**	**2,541,901**
Operating expenses	**(714,811)**	**(25,647)**	**(9,124)**	**(749,582)**
Operating profit	**1,842,312**	**(39,733)**	**(10,260)**	**1,792,319**
Other income				**92,268**
Interest income				**52,753**
Foreign exchange gain				**47,703**
Interest expense				**(112,193)**
Provision for income tax				**(63,294)**
Net income	**₱1,756,623**	**₱63,193**	**(₱10,260)**	**₱1,809,556**

(Forward)

	In thousands			
	Mining	**Power Generation**	**Adjustments and Eliminations**	**Consolidated**
Operating assets	**₱6,457,141**	**₱17,382,952**	**(₱256,614)**	**₱23,583,479**
Investments and advances	**87,912**	**156,521**	**–**	**244,433**
	₱6,545,053	**₱17,539,473**	**(₱256,614)**	**₱23,827,912**
Operating liabilities	**₱2,156,227**	**₱552,458**	**(₱246,354)**	**₱2,462,331**
Long-term debt				**11,446,379**
Deferred tax liability				**72,057**
	₱2,156,227	**₱552,458**	**(₱246,354)**	**₱13,980,767**
Other disclosures				
Capital expenditure	**₱2,850,705**	**₱15,706,522**	**₱–**	**₱18,557,227**
Investment in associates	**87,912**	**156,521**	**–**	**244,433**

2008

	In thousands			
	Mining	Power Generation	Adjustments and Eliminations	Consolidated
Revenue				
Sales to external customers	₱8,490,045	₱–	₱–	₱8,490,045
Inter-segment sales	–	–	–	–
Equity in net earnings (loss) of an associate	9,902	(11,670)	–	(1,768)
	8,490,045	(11,670)	–	8,488,277
Cost of sale	(5,789,354)	–	(1,154,232)	(6,943,586)
Depreciation	(1,160,675)	–	1,160,675	–
Gross profit	1,546,459	(11,670)		1,544,691
Operating expenses	(458,926)	–	(6,443)	(465,369)
Operating profit	1,081,090	(11,670)	–	1,079,322
Other income				54,443
Interest income				77,235
Interest expense				(101,240)
Foreign exchange gain (loss)				(82,781)
Provision for income tax				(237,023)
Net income	₱808,069	(₱11,670)	₱–	₱789,956
Operating assets	₱5,888,226	₱–	₱–	₱5,888,226
Investments and advances	109,902	113,330	–	223,232
	₱5,998,128	₱113,330	₱–	₱6,111,457

(Forward)

	In thousands			
	Mining	Power Generation	Adjustments and Eliminations	Consolidated
Operating liabilities	₱1,212,074	₱–	₱–	₱1,212,074
Long-term debt				526,299
Deferred tax liability				14,125
Income tax payable				58,060
	₱1,212,074	₱–	₱–	₱1,810,558
Other disclosures				
Investment in associates	₱223,231	₱–	₱–	₱223,231
Capital expenditure	1,704,530	–	–	1,704,530

2007

	In thousands			
	Mining	Power Generation	Adjustments and Eliminations	Consolidated
Revenue				–
Sales to external customers	₱6,466,701	₱–	₱–	₱6,466,701
Inter-segment sales	–	–	–	–
	6,466,701	–	–	6,466,701
Cost of sale	(3,542,128)	–	(1,651,861)	5,193,989
Depreciation	(1,655,886)	–	1,655,886	1,651,861
Gross profit	1,272,711	–	4,025	1,272,711
Operating expenses	(320,358)	–	(4,025)	324,382
Operating profit	948,329	–	–	948,329
Foreign exchange gain (loss)				102,964
Interest income				40,301
Other income				9,424
Interest expense				(140,251)
Provision for income tax				(327,482)
Net income	₱633,285	₱–	₱–	₱633,285
Operating assets	₱6,477,601	₱–	₱–	₱6,477,601
Investments and advances	43,295	37,576	–	80,871
	₱6,520,896	₱37,576	₱–	₱6,558,472
Operating liabilities	₱708,159	₱–	₱–	₱708,159
Long-term debt				1,127,752
Deferred tax liability				67,603
Income tax payable				40,166
	₱708,159	₱–	₱–	₱1,943,680
Other disclosures				
Investment in associates	₱80,871	₱–	₱–	₱80,871
Capital expenditure	214,755	–	–	214,755

1. Inter-segment revenues are eliminated on consolidation.
2. Cost of sales do not include depreciation and amortization expense charged during production.
3. Segment asset include investment in associates accounted for by the equity method.
4. Segment liabilities exclude deferred tax liabilities amounting to ₱72.06 million, ₱14.13 million, and ₱67.60 million in 2009, 2008 and 2007, respectively; and income tax payable amounting to ₱58.06 million, and ₱40.17 million in 2008 and 2007, respectively. Long term bank loans are no longer included as these are managed on a group basis.
5. Capital expenditures consist of additions of property, plant and equipment including assets from the acquisition of business.
6. All non-current assets other than financial instruments are located in the Philippines.

Geographic Information

Revenues from external customers

The financial information about the operation of the Group as of December 31, 2009, 2008 and 2007 reviewed by the management follows:

	2009	2008	2007
Revenue			
Local coal sale	**₱7,252,952,002**	₱6,648,580,099	₱5,332,724,835
Export coal sale	**4,247,240,809**	1,841,465,281	1,133,975,785
	₱11,500,192,811	₱8,490,045,380	₱6,466,700,620

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

Coal sales to power company amounted to ₱4.30 billion, ₱3.41 billion and ₱2.86 billion for the years ended December 31, 2009, 2008 and 2007, respectively.

33. Business Combination

On July 8, 2009, Power Sector Assets and Liabilities Management (PSALM) selected DMCI-HI as the winning bidder for the sale of the 600-megawatt Batangas Coal-Fired Thermal Power Plant (the Power Plant) located in San Rafael Calaca, Batangas.

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

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

a. All liabilities, obligations, taxes, fees, fines or penalties pertaining to the Power Plant and operating contracts accruing or incurred prior to closing date, regardless of the date when the demand for payment or assessment is made, shall be for the account of PSALM

b. SCPC must hire as contractual employees all of the separated NPC employees for a period of five (5) months
c. During the deferred payment period, SCPC shall at the end of each fiscal year shall at the end of each fiscal year, maintain a debt service ratio of at least 1.1:1.0 and debt-equity ratio not exceeding 2.5:1.0
d. Should there (i) Semirara coal; (ii) diesel fuel and (iii) bunker fuel on site on closing date, SCPC shall pay PSALM the value of those based on the price paid by NPC for the same

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

On December 2, 2009, through the Accession, Assignment Agreement (the Agreement) between DMCI-HI, SCPC and PSALM, the SCPC acquired the 2 x 300-megawatt (MW) Power Plant from PSALM. On the same date, the total cash payments made to PSALM are broken down as follow:

1. ₱6.62 billion in peso equivalent using the exchange rate of ₱47.13 representing 40% down payment for US$351.0 million purchase price of the Power Plant; and
2. ₱0.49 billion in peso equivalent using the exchange rate of ₱47.20 representing 40% down payment for US$10.39 million advance rental payment for the 25-year lease of the premises underlying the Power Plant and for purchase orders for parts and services for the Power Plant.

Other provision of the Agreement includes:

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

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

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

In a letter dated December 18, 2009, PSALM claims an additional amount of ₱9.55 million representing the difference between the US$ to Peso exchange rate used for the 40% down-payment of the purchase price versus the ₱47.2 US$ to Peso exchange rate PSALM alleges to be in accordance with the APA. The assessed amount was accrued in 2009 as additional acquisition cost allocated to Property, plant and equipment. Subsequently, the amount was paid by the Group in February 8, 2010.

