



**SECURITIES AND EXCHANGE COMMISSION  
SEC FORM 20-IS  
INFORMATION STATEMENT PURSUANT TO SECTION 20  
OF THE SECURITIES REGULATION CODE**

1. Check appropriate box  
 Preliminary Information Statement  
 Definitive Information Statement
2. Name of Corporation as specified in its charter: **Semirara Mining Corporation**
3. Province, Country, or other jurisdiction of incorporation or organization: **Philippines**
4. SEC Identification No.: **91447**
5. BIR Tax Identification No.: **000-190-324-000**
6. Address of Principal office: **2/F DMCI Plaza Building, 2281 Don Chino Roces Avenue, Makati City, Philippines**
7. Corporation's telephone number, including area code: **(2) 888-3000, 816-7301 to 10**
8. Date, time and place of meeting of Security Holders: **May 2, 2011, 10:00 o'clock in the morning at the Fairways Room, Manila Golf & Country Club, Harvard Road, Forbes Park, Makati City 1220, Philippines**
9. Approximate Date on which the Information Statement is to be sent or given to Security Holders: **April 6, 2011**
10. **In case of Proxy Solicitations:**  
 Name of Person Filing the Statement/Solicitor: **The Management of the Corporation**  
 Address and Telephone No.: **2/F DMCI Plaza Building, 2281 Don Chino Roces Avenue, Makati City, Philippines (632) 888-3000/816-7301 to 10**
11. Securities registered pursuant to Sections 8 and 12 of the Securities Regulation Code or Sections 4 and 9 of the Revised Securities Act:
 

Title of Each Class	Number of Shares of Stock
<b>Common Shares</b>	<b>356,250,000</b>
12. Are any or all of Corporation's securities listed with the Philippine Stock Exchange?  
 Yes  No   
 Listed at Philippine Stock Exchange: **Common Shares**

**SEMIRARA MINING CORPORATION**  
**SEC FORM 20-IS**

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## PART I.

### INFORMATION REQUIRED IN INFORMATION STATEMENT

#### A. GENERAL INFORMATION

##### **Item 1. Date, Time and Place of Meeting**

The enclosed Information Statement will be used in connection with the annual meeting of the stockholders of Semirara Mining Corporation (the "Corporation") to be held on **May 2, 2011, at 10:00 o'clock in the morning, Fairways Room, Manila Golf & Country Club, Harvard Road, Forbes Park, Makati City 1220, Metro Manila, Philippines.**

The Definitive Information Statement will be sent to the stockholders of record as of March 21, 2011 (the "Record Date") at least fifteen (15) business days prior to May 2, 2011 or not later than April 6, 2011.

The matters to be considered and acted upon at such meeting are referred to in the Notice and are more fully discussed in this statement.

The Corporation's complete mailing address is *2<sup>nd</sup> Floor, DMCI Plaza Building, 2281 Don Chino Roces Avenue, Makati City, Philippines.*

##### **Item 2. Dissenter's Right of Appraisal**

Pursuant to Section 81 of the Corporation Code of the Philippines, a stockholder has the right to dissent and demand payment of the fair value of his shares in the following instances:

- (a) In case any amendment to the articles of incorporation has the effect of changing or restricting the rights of any stockholders or class of shares, or of authorizing preferences in any respect superior to those of outstanding shares of any shares of any class, or of extending or shortening the term of corporate existence.
- (b) In case of sale, lease, exchange, transfer, mortgage, pledge or other disposition of all or substantially all of the corporate property and assets as provided in the Corporation Code;
- (c) In case the corporation decides to invest its funds in another corporation or business outside of its primary purpose; and
- (c) In case of merger or consolidation.

A stockholder must have voted against the proposed corporate action in order to avail himself of the appraisal right. The procedure for the exercise by a dissenting stockholder of his appraisal right is as follows:

- (a) The dissenting stockholder shall make a written demand on the corporation within 30 days after the date on which the vote was taken for payment for the fair value of his shares. The failure of the stockholder to make the demand within 30 day period shall be deemed a waiver on his appraisal right;
- (b) If the proposed corporate action is implemented or effected, the corporation shall pay to such stockholder, upon surrender of corresponding certificate(s) of stock within 10 days after demanding payment for his shares (Sec. 86), the fair value thereof; and
- (c) Upon payment of the agreed or awarded price, the stockholder shall transfer his share to the corporation.

### Item 3. Interest of Certain Persons in or Opposition to Matters to be acted Upon

Other than election to office, no director, officer, nominee for election as director or associate of any of the foregoing shall have a substantial interest, direct or otherwise, in any matter to be acted upon at the annual stockholders' meeting.

No director has informed the Corporation that he/she intends to oppose any action to be taken up by the Corporation at the annual stockholders' meeting.

### B. CONTROL AND COMPENSATION INFORMATION

#### Item 4. Voting Securities and Principal Holders Thereof

- (a) As of March 21, 2011 the Corporation has the following outstanding shares:

Common shares - 356,250,000

- (b) The Board of Directors of the Corporation has set March 21, 2011, as the record date (the "Record Date") to determine the stockholders of the Corporation entitled to notice of and to vote at the annual stockholders' meeting scheduled for May 2, 2011.
- (c) At the annual stockholders' meeting to be held on May 2, 2011, the holders of common shares as of the Record Date shall be entitled to vote. On the following items, each share of outstanding common stock shall be entitled to one (1) vote: (i) approval of the minutes of the previous meeting of stockholders, (ii) ratification of the acts of the Board of Directors and Officers for the year 2010, (iii) approval to pursue Ecozone Development in Balayan and Calaca, Batangas, and (iv) and appointment of the independent external auditors.

In the election of directors, every stockholder entitled to vote shall have the right to vote in person or by proxy the number of common shares of stock standing in his name as of the Record Date. A stockholder entitled to vote 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 shall equal, or he may distribute them on the same principle among as many candidates as he shall see fit. Provided, that the total number of votes cast by him shall not exceed the number of shares owned by him as shown in the books of the Corporation multiplied by the whole number of directors to be elected. No discretionary authority to cumulate votes is being solicited.

- (d) **Security Ownership of Certain Record and Beneficial Owners and Management.** - The following table sets forth as of March 15, 2011, the record or beneficial owners of more than five percent (5%) of the outstanding common shares of the Corporation and the amount of such record or beneficial ownership.

<u>Title of Class</u>	<u>Name, Address of record owner and relationship with Issuer</u>	<u>Name of Beneficial Owner of more than 5% and Relationship with Record Owner</u>	<u>Citizenship</u>	<u>Amount/ Nature of Record/ Beneficial Ownership</u>	<u>Percent of Class</u>

Common	DMCI Holdings, Inc. 3/F Dacon Bldg, 2281 Don Chino Roces Ave., Makati City, stockholder of record <sup>1</sup>	See <i>Schedule 1</i>	Filipino	200,647,533	56.32%
Common	PCD Nominee Corp (NF), stockholder of record	42,573,469 (11.95%) shares are listed under The Hongkong and Shanghai Banking Corp., Ltd.	Other Alien	68,697,501	19.28%
Common	Dacon Corporation, Dacon Bldg., 2281 Don Chino Roces Ave., Makati City, stockholder of record <sup>2</sup>	See <i>Schedule 1</i>	Filipino	43,500,918	12.21%

(e) **Security Ownership of Management.** - The table sets forth as of March 15, 2011 the beneficial stock ownership of each Director of the Corporation and all Officers and Directors as a group.

Title of class	Name of beneficial owner	Amount and nature of beneficial ownership	Citizenship	Percentage
Common	David M. Consunji	212 <sup>3</sup>	Filipino	0.00%
Common	Isidro A. Consunji	175,487 <sup>4</sup>	Filipino	0.05%
Common	Cesar A. Buenaventura	6,010 <sup>5</sup>	Filipino	0.00%
Common	Victor A. Consunji	716,492 <sup>6</sup>	Filipino	0.20%
Common	Jorge A. Consunji	12	Filipino	0.00%
Common	Herbert M. Consunji	10	Filipino	0.00%
Common	Victor C. Macalincag	374,010 <sup>7</sup>	Filipino	0.10%

<sup>1</sup> Messrs. David M. Consunji, Isidro A. Consunji, Herbert M. Consunji and Cesar M. Buenaventura shall exercise the voting rights in behalf of DMCI Holdings, Inc.

<sup>2</sup> Mr. Victor A. Consunji, Jorge A. Consunji and Ms. Ma. Cristina C. Gotianun and shall exercise the voting rights in behalf of Dacon Corporation.

<sup>3</sup> 200 shares in indirect beneficial ownership with PCD Nominee Corp. The shares are held by members of the family sharing the same household.

<sup>4</sup> 173,475 shares are indirect beneficial ownership with PCD Nominee Corporation. The shares are held by a corporation of which such person is a controlling shareholder.

<sup>5</sup> 6,000 shares are with PCD Nominee Corporation.

<sup>6</sup> 716,480 shares are indirect beneficial ownership with PCD Nominee Corporation. The shares are held by a corporation of which such person is a controlling shareholder.



Common	George G. San Pedro	40,030 <sup>8</sup>	Filipino	0.01%
Common	Federico E. Puno	60,010 <sup>9</sup>	Filipino	0.02%
Common	Ma. Cristina C. Gotianun	225,656 <sup>10</sup>	Filipino	0.06%
Common	Ma. Edwina C. Laperal	349	Filipino	0.00%
Common	Jaime B. Garcia	48,036 <sup>11</sup>	Filipino	0.01%
Aggregate Ownership of all directors and officers as a group		1,646,314 <sup>12</sup>	Filipino	0.46%

The percentages of ownership of the above officers and directors are minimal.

- (f) **Voting trust holders of five percent (5%) or more.** - There are no voting trust agreements or any other similar agreement which may result in a change in control of the Corporation of which the Corporation has any knowledge.
- (g) **Changes in Control.** - From May 4, 2010 to date, there has been no change in control in the Management of the Corporation.
- (h) **Certain Relationship and Related Transactions.** - There has been no transaction or proposed transactions for the last two (2) years, to which the Corporation was or is to be a party, in which any of the directors, executive officers or nominees for directors has direct or indirect material interest. Note 17 of the attached Audited Financial Statements for the period ended December 31, 2010 indicates the Corporation's significant transactions with related parties. Below are the descriptions of said transactions:
- 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 loans were fully paid. The loans contracted in 2004 and 2005 were still guaranteed by DMCI-HI. Guarantee fees incurred amounted to ₱0.30 million, ₱2.62 million and ₱7.91 million in 2010, 2009 and 2008, respectively. These are included under finance costs in the consolidated statement of comprehensive income (see Note 21);
  - 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

<sup>7</sup> 362,000 shares are with PCD Nominee Corporation and 12,000 shares of which are indirect beneficial ownership held by members of the family sharing the same household.