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

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

After considering the above adjustments, the fair value of the identifiable assets and liabilities as at the date of acquisition were:

Property, plant and equipment (Note 8)	₱15,697,026,189
Materials and supplies (Note 6)	720,931,040
Coal (Note 6)	273,935,933
Prepaid rent (Notes 7 and 10)	150,568,000
Fuel and diesel (Note 6)	86,705,538
Total assets acquired	₱16,929,166,700

Total consideration transferred relating to the acquisition follows:

Cash consideration	₱7,107,740,798
Payable to PSALM (Note 12)	9,767,082,746
Payable to DMCI-HI (Note 17)	54,343,156
Total cost	₱16,929,166,700

The accounting for business combination was done provisionally for the property, plant and equipment due to lack of proper fair value estimate of fixed assets acquired as of to date.

34. Other Matters

a. Electric Power Industry Reform Act (EPIRA)

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

Under EPIRA, NPC's generation assets are to be sold through transparent, competitive public bidding, while all transmission assets are to be transferred to the Transmission Company, initially a government-owned entity that is eventually being privatized. The privatization of these NPC assets has been delayed and is considerably behind the schedule set by the Department of Energy (DOE). EPIRA also created PSALM, which is to accept transfers of all assets and assume all outstanding obligations of NPC, including its obligations to IPPs. One of PSALM's responsibilities is to manage these contracts with IPPs after NPC's privatization. PSALM also is responsible for the privatizing at least 70% of the transferred generating assets and IPP contracts no later than three years from the effective date of the law.

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

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

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

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

b. Clean Air Act

On November 25, 2000, the IRR of the Philippine Clean Air Act (PCAA) took effect. The IRR contains provisions that have an impact on the industry as a whole and on SCPC in particular, that need to be complied with within 44 months (or July 2004) from the effectivity date, subject to approval by the DENR. The power plant of SCPC uses thermal coal and uses a facility to test and monitor gas emissions to conform with Ambient and Source Emissions Standards and other provisions of the Clean Air Act and its Implementing Rules and Regulations. Based on SCPC's initial assessment of its power plant's existing facilities, SCPC believes that it is in full compliance with the applicable provisions of the IRR of the PCAA as of December 31, 2009. SCPC is currently complying with the provisions of the Clean Air Act and its IRR.

c. Contract for the Fly Ash of the Power Plant

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

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

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

35. Approval of Financial Statements

The consolidated financial statements of Semirara Mining Corporation and Subsidiary as of December 31, 2009 and 2008 and for each of the three years in the period ended December 31, 2009 were endorsed for approval by the Audit Committee on March 4, 2010 and were authorized for issue by the Executive Committee of the BOD on March 9, 2010.

COMPETENT PERSON'S REPORT

ON THE REMAINING COAL RESERVES
OF THE PANIAN COAL DEPOSIT

by

RUFINO B. BOMASANG
MINING ENGINEER
Registration No. 587

8135 SANTOL ST., MARCELO GREEN VILLAGE
PARANAQUE CITY

MAY 16, 2010

REMAINING COAL RESERVES AT SEMIRARA'S PANIAN COAL DEPOSIT

By

Rufino B. Bomasang
(Competent Person for Coal Mining)

EXECUTIVE SUMMARY

Concession Status

Semirara Mining Corporation (SMC), a company listed in the Philippine Stock Exchange (PSE), is currently the holder of a valid and subsisting coal operating contract over the entire island of Semirara in the Municipality of Caluya, Antique Province.

Purpose of Report

Pursuant to its proposed stock rights offering, SMC has asked the author to prepare a Competent Person's Report on the remaining coal reserves (defined as that part of the proven coal resources which can be extracted at a profit) of the Panian deposit in Semirara. He is assisted by a team of mining engineers who are familiar with open pit coal mining and with computer-aided resource modelling and mine planning.

Mining Parameters

SMC has successfully operated the Panian deposit for the last ten years and has already established well defined mining parameters (i.e. pit slope at 25 degrees, bench height of 10 meters, bench width of 15 meters, etc.). After visiting the operations, we consider these parameters as optimal from the standpoints of both safety and economics. Thus, in considering the technical mineability of the remaining resources, we essentially use the same parameters.

Coal Seam Modelling and Measured Coal Resources

We have initially digitized all the data from the 383 holes drilled at a grid spacing of 62.5 meters, such that they can now be used in any mining software. From the digitized data, we have successfully generated a 3D model of the coal seams intercepted by the drill holes. From this model, we were able to delineate the in-situ coal resources. As we considered only the coal seams delineated by the closely spaced drilling, the resources delineated are well within what the Department of Energy (DOE) considers as "Positive Reserves" and we therefore consider them all as Measured Resources, which can be converted to proven reserves by applying modifying factors. This is a conservative approach as we did not even consider what the DOE considers as "Probable Reserves," which are extensions of the seams beyond 100 meters. Thus, considering the 62.5 meter average spacing of the drill holes, we projected the coal seams at the periphery of the drilled area to only 30 meters.

Applying Modifying Factors

The Measured Resources are first modified by superimposing the existing pit to establish what has already been mined out. A new pit designed to maximize the mining of the coal resources in the 3D model is then superimposed on said model. The difference between the Measured Resources within the new pit and the existing pit is the remaining Proved Reserves, or Mineable Reserves. By further applying a recovery factor of 90%, which is slightly higher than the 85% being used by SMC because we believe we can still mine some of the coals that will be left unmined under SMC's proposed pit extension, we estimate the Recoverable Reserves. This is the quantity ultimately sold to the market and is the basis for computing the revenues and determining overall profitability.

Proven (Mineable) and Recoverable Reserves

Based on the foregoing process, we estimate the remaining mineable reserves and recoverable reserves at Panian at 46.84 million metric tons and 42.16 million metric tons, respectively. At a mining capacity of 6 million tons a year, the remaining mineable reserves are good for the next 7.03 years.

Mining Operations Beyond 7th Year

SMC is expected to continue operations beyond the 7.03 years projected life of the remaining Panian reserves primarily because it has already identified substantial coal resources at East Panian which are now being planned for future mining beyond the life of the remaining reserves at Panian. SMC has already estimated an additional 26 million tons of Proven Reserves at East Panian, which is not included in our reserve estimates. This is already good for at least another 4 years. Furthermore, SMC can consider mining the remaining coal resources immediately outside the limits of the proposed pit extension by highwall mining. As shown in a separate report on the coal resources by a Competent Geologist, there are additional coal resources outside the proposed Panian pit extension that can be considered for future mining.

Overall Stripping Ratio

Within the proposed Panian pit extension, there is an estimated total of 409.94 million bank cubic meters of waste that has to be excavated and moved in order to mine the remaining coal reserves. Thus, the overall stripping ratio is 9.72 to 1.

Mine Profitability

On the basis of a coal price of 52 US dollars per ton ex-Semirara port, a financial analysis using actual costs shows annual operating profit of 3.3 billion pesos, for a DCFROR of 31 %, after deducting annual government share (3% of gross revenues) of 449.28 million pesos and annual income tax of 866.85 million pesos, based on an exchange rate of 48 to 1. Relatedly, a sensitivity analysis shows that the profitability of Panian coal is most sensitive to coal prices and forex rates; production cost is one controllable factor which also impacts greatly on profitability and so is stripping ratio. The mine remains profitable even if the price of coal goes down to $ 46.20 per ton, assuming a hurdle rate of 15%.

Mining Equipment, Infrastructure, and Manpower

We have looked at the existing equipment line-up, infrastructure, and manpower complement of SMC and we believe they are adequate to support the proposed mining of the remaining Panian coal reserves.

Coal Quality and Marketability

We took note of the fact that with substantially improved quality control, SMC's coal has completely moved away from its "poor quality" image of the 1980s and 1990s and has effectively marketed its coal to local power plants and cement plants and even exported coal to neighbouring countries.