<sup>8</sup> 40,000 shares are with PCD Nominee Corporation.

<sup>9</sup> 60,000 shares are with PCD Nominee Corporation.

<sup>10</sup> 225,537 shares are indirect beneficial ownership with PCD Nominee Corporation. The shares are held by a corporation of which such person is a controlling shareholder.

<sup>11</sup> 8,006 shares are with PCD Nominee Corporation.

<sup>12</sup> 1,111,392 shares are indirect beneficial ownership (Messrs. David M. Consunji, Isidro A. Consunji, Victor A. Consunji, Ma. Cristina C. Gotianun and Victor C. Macalincag).

incurred for said services amounted to ₱59.17 million, ₱166.22 million and ₱117.72 million for the years ended 2010, 2009, and 2008, respectively. These are included under Cost of coal 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 ₱507.86 million, ₱500.75 million and ₱246.94 million in 2010, 2009 and 2008, respectively, and are included under Cost of coal sales - Shipping, hauling and shiploading costs (see Note 19). The reported expense of the Group is net of freight payment by NPC (billing is cost and freight);

Land lease rental with DMC-CERI amounting to ₱15.26 million and ₱15.44 million were accrued during the periods ended December 31, 2010 and 2009, respectively (see Note 13).

3. M&S Company, Inc., an affiliate, rents out various equipment 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 Department of Environment and Natural Resources (DENR). Rough lumbers purchased amounted to ₱39.01 million and ₱50.99 million for the years ended December 31, 2009, and 2008, respectively. The related rental expense amounted to ₱91.49 million for the years ended December 31, 2010, 2009 and 2008. This is included under Cost of coal sales - Production Overhead for the year.
4. D.M. Consunji, Inc. (DMCI), an affiliate under common control of DMCI-HI, 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 ₱63.07 million, ₱69.01 million and ₱17.21 million for the years ended December 31, 2010, 2009 and 2008, respectively. These are included under Cost of coal sales - Outside Services.
5. DMC Urban Property Developers, Inc. (UPDI), an affiliate, had transactions with the Parent Company representing long-term lease on office space and other transactions rendered to the Parent Company necessary for the coal operations. Office rental expense amounted to ₱6.97 million, ₱7.78 million and ₱1.84 million for the years ended December 31, 2010, 2009 and 2008, respectively. These are included in Cost of coal sales under "Outside services".
6. 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.
7. Wire Rope Corporation of the Philippines, an affiliate, had transactions with the Parent Company representing supply of cable wires. The related expenses amounted to ₱10.4 million as of December 31, 2010.
8. DMCI was engaged by the Company in the ongoing rehabilitation of the power plant. Billings of DMCI was charged to "Construction in progress" account. DMCI also had transactions with the Company representing equipment rental and other transactions such as transfer of equipment, and hauling services. The related expenses amounted to ₱1.46 million for the period ended December 31, 2010. Equipment rentals amounted to ₱2.85 million for the year ended December 31, 2010. These are charged in the current year's result of operation (see Notes 19 and 20).
9. SCPC's accounting and administrative functions are handled by the DMCI-PC, an affiliated party under common control of DMCI-HI, including the Company's payroll

starting June 2010. DMCI-PC charges management fees for the services it rendered. Management fees amounted to ₱216.46 million for the period ended December 31, 2010 (see Note 20). Compensation of SCPC's key management personnel is paid by the said related party. Hence, the disclosure of compensation required under PAS 24, Related Party Disclosures, for key management personnel is included in the financial statements of DMCI-PC.

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

#### Item 5. Directors and Executive Officers

**(a) Names, ages and citizenship of all Directors, including Independent Directors and Executive Officers and all persons nominated or chosen to become such**

1. **Directors.** - The following incumbent Directors have been nominated to the Board of Directors for the ensuing year and have accepted their nomination:

No.	Names	Citizenship	Age
1.	David M. Consunji	Filipino	89
2.	Isidro A. Consunji	Filipino	62
3.	Victor A. Consunji	Filipino	60
4.	Jorge A. Consunji	Filipino	59
5.	Cesar A. Buenaventura	Filipino	81
6.	Ma. Cristina C. Gotianun	Filipino	56
7.	George G. San Pedro	Filipino	71
8.	Ma. Edwina C. Laperal	Filipino	49
9.	Herbert M. Consunji	Filipino	58
10.	Victor C. Macalincag ( <i>Independent</i> )	Filipino	75
11.	Federico E. Puno ( <i>Independent</i> )	Filipino	64