Social Acceptance

SMC has effectively addressed all potential issues with the local community by among others (a) promptly remitting the government's share of net proceeds, 40% of which goes to the local government units, (b) employing qualified local residents and training local youth to enable them to become skilled workers in SMC, and (c) sharing with the local residents the physical infrastructure (i.e. airport, pier, etc.) as well as social infrastructure (i.e. school, hospital, etc.) that have been set up for SMC employees. Thus, the local residents have become meaningful stakeholders in SMC's operations.

Environmental Sustainability

At the old Unong Mine at the southern end of Semirara, SMC has created a beautiful lake which has now become some sort of local tourist spot. In addition, SMC has rehabilitated the immediate vicinity of Unong. SMC has done all these, even over and above what it is required to do, as a responsible company which supports the concept of sustainable development. At Panian, SMC has committed to undertake rehabilitation of mined out areas as soon as it is operationally possible to do so. With the company's track record at Unong, we have no reason to doubt the company's commitment to responsible mining.

Conclusion

We are confident that SMC will be able to meet its projected production, marketing, and profitability targets in the course of mining the remaining reserves at Panian because of the following: substantial proven reserves, availability of equipment and infrastructure, proven managerial and technical expertise of SMC's staff, tried and tested competence of its equipment operators, established quality and marketability of Panian coal, local community's integration as meaningful stakeholders, and SMC's demonstrated commitment to responsible mining.

From past experience, the effective control of ground and surface water in the expanded pit will be the most critical factor that ultimately determines success, or failure. With SMC's long-term surface and underground dewatering plan, we are confident of the company's ability to do so.

1. INTRODUCTION

1.1. Project Background

Semirara Mining Corporation (SMC) plans to offer stock rights to its stockholders in order to raise capital for its purchase of the Calaca coal-fired power plants. In this connection, it has been required by the Philippine Stock Exchange (PSE) to submit a competent person's report on the remaining coal resources at its Panian coal deposit at Semirara Island to support its future production program. Pursuant, however, to the guidelines under the Philippine Mineral Reporting Code (PMRC), the coal resources must be converted to coal reserves by applying the appropriate modifying factors, particularly the economic mineability of the resources. Accordingly, SMC will submit to the PSE not just a report on the coal resources, but a competent person's report on the reserves. Attachment "A" shows the Terms of Reference for the study.

The author of this report is duly accredited by the Philippine Society of Mining Engineers as a competent person on coal mining. Furthermore, he had been involved in providing technical directions to the mining operations at Semirara in his capacity as Chief of the Coal and Uranium Division of the Bureau of Energy Development from 1976 to 1986, Deputy Executive Director and later Executive Director of the Office of Energy Affairs from 1989 to 1992, and Energy Undersecretary from 1993 to 1995. He is ably assisted by the following: (a) Mr. Aloysius Diaz, a mining engineer with 37 years experience in the mining industry, including 17 years as mine manager of large open pit operations here and abroad, of which 11 years was as mine manager in Semirara's mining operations, which included the initial mine planning of the Panian deposit, and (b) a team of younger mining engineers led by Mr. Gabriel Pamintuan, Jr., who are thoroughly familiar with computer-aided design, mine planning and pit optimization, using the latest mine planning software. Attachments "B", "C" and "D" are the CVs of Messrs Bomasang, Diaz, and Pamintuan, respectively.

1.2. Goals and Objectives

The ultimate goal of this report is to delineate the remaining coal reserves as of February 28, 2010, which is that portion of the coal resources that can be technically and economically mined using currently known and proven technology at a certain level of coal prices. Firstly, the team did its own calculation of the coal resources, based on drill data and other information provided by SMC. The remaining resources were then calculated by deducting what had already been mined, based on the pit configuration as of February 28, 2010. Using the parameters established by SCC from past experience (i.e. operating costs, pit slopes, hydrogeological constraints, etc.), the team then came out with an optimized pit design which defined the final pit limits and ultimately delineated the remaining reserves that can be technically mined. On the basis of assumed coal prices and established operating costs, the economic viability of mining said reserves at the 6 million ton production level, which SMC expects to reach in 2010, is then established.

With the experience of the author and his associates and considering the long experience of SMC in mining the Panian deposit, the PSE and the investing public can be assured that assumptions used in this study are as realistic as possible and are neither overly optimistic, nor overly conservative.

2. EXPLORATION, GEOLOGY AND RESOURCE SUMMARY

2.1 Exploration

2.1.1 Exploration Data

A total of 383 holes have been drilled and logged in the entire Panian deposit, as shown in the database provided to the group (Appendix 1); from these a total of around 5,800 records of the analysis of the samples, are shown in Appendix 2.

The raw data sets were converted to a database (comma delimited worksheets) that can be acceptable for further processing by various 3D modelling software; the databases consist of various tables showing the header, survey, and analysis; header indicates collar location (coordinates and elevation) and length of drill hole; the survey indicates the orientation of the drill hole, in this study all holes are vertical; analysis consists of the coal characteristics such as calorific value, ash content, volatile combustible matter, etc., and coal seam identifier. Samples of the converted data (comma-delimited files) are shown as Appendices 3, 4 and 5.

2.1.2 Coal Seam Modelling

A total of 10 main seams have been identified from the core logging; coal modelling was done by identifying the same coal seam, as logged by SMC's exploration geologists, in every drill hole then tagging first and last intercepts. Having tagged the top intercepts of a particular coal seam; this is used as control points to define a surface that was generated by 'connecting the dots'; similarly, the last intercepts were also connected. These top and bottom surfaces generated will enclose the volume which is now our coal seam. Seam modelling also enables us to identify pinch outs, swelling and merging of seams. Thus, we were able to identify the merging of seam 32 and 33 towards the north. Attached as Appendix 6 is a detailed description of the methodology and procedures used to estimate mineable reserves from drill hole data.

2.2 Geology

2.2.1 Coal Seams of the Panian Deposit

There are 10 main seams identified in the Panian deposit, with two of the thickest, merging into one (32+33). The following table shows some characteristics of the seams:

Seam Number	Average Thickness	% Coal per Seam*
6	0.85	100
7	1.12	100
8	1.16	100
10	8.71	93
21	1.69	100
22	3.9	96
311	1.25	100
31	1.98	100
32	8.83	100
33	19.09	** 98
32+33	27.32	91

* The total coal is the sum of coal and all partings measuring less than 30 cm in thickness

** The total coal components for Seam 33 was computed based on analytical data from three drill holes only

Table 1. Coal thickness and seam component (Source: Geomontan-Bergbauberatng Ges.m.b.H., Viability Study on the Panian Coal Project, vol. 1 July 1994)

The two major seams, Seam 10 and Seam 32+33, and, to a certain degree, Seam 22, have provided the bulk of production tonnage that has allowed the operations to go as far as where they have proceeded so far – a current pit at approximately 250 meters deep, at a stripping ratio of around 10. We therefore agree with the company's pursuing Seams 10 and 32+33, and to a certain extent Seam 41, to the north and south of the current pit.

2.2.2 Coal Quality

Guaranteed specifications (per ASTM) for coal quality are given in the following table:

PARAMETER	Value	Unit / Remark
Total Moisture (ARB)	24%	Base
Inherent Moisture (ADB)	15%	Max
Volatile Matter (ADB)	42%	Max
Fixed Carbon (ADB)	43%	Max
Ash (ADB)	12%	Max
Sulfur (ADB)	0.90%	Max
Gross Calorific Value (ADB)	5,300	Kcal/kg Base
HGI	40 – 50	Typical
Ash Fusion Temperature		
IDT	1120°C	Minimum
FT	1250°C	Minimum
Size	+ 150 mm	5%
	- 2 mm	25%

Table 2. Semirara coal quality
(Source: SMC Engineering / Marketing)

It is worth noting that Semirara coal had long been considered of low quality and had therefore a limited market. To its credit, the company has been able to substantially improve the quality of its product, such that there is now very strong demand for Semirara coal in power plants, and to a certain extent cement plants, both here and neighbouring countries (e.g., India and China).

2.2.3 Stratigraphy and Lithology

Based on available studies and reports, the regional geology of the Semirara Island and the Panian coal deposit can be summarized (from Geomontan-Bergbauberatung, July 1994) as follows:

The Semirara Formation is Middle to Late Miocene can be subdivided into three units: (1) the Lower Member, composed of a basal unit of tuffaceous shales, impure sandstones and two minor coal seams; an upper unit is formed by the coal measures; the coal measures terminate at least four cycles of a sedimentary series of friable and weakly-consolidated sandstones, siltstones and carbonaceous shales; (2) the Middle Member is composed of estuarine sandstones with minor intercalations of shales and thin, lenticular coal seams which are partly exploitable; and (3) the Upper Member, conformably on top of the Middle Member, composed of non-persistent argillaceous limestones, which apparently represent a locally-developed near-shore neritic facies; this unit is not present at Panian.

The Buenavista Formation of Pliocene Age, unconformably overlies the Semirara Formation, consisting of basal calcareous arenites grading into massive coralline limestones to the top.

The bottom of the stratigraphic column is composed mainly of mudstones and coal seams; sandstones increase on occurrence between the finer sediments towards the top. Sandstones dominate the near the surface while the coal seams disappear.

2.2.4 Associated Rocks & Coal Seam Characteristics and Structural Geology

Coal seams and associated sedimentary rocks in Panian are folded on a north-south trend on a southerly plunging anticline; the western limb dips between 15-25 degrees while the eastern limb dips between 10 and 20 degrees. A north-south trending fault zone is found at the eastern flank of the anticline, consisting of at least three (3) major faults: the Panian Fault, the Parallel Fault, and another major fault inferred from drill hole data (Geomontan-Bergbauberatung, July 1994).

2.2.5 Hydrology and Pit Stability

The one most critical factor that has largely enabled SMC to quadruple production at Panian in the last five years has been its ability to control the influx of ground water and to pump out run-off water through an effective dewatering system. In contrast, it was the uncontrollable inflow of ground water at Unong that led to the decision to abandon Unong and move to Panian sooner than planned.

Pit slope stability is also influenced by the groundwater levels of the rockmass, besides rock strength, angle of dip of the sediments and its bedding plane, interbed friction angles and major fault systems within the pit.

The limestone and sandstone units within the Panian pit are aquifers. The contained water exerts pressure in the pore spaces of the sandstone. As the pit is deepened, the water column increases with resultant increase in pore water pressure within the rock mass. The pressure build up causes rotational failure in the sandstone unit. This concern has been is adequately addressed at Panian by drilling horizontal and vertical dewatering holes to depressurise the sandstone. Furthermore, the interbed friction angles between the mudstone and sandstone units are increased by the removal of water from the sandstone.

Bedding planes are also zones of weakness. In areas within the pit where the dip of the sediments are towards the open cut, the pit slope follows the dip of the sediments. SMC has also set an operational policy that the bedding plane of the sediments are not undercut in the process of mining.

In areas where major fault systems occur, the pit walls are designed to transect the strike of the fault and ensure that no wall is parallel to the strike of the fault.

Semirara has used the modified Cslope software of Golder and Associates of Vancouver Canada to determine safe pit wall slope angles.

SMC's effective dewatering system at Panian has largely been the result of a study of the of the hydrology and dewatering of the Panian Coal Project made in May 1995 by Geo Montan Bergbauberatung, an Austrian consulting company. The study had the following main objectives: quantifying the volume of groundwater inflow during the mining operations; optimizing the conceptual surface and subsurface dewatering system for the mine's productive life using horizontal drill holes; and integrating the subsurface dewatering system and the surface dewatering system. The activities done in the study included gathering of basic data, carrying out of two pumping tests and instructing SCC geologists in geophysical logging and interpreting. Findings were released in October in a report (Geomontan-Bergbauberatung, Oct 1995: Report on Detailed Investigation of Hydrology and Dewatering for Panian Coal Project at Semirara Island, Philippines).

The study recommended various measures to implement an efficient dewatering system, including horizontal drains, a well dewatering system, and packing clay liner in coral reef area; these will ensure that both surface and underground water will be managed during and even ahead of mining. It further recommended that groundwater dewatering measures are to be commenced at least about a year ahead of the mining front.

In this connection, the company has prepared a long-term plan to control surface and underground water; we have reviewed this plan and we believe it is doable. Appendix 7: Long-Term Dewatering System – Dewatering Wells shows a status map of the dewatering wells laid out around the producing pit and beyond.

Based on what we observed during the mine visits, and discussions with Semirara's staff, the horizontal drains have been implemented and the clay liner has been effective in reducing inflow of water, especially at the fault zone at the east part of the pit.

As pointed out in the report, an efficient dewatering system also ensures pit slope stability. In the report, parameters relevant to slope stability are summarized, as follows:

Formation	Friction Angle [^{o}]	Overall Slope Gradient [^{o}]	Safety Factor
Limestone	45	44	1.26
Sandstone	32.4	22 - 26	1.24 - 1.66
Siltstone	26.7 - 29	22 - 26	1.24 - 1.66
Mudstone	19 - 22	22 - 26	1.24 - 1.66
Coal	35	22 - 26	1.24 - 1.66

Table 3: Safety Factors for Panian Pit Slopes
(Source: Geomontan-Bergbauberatung, Oct 1995)

We noted the adoption of the 25° pit slope for Semirara; similarly, we measured pit slopes of 23° in other parts. For our own pit design, we used a uniform 25° pit slope because we believe that in the areas where SMC used a shallower slope, these can be steepened during the last stages of mining before abandonment; the net effect of this is to increase the mineable reserves.

The expanded pit is an extension of the current pit to the north, west, and south; considering, that the current pit is configured with safe slopes, it will be a sound engineering practice to assume the same pit slope in the given mining advance directions; that is, the current north pit slopes will be used for the north extension, ditto with the south and west wall extensions.

2.3 Resource Summary

For this activity, we came out with our own resource estimation but limited it based on the drill hole data and the subsequent modelling done. Considering the drill hole spacing (i.e., 50m to 100m, averaging 62.5 m) in the study area, the resources that were estimated are categorized as measured, or positive, by DOE definitions.

This report is the result of an independent study aimed at determining the mineable reserves out of the resource estimates. Based on the guidelines of the Philippine Mineral Reporting Code, the conversion of measured resources to proved reserves and indicated resources to probable reserves is governed by modifying factors (Please refer to Figure 1 below; this is also Figure 1 of the PMRC). In our case, we limited ourselves to the conversion of measured resources to proved reserves. We then further converted the proved reserves to recoverable reserves by considering modifying factors, such as mining losses, dilution and washery yield.