Messrs. David M. Consunji, Isidro A. Consunji, Victor A. Consunji, Jorge A. Consunji, Herbert M. Consunji, and Cesar A. Buenaventura were formally nominated to the Nomination and Election Committee (Nomelec) by a shareholder of the Corporation, Ms. Ma. Cristina C. Gotianun on February 28, 2011. Ms. Gotianun is the daughter of Mr. David M. Consunji, sister of Messrs. Isidro A. Consunji, Victor A. Consunji and Jorge A. Consunji, and cousin of Mr. Herbert M. Consunji. She is not related to Mr. Cesar A. Buenaventura. Further, Meses. Ma. Cristina C. Gotianun, Ma. Edwina C. Laperal and Mr. George G. San Pedro were nominated by Mr. Isidro A. Consunji on March 2, 2011. Mr. Isidro A. Consunji is the brother of Meses. Gotianun and Laperal. He is not related by affinity or consanguinity to Mr. San Pedro. Finally, Messrs. Victor C. Macalincag and Federico E. Puno, both independent directors, were nominated by Mr. Antonio C. Olizon on March 3, 2011. Mr. Olizon is a stockholder of the Corporation and is not related by affinity or consanguinity to the nominees. The deadline for submission of nominees is not later than March 4, 2011 and the validation of proxy is scheduled on April 26, 2011, 4:00 p.m. at the office of the Corporation and shall be conducted by the Special Committee of Inspectors designated by the Board.

The nominees to the Board for election at the annual stockholders' meeting on May 2, 2011, have served the Corporation for more than five years except for Ms. Ma. Edwina C. Laperal who have served as director for three years.

The record of attendance of the Board of Directors who were present (✓)/absent (–) during the meetings of the Corporation for the year 2010 is as follows:

Name of Director	2010 Board Meetings											
	1-12	3-9	3-23	3-30	4-27	5-4 <sup>13</sup>	5-13 <sup>14</sup>	5-25	7-1	7-21	8-10	11-9
David M. Consunji	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Isidro A. Consunji	✓	✓	✓	✓	✓	–	✓	✓	✓	✓	✓	✓
Victor A. Consunji	✓	–	✓	✓	✓	✓	–	✓	✓	✓	–	✓
Jorge A. Consunji	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Herbert M. Consunji	✓	–	✓	✓	✓	✓	–	✓	✓	✓	✓	–
Cesar A. Buenaventura	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Ma. Cristina C. Gotianun	✓	✓	✓	✓	–	–	✓	–	✓	✓	✓	✓
Ma. Edwina C. Laperal	✓	✓	✓	✓	✓	✓	–	✓	✓	✓	✓	–
George G. San Pedro	✓	–	✓	✓	✓	✓	–	✓	✓	✓	–	–
Victor A. Macalincag*	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	–
Federico E. Puno*	✓	✓	✓	✓	✓	✓	–	✓	✓	✓	–	✓

\*Independent Director

## 2. Executive Officers. -

No.	Names	Position	Citizenship	Age
1.	David M. Consunji	Chairman	Filipino	89
2.	Isidro A. Consunji	V-Chairman/CEO	Filipino	62
3.	Victor A. Consunji	President/COO	Filipino	60
4.	Junalina S. Tabor	Chief Finance Officer	Filipino	47
5.	Ma. Cristina C. Gotianun	VP-Administration/ Compliance Officer	Filipino	56
6.	George G. San Pedro	VP-Operations/ Resident Manager	Filipino	71
7.	George B. Baquiran	VP-Special Projects	Filipino	66
8.	Jaime B. Garcia	VP-Procurement & Logistics	Filipino	55
9.	John R. Sadullo	Corporate Secretary	Filipino	40

The summary of the qualifications of all incumbent Directors, nominees for directors for election at the annual stockholders' meeting and Executive Officers of Corporation is set forth in *Schedule 2* hereof.

- (b) **Term of Office.** - The term of office of the Directors and Executive Officers is one (1) year from their election as such and until their successors shall have been elected and qualified.
- (c) **Independent Directors.** - Under its Revised Code of Corporate Governance, as amended, submitted to the SEC on March 8, 2011, the Corporation is required to have at least two (2) Independent Directors (as defined under the Revised Code of Corporate Governance) or such number of Independent Directors as shall constitute at least twenty percent (20%) of the members of the Board of Directors of the Corporation, whichever is lesser. The two (2) nominees for Independent Directors were nominated on March 3, 2011 by a stockholder of the Corporation, Mr. Antonio C. Olizon and selected by the Nomelec in accordance with the guidelines in the Revised Code of Corporate Governance (SEC Memorandum Circular No. 6, Series of 2009) and the Guidelines on the Nomination and Election of Independent Directors

<sup>13</sup> Annual Stockholders' Meeting.

<sup>14</sup> Organizational Meeting.

(SRC Rule 38). DMCI Holdings, Inc. is the majority stockholder of the Corporation. The nominated independent directors are neither stockholders nor directors of DMCI Holdings, Inc.

**(d) Other Directorship Held in Reporting Companies - Naming each Company. -**

David M. Consunji	<ul style="list-style-type: none"> <li>▪ Chairman, DMCI Holdings, Inc.</li> </ul>
Cesar A. Buenaventura	<ul style="list-style-type: none"> <li>▪ Vice-Chairman, DMCI Holdings, Inc.</li> <li>▪ PetroEnergy Resources Corporation</li> <li>▪ iPeople, Inc.</li> </ul>
Isidro A. Consunji	<ul style="list-style-type: none"> <li>▪ President &amp; CEO, DMCI Holdings, Inc.</li> <li>▪ Chairman, Universal Rightfield Property Holdings, Inc.</li> <li>▪ Director, Crown Equities, Inc.</li> </ul>
Jorge A. Consunji	<ul style="list-style-type: none"> <li>▪ Director, DMCI Holdings, Inc.</li> </ul>
Victor A. Consunji	<ul style="list-style-type: none"> <li>▪ Director, DMCI Holdings, Inc.</li> </ul>
Herbert M. Consunji	<ul style="list-style-type: none"> <li>▪ Director, DMCI Holdings, Inc.</li> </ul>
Ma. Cristina C. Gotianun	<ul style="list-style-type: none"> <li>▪ Director, DMCI Holdings, Inc.</li> </ul>
Ma. Edwina C. Laperal	<ul style="list-style-type: none"> <li>▪ Director, DMCI Holdings, Inc.</li> </ul>
Victor C. Macalincag	<ul style="list-style-type: none"> <li>▪ Independent Director, Crown Equities, Inc.</li> <li>▪ Director, Republic Glass Holdings, Inc.</li> </ul>

**(e) Family Relationship.** - 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 the nephew of Mr. David M. Consunji and cousin of Messrs. Isidro A. Consunji, Victor A. Consunji Jorge A. Consunji, Ma. Cristina C. Gotianun and Ma. Edwina C. Laperal.

**(f) Legal Proceedings. -**

None of the directors and officers was involved in the past five (5) years in any bankruptcy proceeding. Neither have they 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 an action by any court or administrative body to have violated a securities or commodities law.

Except for the following, none of the directors, executive officers and nominee for regular director of the Company is subject to any pending criminal cases:

- (1) A complaint for violation of Article 315 (2) (a) of the Revised Penal Code, as qualified by Presidential Decree No. 1689 was filed in RTC-QC Branch 78 as Criminal Case No. Q-02-114052 pursuant to a resolution of the Quezon City Prosecutor dated December 3, 2002 in I.S. No. 02-7259 finding probable cause against the directors and officers of Universal Leisure Club (ULC) and its parent company, Universal Rightfield Property Holdings, Inc., including Isidro A. Consunji as incumbent Chairman, Cesar A. Buenaventura and Ma. Edwina C. Laperal as former directors of ULC. Complainants claim to have been induced to buy ULC shares of stock on the representation that ULC shall develop a project known as “a network of 5 world clubs.”

The case was re-raffled to RTC-QC Branch 85 (the “Court”). On January 10, 2003 respondents filed their Motion for Reconsideration on the resolution dated December 3, 2002 recommending the filing of the complaint in court, which was granted on August



18, 2003. Accordingly, a Motion to Withdraw Information was filed in Court. On September 11, 2003, complainants' sought reconsideration of the resolution withdrawing the information, but was denied by the City Prosecutor. By reason of the denial, Complainants' filed a Petition for Review with the Department of Justice (DOJ) on August 26, 2005.

Meanwhile, the Court granted the withdrawal of information on June 6, 2005. Complainants filed a Motion for Reconsideration and Urgent Motion for Inhibition, but were both denied by the Court in its Omnibus Order dated November 29, 2005. Thereafter, a Notice of Appeal was filed by the complainants, but was ordered stricken out from the records by the Court for being unauthorized and declaring the Omnibus Order final and executory in its Order dated February 22, 2007.

The Petition for Review filed by the Complainants with the DOJ on August 26, 2005 is pending to date.

- (2) A consolidated case arose out of the same events in the above-mentioned case is likewise pending before the DOJ docketed as "*Rodolfo V. Cruz, et. al. vs. Isidro A. Consunji, et. al., I.S. 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.*"

In its 1<sup>st</sup> 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.

- (3) A complaint, docketed as "*Power & Synergy, Inc. vs. David M. Consunji, et. al., I.S. No. NPS No. XV-05-INV-105-01705, Office of the City Prosecutor, Makati City (Other Deceit Case)*" was predicated when the parties entered into a Consultancy Agreement on November 17, 2000 for the purpose of increasing the coal price per ton as well as the coal supply volume of the Coal Supply Agreement between the Corporation and the National Power Corporation (NPC). In consideration thereof, Complainant shall be entitled to a success fee of 5% of the incremental volume/value of coal delivered to and paid by NPC. It further alleged that Respondents "with ill intent to defraud complainant" later on denied Complainant's achievements and maliciously claiming that the Agreement was already cancelled. In a Resolution dated November 11, 2010, the Office of the City Prosecutor dismissed the case for insufficiency of evidence.
- (4) *Power & Synergy, Inc., Complainant vs. David M. Consunji, et. al., Respondents, NPS No. XV-05-INV-10k-03291, Office of the City Prosecutor, Makati City (Libel Case).* This is a criminal complaint for Libel, which is an offshoot of the complaint filed by the same complainant against several directors and officers of the Corporation docketed as "*Power & Synergy, Inc. vs. David M. Consunji, et. al., NPS No. XV-05-INV-105-01705*" (the "Other Deceit Case"). Allegedly, the libelous accusations against complainant were predicated when the respondents filed their Counter-Manifestation in the Other Deceit Case.

- (g) Significant Employees.** - Except for the above directors and officers, the Corporation has no other significant employees (as the term is defined under the SRC and its implementing rules and regulations).