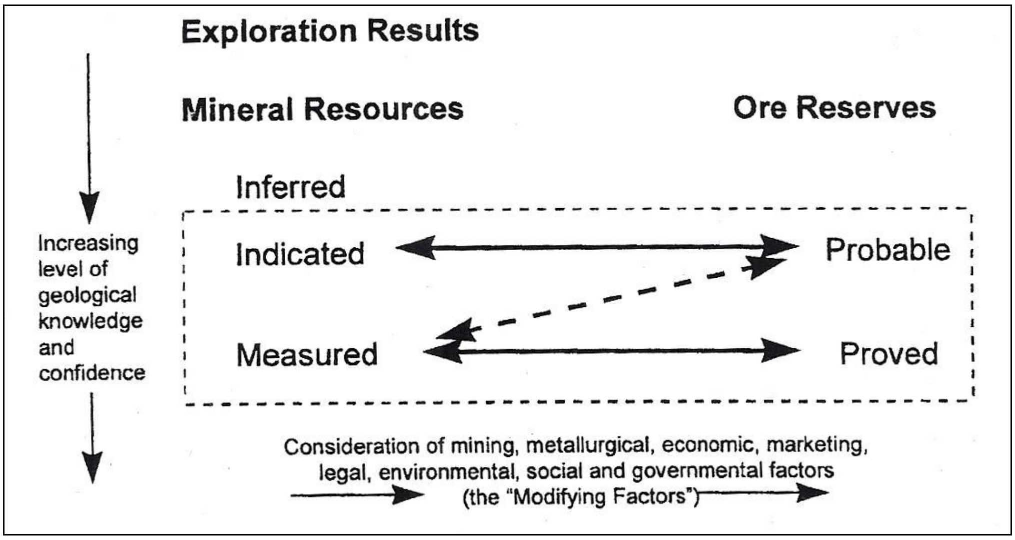
Exploration Results
Mineral Resources
Ore Reserves
Inferred
Increasing level of geological knowledge and confidence
Indicated
Probable
Measured
Proved
Consideration of mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors (the "Modifying Factors")

Figure 1: General relationship between Exploration Results, Mineral Resources and Ore Reserves

In the coal sector, the DOE, which regulates the holders of coal operating contracts, still uses the classification of coal reserves established by the author when he was Chief of the Coal and Uranium Division of the then Bureau of Energy Development (BED) in the late 1970s. This classification was referred to in a report by Wardell Armstrong, a British mining consulting company in 1984 (Please refer to Attachment E). The measured coal resources under the PMRC guidelines are equivalent to the Positive Coal Reserves under DOE's definition and the proved coal reserves are equivalent to the in-situ coal reserves of DOE.

3. COAL RESERVES, PRODUCTION CAPACITY, MINE LIFE

3.1. Reserves Estimation

The company has prepared an estimate for the expansion program covering the northwall extension, southwall extension and the eastwall expansion; remaining mineable reserves as of January 1, 2010 are presented in the table below:

REMAINING MINEABLE RESERVES				**As of January 01, 2010**
	Southwall Area	**Northwall Area**	**Eastwall Expansion**	**Combined Total**
Total Material - BCM	210,101,153	185,156,516	355,428,716	750,686,385
Waste - BCM	195,824,162	169,976,136	336,861,340	702,661,638
ROM - COAL				
Seam 6,7,8	353,419	0	528,999	882,418
Seam 10	5,435,148	1,378,718	2,561,755	9,375,621
Seam 21	595,766	310,405	0	906,171
Seam 22	1,828,750	1,995,418	1,533,986	5,358,154
Seam 23	0	0	1,436,135	1,436,135
Seam 31	1,062,504	813,873	1,732,014	3,608,391
Seam 3101	0	0	284,719	284,719
Seam 311	0	0	441,602	441,602
Seam 32	3,653,425	0	869,724	4,523,149
Seam 33	7,058,776	15,665,837	11,142,309	33,866,922
Seam 41	0	844,921	3,292,260	4,137,181
Seam 42	0	243,360	1,514,228	1,757,588
Seam 43	0	0	579,895	579,895
Seam 44	0	0	76,700	76,700
SUB-TOTAL	**19,987,788**	**21,252,532**	**25,994,326**	67,234,646
Strip Ratio (W:C)	**9.80**	**8.00**	**12.96**	**10.45**

Table 4: Remaining mineable reserves of the Panian deposit as of January 1, 2010

For our study, only the Northwall and Southwall Areas are included; it does not include the Eastwall expansion because we understand that this is deep-seated and will be mined in conjunction with East Panian.

The current exercise has estimated the resources and remaining mineable reserves as presented on the next page:

REMAINING MINEABLE RESERVES				By RBBomasang et al.
	Volume ('000) BCM	DENSITIES		Tonnage ('000) MT
ROM COAL	Remaining Mineable Reserves	Density *	Density**	Remaining Mineable Reserves
Seam 6	723	1.611	1.400	1,012
Seams 7	958	1.364	1.400	1,341
Seam 10	6,449	1.462	1.400	9,029
Seam 21	1,492	1.472	1.400	2,088
Seam 22	4,749	1.446	1.400	6,649
Seam 23	269	1.459	1.400	376
Seam 31	1,867	1.486	1.400	2,613
Seam 3101	-	-	-	-
Seam 311	-	1.609	-	-
Seam 32	2,504	1.447	1.400	3,506
Seam 33	4,593	1.371	1.400	6,431
Seam 3233	8,800	-	1.400	12,320
Seam 41	666	-	1.400	933
Seam 42	389	-	1.400	544
Seam 43	-	-	-	-
Seam 44	-	-	-	-
	33,459	1.457	1.400	46,843

* Density from Geomontan: **Panian Viability Study**, vol. 2, p. 74, July 1995

** Density used in this study

Table 5: Remaining mineable reserves of the Panian deposit as estimated by the author and his team

3.2. Recoverable Coal Reserves

The estimated remaining mineable reserves is 46.84 million MT; assuming production losses of 10%, estimated remaining total recoverable coal reserves for the northwall and southwall areas is 42.16 million MT.

Additional tonnage can still be found further south of the southwall area; this is seen in the section below. Note the resources outside of the projected pit; the resources to the north of the northwall area (not shown in this report but was provided to the group in the form of a N-S vertical section looking east) have dwindled due to structural (i.e., faulting) and stratigraphic (i.e., thinning out of seam) reasons.

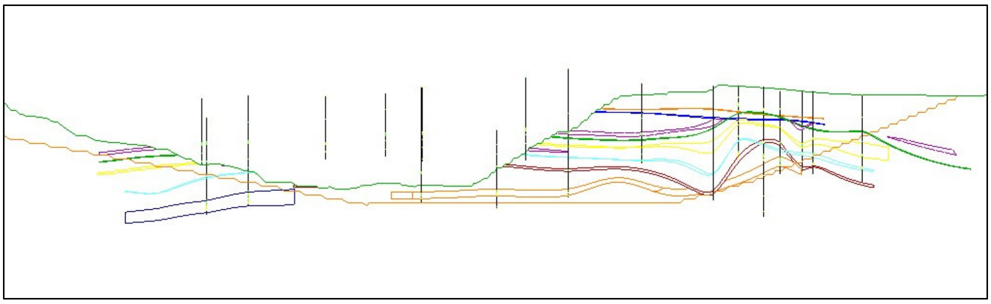

Figure 2: N-S Vertical section looking east, showing resources outside the projected pit

3.3. Production Schedule

A projected annual production of 6 million MT per year starting 2010 has been planned for the northwall and southwall areas; given the estimated above tonnage, the expected remaining life of the current Panian pit is 7 years.

There are, however, substantial coal resources beyond the projected pit extensions which can be considered for mining beyond this timeframe. SMC, in fact, is already planning to mine East Panian in conjunction with the Eastwall Expansion. In addition, SMC should consider possible auger mining outside the pit limits.

4. CONCEPTUAL MINE PLAN

4.1. Mining Concepts

4.1.1 Mining Method

The mining method currently employed in the Panian Operations is the multiple-bench open pit using trucks and backhoe excavators for loading and transport; conveyors, supplemented by bucket wheel excavators, are also used. Benches are reached by access ramps.

This set-up has been proven to be effective, having been used these past years in Semirara; thus, we expect the same tried-and-tested mining method for the rest of the remaining reserves. Pictures 1 and 2 of Appendix 9: Photolog show the current pit operations at Semirara.

4.1.2 Mechanization

Notwithstanding the high stripping ratio, Semirara has been able to achieve a relatively high level capacity through the use of high-capacity trucks and shovels; the use of bucket wheel excavators and conveyors for continuous mining has proven its efficiency, especially in long-haul transport of both coal and waste rock. Please refer to Pictures 3 and 4 of Appendix 9.