**Item 6. Compensation of Directors and Executive Officers**

- (a) **Compensation of Directors and Executive Officers.** - All executive officers of the Corporation are elected or appointed by the Board of Directors and serve for one year and until their successors are duly elected and qualified. Set forth below are the names of the CEO and five (5) most highly compensated officers of the Corporation:

<u>Name and Principal Position</u>	<u>Years</u>	<u>Salary</u>	<u>Bonus</u>	<u>Other Annual Compensation</u>
Isidro A. Consunji Vice-Chairman & CEO				
Victor A. Consunji President and COO				
George G. San Pedro VP & Resident Manager				
Jaime B. Garcia VP-Procurement & Logistics				
Junalina S. Tabor Chief Finance Officer				
	2009	10,431,980.00	28,105,882.36	3,402,802.19
	2010	9,756,554.16	43,547,897.64	7,712,780.80
	2011	9,756,556.00*	43,547,898.00*	7,712,781.00*
	<b>Total</b>	<b>P 29,945,090.16</b>	<b>P115,201,678.00</b>	<b>P18,828,363.99</b>
All other Directors and Officers as a group	2009	5,350,280.00	11,001,176.47	3,674,766.57
	2010	6,859,460.83	15,909,315.29	18,174,806.78
	2011	6,859,461.00*	15,909,316.00*	18,174,807.00 *
	<b>Total</b>	<b>P 19,069,201.83</b>	<b>42,819,807.76</b>	<b>P40,024,380.35</b>

*\*Approximate amounts*

The amount reflected as compensation of the named executive officers represents salary approved by the Corporation’s Board of Directors. The amounts indicated in relation thereto are restated to conform to the new accounting standards.

- (b) **Employment Contracts, Compensatory Plan or Arrangement.** - There is no contract covering their employment with the Corporation and they hold office by virtue of their election and/or appointment to office. The Corporation has no agreements with its named executive officers regarding any bonus, profit sharing, except for benefits for which they may be entitled under the Corporation’s retirement plan. On the other hand, members of the Board of Directors may be granted bonuses in accordance with the Corporation’s By-laws.
- (c) **Stock Warrants or Options.** - There are no outstanding warrants, options, or right to repurchase any securities held by the directors or executive officers of the Corporation.

**Item 7. Independent Public Accountant**

The accounting firm of Sycip Gorres Velayo & Co. (“SGV”) is currently, and for the fiscal year recently completed, the Corporation’s independent public accountants, Ms. Jessica D. Cabaluna has been appointed as the new partner-in-charge.

Representatives of SGV are expected to be present at the stockholders' meeting. They will have the opportunity to make a statement if they desire to do so and are expected to be available to respond to appropriate questions.

There have been no changes in or disagreement with the Corporation's accountants on accounting and financial disclosures.

Pursuant to the General Requirements of SRC Rule 68, paragraph 3 (Qualifications and Reports of Independent Auditors), the company has engaged the services of SGV as external auditor of the Corporation and Ms. Jessica D. Cabaluna is the Partner-In-Charge for less than five years or starting 2007. There is compliance with SEC Circular No. 8 Series of 2003 and SRC Rule 68(3)(b)(iv) (Rotation of External Auditors).

#### C. ISSUANCE AND EXCHANGE OF SECURITIES

Not applicable for annual stockholders' meeting.

#### D. OTHER MATTERS

##### Item 8. Summary of matters to be submitted to stockholders for approval

- (a) **Approval of the Minutes of the Previous Meeting of Stockholders.** - Below is the summary of items and/or resolutions approved at the Annual Stockholders' Meeting last May 4, 2010:
- (1) Approval of the Previous Minutes of the Stockholders' Meeting held on May 4, 2009;
  - (2) Ratification of the Acts of the Board for the year 2009;
  - (3) Approval of the Corporation's corporate suretyship, shareholder's support and the pledge of 67% of the Corporation's shares held in SEM-Calaca Power Corporation (SCPC) to guarantee SCPC's loan obligations in accordance with SCPC's Project Debt Facility Agreement dated February 17, 2010 executed between SCPC and BDO Capital & Investment Corporation and amended on March 18 and 22, 2010; and
  - (4) Appointment of the SGV & Co., as the Internal Auditor of the Corporation for the year 2009.
- (b) **Ratification of the Acts of the Board of Directors and Officers for the Preceding Year until the Date of the Annual Stockholders Meeting.** - Resolutions, contracts, and acts of the board of directors and management for ratification refer to those passed or undertaken by them during the year and for the day to day operations of the Corporation as contained or reflected in the attached annual report and financial statements. The summary of acts and resolutions of the Board of Directors for the year 2010 is set forth in *Schedule 3*.
- (c) **Election of Directors.** - Election of the eleven (11) directors of the Corporation to serve for one (1) year and until their successors are duly elected and qualified.
- (d) **Approval to pursue Ecozone Development in Balayan and Calaca, Batangas.** - In 2007 the Corporation's stockholders approved the Corporation's venture to invest in power generation. In December 2, 2009, the 2x300 MW Batangas Coal-Fired Thermal Power Plant in Batangas ("Power Plant") was turned-over by the National Power Corporation to SEM-Calaca Power Corporation ("SCPC"), a wholly-owned subsidiary of the Corporation. In May 2010 ownership over the Power Plant was transferred to SCPC. In anticipation of the Power Plant's increase in capacity as a result of its ongoing rehabilitation, the Corporation seeks to develop the property where the Power Plant is located into an Ecozone under Republic Act No. 7916, as amended by Republic Act No. 8748, otherwise known as the Special Economic



Zone Act of 1995 to maximize the economic potential of the property and attract other industries to invest in the area. The Corporation is authorized to perform the foregoing in accordance with its secondary purposes in its Articles of incorporation, to wit:

“ (o) To do all such other things as are incidental or conducive to the attainment of the above object or any of them, or which may be conveniently carried on and done in connection therewith, or which may be calculated directly or indirectly to enhance the value of, or render profitable any business or property of the corporation, always provided that nothing shall be done in connection with any of the above objects which is prohibited by any laws of the Philippines now or hereafter existing; “

**(e) Appointment of an Independent Auditor**

**Item 9. Voting Procedures.** - The counting and validation of votes shall be supervised by a committee appointed by the Nomination and Election Committee headed by the Corporate Secretary with the assistance of SGV & Co.