4.2. Mine Design Parameters

4.2.1 Production Capacity

Current production capacity is at around 20,000 DMT per day, with stripping of waste at around 200,000 BCM per day; stripping ratio is around 10. Produced coal is composed of 76% clean coal and 24% washed coal. The coal washery operates at an hourly rate of 400 MT per hour, recovering around coal that is around 60% of the feed tonnage, equivalent to around 240 MT of coal.

We expect that SMC will be able to at least maintain this capacity and therefore attain its projected 6 million tons per year production.

4.2.2 Bench Dimensions

Current bench height is 10 meters, bench width averages 15 meters and bench angle is 45^o; having seen the slope stability of the pit, these dimensions are expected to be maintained in the projected pit extensions.

4.2.3 Ramp Configuration

Access ramp is less than 7^o and ramp widths range from 40 to 60 meters; similarly, such parameters are expected to be used in the extension project.

4.2.4 Pit Slopes

Pit slopes vary depending on slope location: western slopes are at around 23^o and eastern slopes at 25^o; in our pit model using 25^o on all sides, the western slopes were steepened.

4.3. Operating Conditions

The friable coal and associated rocks make for easy fragmentation and digging; these, however, also create dust which requires periodic spraying of water for dust suppression (Picture 13 of Appendix 9). Surface and underground water inflow to the mine have so far been manageable with the construction of pit sumps (Picture 14), a horizontal drainage system and a number of dewatering wells. Operating days per year is around 300; most of the non-operating days can be attributed to strong and/or continuous rains which make hauling and transport difficult due to slippery road and ramp conditions.

5. MINE OPTIMIZATION

The current pit operations in Panian have been optimized in several aspects: pit slopes have been pushed near the limit of 26^o; mine mechanization has been effective using shovels and trucks; the use of conveyors in certain distances have taken advantage of the efficiency of said equipment; and the maximization of coal recoveries by mining down to Seam 32+33. In this study, the use of a 25^o pit slope has optimized the pit.

6. MINE FACILITIES PLAN

The current facilities plan of Semirara's Coal Operations has most of its mine plant, clean coal and washable coal stockpiles (Pictures 5 and 6 of Appendix 9), and coal washery (Picture 7) located conveniently near the current pit at the northern part of the island. A transport conveyor plies a southward path towards the port operations (Pictures 9 and 10), where stockpiles (Picture 8) are also maintained for any necessary blending before loading. Waste rock dumping is at the northern end of the island and ensures minimal exposure of the general population to mine waste and other contaminants (eg., dust). Maintenance facilities and offices are strategically located at around the center of the operations.

Amount of mine facilities are deemed adequate for the current operations; since the same production capacity has been assumed for the extension, we believe that no substantial modifications in the present facilities set-up will be required.

Future mining includes extension of the current Panian pit and the East Panian project; in anticipation, facilities, such as access roads and a port have been planned to the east of the island to lower hauling distances and locate the port adjacent to the operations thereat.

In parts of the island where mining has ceased, like the Unong Pit to the south, rehabilitation of the former pit has been effected by turning it into a lake and the shores re-vegetated (Please refer to Pictures 15 and 16 of Appendix 9).

7. EQUIPMENT REQUIREMENTS

7.1 Selection Criteria

The current mine mechanization using backhoe excavators and trucks for loading and transport for the run-of-mine and waste movement has proved effective for the current operations. Conveying from the clean coal stockpile, from the in-pit crusher (Picture 11 of Appendix 9) to transport waste to the north (Picture 12) and east, and in loading clean coal and washed from stockpiles take advantage of the efficiency of conveyors. Trucks supplement conveyor transport, especially in bringing clean and washed coal to the port.

7.2 Work Schedule

Two ten-hour work shifts enable the current operations to deliver at planned capacity.

7.3 Productivity and Units Required

Productivity of mechanized mining has been proved in the Semirara Coal Operations, given that up to 220,000 BCM of materials is moved everyday.

The production fleet is composed of:

- 7 units O&K RH-120 hydraulic excavators
- 5 units Komatsu PC-3000 backhoe excavators
- 4 units Komatsu PC-2000 backhoe excavators
- 2 units Komatsu PC-1250 backhoe excavators
- 10 units Caterpillar CAT 777 dump trucks

- 8 units Terex TR 100 dump trucks
- 100 units Komatsu HD 100 dump trucks

The support equipment include:

- 18 units of bulldozers: 14 units D375A-3 and 4 units D155A-1
- 4 units WD600-1 wheel dozers
- 6 units motor graders: 5 units Komatsu GD825A and 1 unit Caterpillar
- 8 units PC-450/200 small backhoe excavators
- 1 unit long-reach PC-400 backhoe excavator
- 4 units water trucks: 2 units 40,000 li-capacity & 2 units 70,000 li-capacity

Currently, the truck and shovel operation is able to move 70 million bank cubic meters per year; this capacity is able to deliver the 6 million tons of coal plus move approximately 60 million bank cubic meters of waste at a stripping ratio of around 10.

8. MANPOWER REQUIREMENTS

The mine currently operates with a compliment of 2177 men, with a breakdown as follows: 33 managerial (1.52%), 118 staff (5.42%) and 2026 rank-and-file (93.06%); this shows a supervision ratio (management & staff : rank-and-file) of 1:13.42 and reflects effective personnel management (i.e., not top-heavy). We believe that this is sufficient for the expanded mining operations.

It must be noted that labour costs only comprise around 4.87% of total mining costs, with mine site overhead at around 5.24%.

9. CAPITAL COSTS

Capitalized costs are reflected in depreciation and amortization costs, which comprise around 12.86% of total mining costs. We see no need for major additional capital expenditures for the projected pit extension. Additional capital expenditures are, however, expected in connection with future mining in the East Panian area in conjunction with mining of the Eastwall area.

10. OPERATING COSTS

Mine site production costs for 2009 are summarized in the table on the next page; these are given in total production cost, cost per bank cubic meter of material moved and cost per coal produced. Analysis of costs is given in the succeeding section.

2009 PRODUCTION COSTS	Total Production Costs		Per BCM Material Moved		Per MT Coal Produced	
	PhP	%	PhP	%	PhP	%
By Type of Activity						
Waste Stripping & Disposal	4,989,640,093	54.46%	82.77	54.46%	969.97	54.46%
Coal Mining	877,722,112	9.58%	14.56	9.58%	170.63	9.58%
Transporting to stockpile	189,181,676	2.07%	3.14	2.07%	36.78	2.07%
Blending and stockpiling	27,849,378	0.30%	0.46	0.30%	5.41	0.30%
Pit Dewatering	500,072,428	5.46%	8.29	5.46%	97.21	5.46%
Shiploading Cost	42,957,154	0.47%	0.71	0.47%	8.35	0.47%
Minesite Overhead	2,403,661,242	26.24%	39.87	26.24%	467.26	26.24%
Coal Washing Plant	130,252,283	1.42%	2.16	1.42%	25.32	1.42%
PRODUCTION COST	9,161,336,366	100.00%	152	100.00%	1,780.93	100.00%
By Type of Expense						
Labor	362,832,142	3.96%	6.02	3.96%	76.16	3.96%
Fuel	1,869,213,039	20.40%	31.01	20.40%	428.77	22.30%
Lubricants	173,346,062	1.89%	2.88	1.89%		
Materials & Parts	2,822,488,001	30.81%	46.82	30.81%	592.49	30.81%
Contracted Services	2,498,355,100	27.27%	41.44	27.27%	524.45	27.27%
Minesite Overhead	399,322,722	4.36%	6.62	4.36%	83.82	4.36%
Depreciation	1,035,779,300	11.31%	17.18	11.31%	217.43	11.31%
Amortization	0	0.00%	0.00	0.00%	0.00	0.00%
PRODUCTION COST	9,161,336,366	100.00%	151.96	100.00%	1,923.12	100.00%
Less: Shiploading Costs	42,957,151	0.47%	0.71	0.47%	9.02	0.47%
NET PROD'N COSTS	9,118,379,216	99.53%	151.25	99.53%	1,914.10	99.53%

Table 6: Semirara 2009 Production costs

11. ECONOMIC ANALYSIS

11.1 Cost Analysis

11.1.1 **Cost structure, cost by type of activity and type of expense**

A review of costs by type of activity shows that waste stripping and disposal takes up most of mining costs (54.46%); this is followed by mine overhead (26.24%). Coal mining costs comprise 9.58% of total production costs; pit dewatering takes 5.46%, coal washing operations 1.42%; shiploading costs is a 0.47%.