**(a) Approval of Minutes of Previous Meeting of Stockholders**

- (1) Vote required. A majority of the outstanding common stock present provided constituting a quorum.
- (2) Method by which the vote shall be counted. Each outstanding common share shall be entitled to one (1) vote. The votes shall be counted by a show of hands or upon motion duly made and seconded, by secret ballot.

**(b) Ratification of the acts of the Board of Directors and Officers**

- (1) Vote required. A majority of the outstanding common stock present in person or in proxy provided constituting a quorum.
- (2) Method by which the vote shall be counted. Each outstanding common share shall be entitled to one (1) vote. The votes shall be counted by a show of hands or upon motion duly made and seconded, by secret ballot.

**(c) Approval to pursue Ecozone Development in Balayan and Calaca, Batangas**

- (1) Vote required. Two-thirds (2/3) of the outstanding common stock present provided constituting a quorum.
- (2) Method by which the vote shall be counted. Each outstanding common share shall be entitled to one (1) vote. The votes shall be counted by a show of hands or upon motion duly made and seconded, by secret ballot.

**(d) Election of Directors**

- (1) Vote Required. The eleven (11) directors receiving the highest number of votes shall be declared elected.
- (2) Cumulative voting applies. Under this method of voting, a stockholder entitled to vote shall have the right to vote in person or by proxy the number of shares of stock standing in his own name on the stock books of the Corporation as of the 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 shall equal, or he may distribute them on the same principle among as many candidates as he shall see

fit. The votes shall be counted by a show of hands or upon motion duly made and seconded, by secret ballot.

The quorum required in the election of directors is majority of the outstanding capital stock entitled to vote. The eleven (11) nominees obtaining the highest number of votes in accordance with Section 24 of the Corporation Code shall be proclaimed directors.

**(e) Appointment of Independent External Auditor**

- (1) Vote required. A majority of the outstanding common stock present provided constituting a quorum.
- (2) Method by which the vote shall be counted. Each outstanding common share shall be entitled to one (1) vote. The votes shall be counted by a show of hands or upon motion duly made and seconded, by secret ballot.

The Corporation's Management does not intend to bring any matter before the meeting other than those set forth in the Notice in the annual meeting of stockholders and does not know of any matters to be brought before the meeting by others.

**Item 10. Market for Registrant's Common Equity and Related Stockholder Matters**

Please refer to Part II, pages 7-10 of the Management Report attached to this Information Statement.

**PART II  
PROXY FORM  
SEMIRARA MINING CORPORATION**

**Item 1. Identification.** This proxy is being solicited by the **MANAGEMENT OF SEMIRARA MINING CORPORATION** (the "**Corporation**"). The Chairman of the Board of Directors or, in his absence, the Vice-Chairman or President of the Corporation will vote the proxies at the Annual Stockholders' Meeting to be held on **May 2, 2011, 10:00 o'clock in the morning at the Fairways Room, Manila Golf & Country Club, Harvard Road, Forbes Park, Makati City 1220, Philippines.**

**Item 2. Instructions.**

- (a) The proxy must be duly accomplished by the stockholder of record as of Record Date, or his duly authorized agent. In case of a stockholder that is a corporation or a partnership, the proxy must be accomplished by the officer or agent that is duly authorized to do so by virtue of an appropriate corporate or partnership resolution.
- (b) Duly accomplished proxies must be delivered to the Corporate Secretary of the Corporation not later than April 26, 2011 at the following address: **SEMIRARA MINING CORPORATION, 2<sup>nd</sup> Floor DMCI Plaza Building, 2281 Don Chino Roces Avenue, Makati City.**
- (c) In case of a corporate stockholder, the proxy must be accompanied by a corporate secretary's certificate quoting the board resolution authorizing the relevant corporate officer to execute the proxy for the corporate stockholder.
- (d) In case of shares of stock owned jointly by two or more persons, the consent of all co-owners must be necessary for the execution of the proxy. For persons owning shares in an "and/or" capacity, any one of them may execute the proxy.
- (e) Validation of proxies will be done by the Special Committee of Inspectors designated by the Board on April 26, 2010 at 4:00 o'clock in the afternoon at the 2<sup>nd</sup> Floor, DMCI Plaza Building, 2281 Don Chino Roces Avenue, Makati City, Philippines. Any dispute which may arise pertaining to the validation shall be resolved by the Securities and Exchange Commission upon formal complaint filed by the aggrieved party.