By type of expense, materials and spare parts take almost a third of the costs at 30.81%, contracted services more than a quarter at 27.27%, fuels and lubricants at 22.30%, mine overhead at 4.36% and labor costs at 3.96%.

Cost structure is better appreciated in the form of pie diagrams. On the next page (Figure 3) is shown the breakdown of mining costs by type of activity:

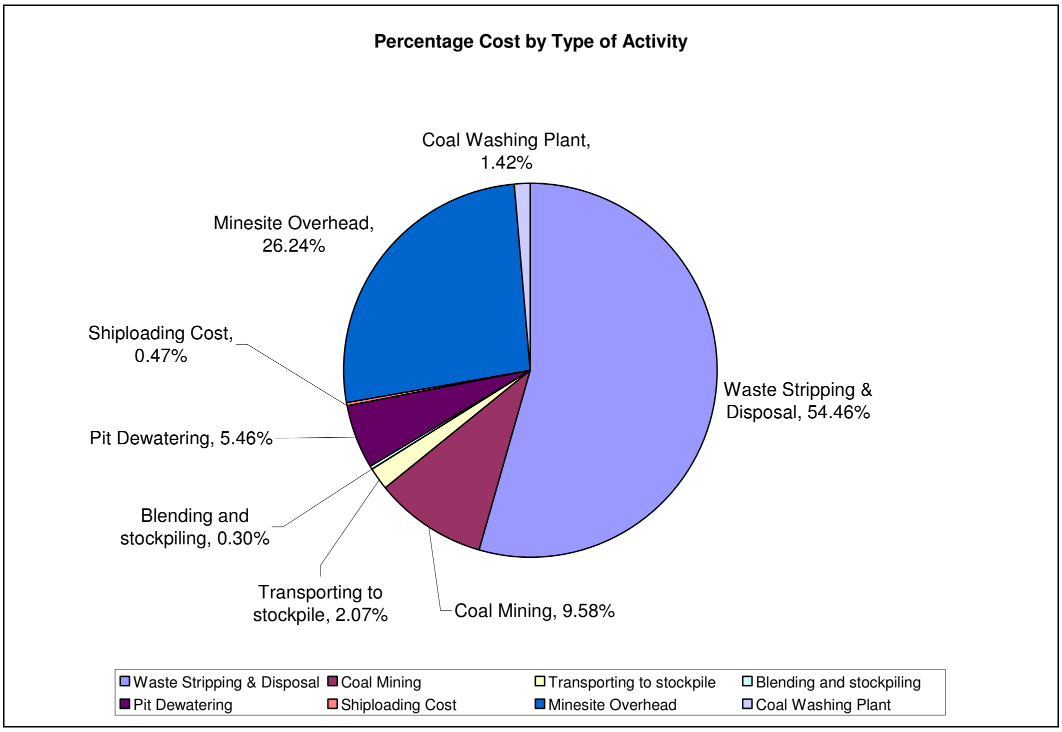

Figure 3: Pie diagram showing cost per type of activity

Similarly, costs by type of expense are shown in Figure 4 below:

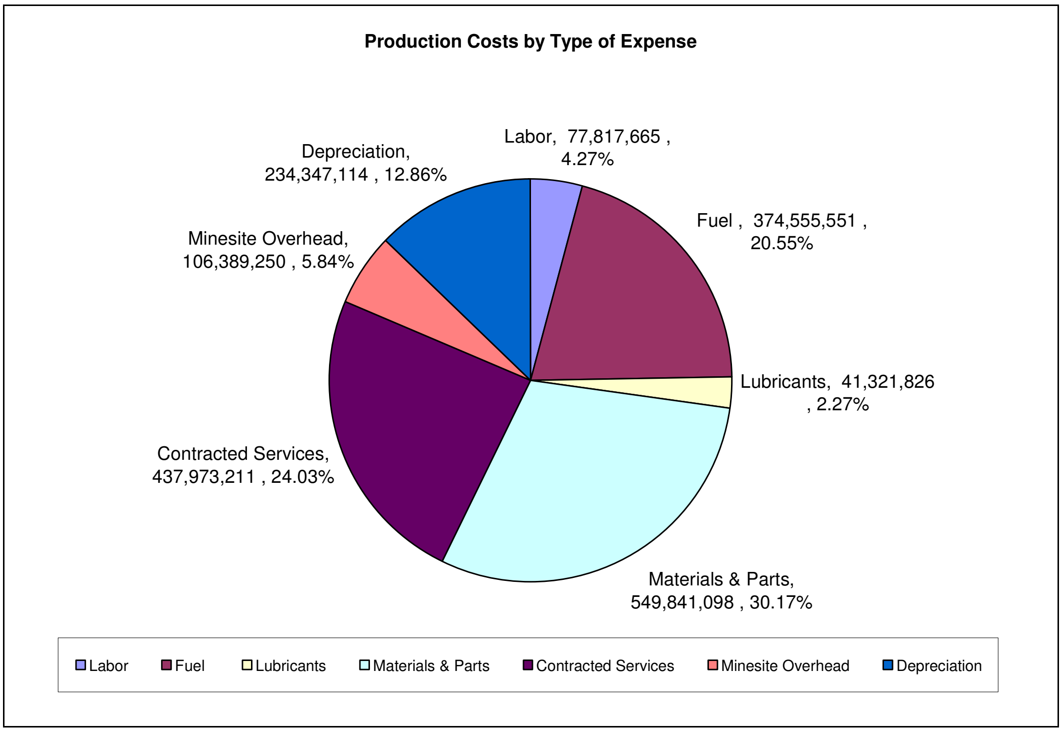

Figure 4: Pie diagram showing cost structure by type of expense

Cost per bank cubic meter of material moved is shown in Figure 5 below:

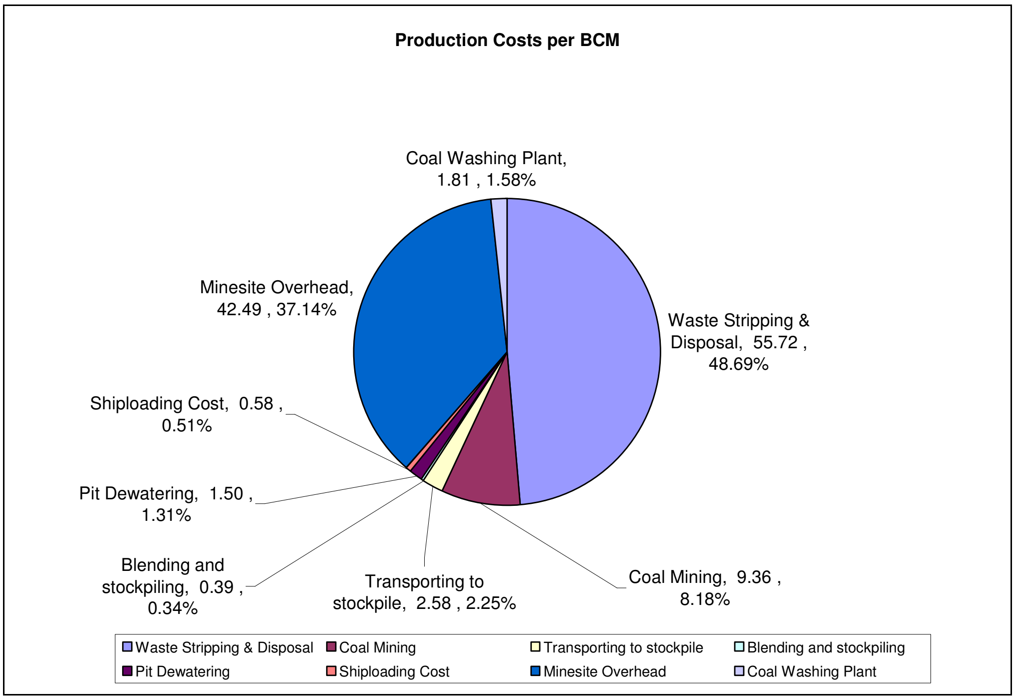

Figure 5: Pie diagram showing cost per bank cubic meter of material moved

Cost per ton coal produced is presented in Figure 6 below:

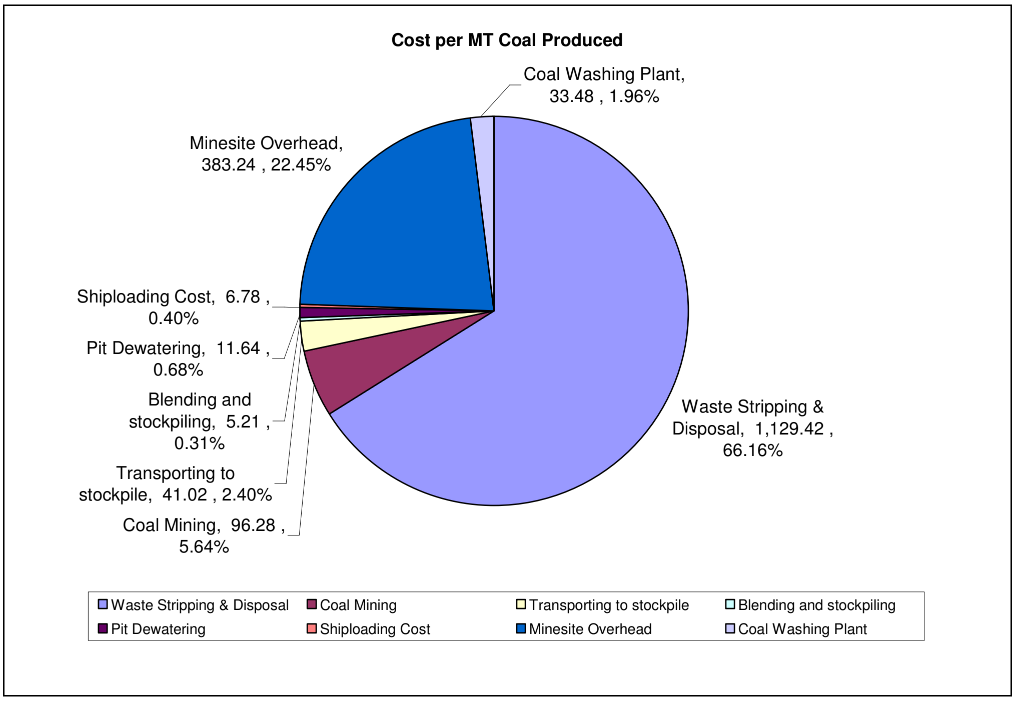

Figure 6: Pie diagram showing cost per MT of coal

An analysis of percentages show the contribution of mine mechanization for stripping and coal mining, and the corresponding fuel, spare parts and other costs; also, costs related to contracted activities, which may include equipment maintenance and repair.

11.1.2 Mining Cost per BCM Material Moved; per MT Coal

Also reflected in the cost per ton coal is the impact of waste stripping and disposal; whereas it is only around 48.69% per bank cubic meter of material moved, it is around 66.16% of total mining cost; this illustrates the impact of stripping ratio on mining cost; 2009 cost per ton at PhP 1,781 was at a stripping ratio of 10.91 (BCM waste: ton coal); cost per BCM is at PhP 152. Among other factors, stripping ratio is one of the most sensitive economic factor; the others are price, forex rates and production cost.

11.2 Economics from Mine Site Operations

A quick and simplified financial analysis can be done up to the port operations; a base case is considered with the following assumptions:

- coal price at US$ 52/MT
- foreign exchange rate at PhP 48: US$
- total production cost per ton at PhP 1,923.12, including shiploading costs of PhP 9.02 per ton
- depreciation costs per ton at PhP 214.73 per ton; this is considered yearly costs charged from an undepreciated value of existing plant and equipment
- tax rate at 30%

An annual production rate of 6 million tons coal is assumed with a project life of 7 years; the worksheet for the base case is presented below:

PARAMETER	Yr 0	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7
Tonnage Sales Coal per Year		6,000,000	6,000,000	6,000,000	6,000,000	6,000,000	6,000,000	6,000,000
Revenue per Year Coal		14,976,000,000	14,976,000,000	14,976,000,000	14,976,000,000	14,976,000,000	14,976,000,000	14,976,000,000
Government Share (3% of gross sales)	0.03	449,280,000	449,280,000	449,280,000	449,280,000	449,280,000	449,280,000	449,280,000
Production Cost per Year		10,332,660,499	10,332,660,499	10,332,660,499	10,332,660,499	10,332,660,499	10,332,660,499	10,332,660,499
Net Income per Year		4,194,059,501	4,194,059,501	4,194,059,501	4,194,059,501	4,194,059,501	4,194,059,501	4,194,059,501
Less: Depreciation		1,304,563,492	1,304,563,492	1,304,563,492	1,304,563,492	1,304,563,492	1,304,563,492	1,304,563,492
IBIT		2,889,496,009	2,889,496,009	2,889,496,009	2,889,496,009	2,889,496,009	2,889,496,009	2,889,496,009
Income Tax @ 30%	0.3	866,848,803	866,848,803	866,848,803	866,848,803	866,848,803	866,848,803	866,848,803
Income after Taxes		2,022,647,206	2,022,647,206	2,022,647,206	2,022,647,206	2,022,647,206	2,022,647,206	2,022,647,206
Add back: Depreciation		1,304,563,492	1,304,563,492	1,304,563,492	1,304,563,492	1,304,563,492	1,304,563,492	1,304,563,492
Cash Flow	(9,131,944,443)	3,327,210,698	3,327,210,698	3,327,210,698	3,327,210,698	3,327,210,698	3,327,210,698	3,327,210,698
DCFROR	**30.90%**							

Table 10. A quick financial analysis for the project

A review of the results of the quick financial analysis shows a DCFROR of around 31% for a base case with the following assumptions: coal price at $52, forex rate at PhP 48:US$, production cost at PhP 1,722 at a stripping ratio of 9.67.

A sensitivity analysis is presented in Appendix 8. Essentially, the analysis shows that coal price and foreign exchange rates have the greatest impacts on project viability. Production costs and stripping ratio also impact heavily on project viability, but they are controllable.

12. CONCLUSIONS

12.1 SMC has enough mineable reserves to support a 6 million ton operation for the next seven (7) years;

12.2 SMC has adequate equipment and existing infrastructure to support a six million ton per year operation;

12.3 With SMC's long experience at Semirara, it now has adequate managerial, technical, and skilled operators to man its mining operations;

12.4 SMC's coal quality has been so improved that it is now acceptable to local power plants and cement plants and is now of exportable quality;

12.5 With local LGUs getting a substantial share of SMC's net proceeds and with local residents benefitting from SMC through employment and/or use of the mine's physical and social infrastructure, the local community is now fully supportive of SMC's operations;

12.6 SMC has already demonstrated at Unong its commitment to responsible mining practices, which includes the rehabilitation of mined out areas;

12.7 SMC's success in the proposed expanded Panian pit will, however, largely depend also on its continuing ability to effectively control ground water and surface water as it has done in last few years.