- (f) Unless otherwise indicated by the stockholder, a stockholder shall be deemed to have designated the Chairman of the Board of Directors, or in his absence, the President of the Corporation, as his proxy for the annual stockholders meeting to be held on May 2, 2011.
- (g) If the number of shares of stock is left in blank, the proxy shall be deemed to have been issued for all of the stockholder's shares of stock in the Corporation as of Record Date.
- (h) The manner in which this proxy shall be accomplished, as well as the validation hereof shall be governed by the provisions of SRC Rule 20 (11) (b).
- (i) The stockholder executing the proxy shall indicate the manner by which he wishes the proxy to vote on the matters in (1), (2), (3), (4) and (5) below by checking the appropriate box. **WHERE THE BOXES (OR ANY OF THEM) ARE UNCHECKED, THE STOCKHOLDER EXECUTING THE PROXY IS DEEMED TO HAVE AUTHORIZED THE PROXY TO VOTE IN FAVOR OF THE ITEMS SPECIFIED HEREUNDER.**

**The Undersigned hereby appoints:**

- (a) **The Chairman of the Board of Directors of the Corporation, or in his absence, the Vice-Chairman or the President of the Corporation, or in their absence,**

(b) \_\_\_\_\_

as his/her/its Proxy to attend the above meeting of the stockholders of the Corporation, and any adjournment or postponement thereof, and thereat to vote all shares of stock held by the undersigned as specified below and on any matter that may properly come before said meeting.

1. Approval of minutes of previous Annual Stockholder's meeting held on May 4, 2010.

For                       Against                       Abstain

2. Ratification of the acts of the Board of Directors and Management from the date of the last Annual Stockholders' Meeting up to the date of this Meeting.

For                       Against                       Abstain

3. Approval to pursue Ecozone Development in Balayan and Calaca, Batangas.

For                       Against                       Abstain

4. Election of Directors.

For all the nominees below, except those whose names are stricken out.

WITHHOLD AUTHORITY TO VOTE FOR ALL NOMINEES LISTED BELOW.

**(Instructions: TO STRIKE OUT A NAME OR WITHHOLD TO VOTE FOR ANY INDIVIDUAL NOMINEE, DRAW A LINE THROUGH THE NOMINEE'S NAME IN THE LIST BELOW).**

**Nominees:**

1. DAVID M. CONSUNJI
2. CESAR A. BUENAVENTURA

3. ISIDRO A. CONSUNJI
4. VICTOR A. CONSUNJI
5. JORGE A. CONSUNJI
6. HERBERT M. CONSUNJI
7. GEORGE G. SAN PEDRO
8. MA. CRISTINA C. GOTIANUN
9. MA. EDWINA C. LAPERAL
10. FEDERICO E. PUNO\*
11. VICTOR C. MACALINCAG\*

*\*Nominated as Independent Directors*

5. Appointment of Sycip Gorres Velayo & Co. as independent external auditor.

For                       Against                       Abstain

**Item 3. Revocability of Proxy.** – Any stockholder who executes the proxy enclosed with this statement may revoke it at any time before it is exercised. The proxy may be revoked by the stockholder executing the same at any time by submitting to the Corporate Secretary a written notice of revocation not later than the start of the meeting, or by attending the meeting in person and signifying his intention to personally vote his shares. Shares represented by an unrevoked proxy will be voted as authorized by the stockholder.

**Item 4. Persons Making the Solicitation.** – The solicitation is made by the Management of the Corporation. No director of the Corporation has informed the Corporation in writing that he intends to oppose an action intended to be taken up by the Management of the Corporation at the annual meeting. Solicitation of proxies shall be made through the use of mail or personal delivery. The Corporation will shoulder the cost of solicitation involving reproduction and mailing of this proxy in an estimated amount of ₱60,000.00, more or less.

**Item 5. Interest of Certain Persons in Matters to be Acted Upon.** – No director, officer, nominee for director, or associate of any of the foregoing, has any substantial interest, direct or indirect, by security holdings or otherwise, on the matter to acted upon at the annual stockholders’ meeting to be held on May 2, 2011.

Date of Proxy	(Signature above printed name, including title when signing for a corporation or partnership or as an agent, attorney or fiduciary).
Number of Shares Held :	

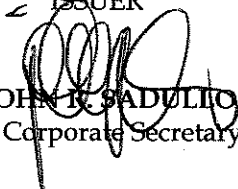
**ACCOMPANYING THIS INFORMATION STATEMENT ARE COPIES OF THE FOLLOWING:**

1. NOTICE OF THE ANNUAL STOCKHOLDERS’ MEETING CONTAINING THE AGENDA THEREOF;
2. THE CORPORATION’S ANNUAL REPORT INCLUDING MANAGEMENT DISCUSSION AND ANALYSIS AND INFORMATION ON INDEPENDENT ACCOUNTANT AND OTHER RELATED MATTERS.
3. AUDITED FINANCIAL STATEMENTS ENDING DECEMBER 31, 2010 AND 2009 INCLUDING THE STATEMENT OF MANAGEMENT’S RESPONSIBILITY FOR FINANCIAL STATEMENTS.
4. TWO (2) PROXY INSTRUMENTS.

**PART III  
SIGNATURE**

Pursuant to the requirements of the Securities Regulation Code, the Issuer has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized. After reasonable inquiry and to the best of my knowledge and belief, I certify that the information in this report is true, complete and correct.

**SEMIRARA MINING CORPORATION**

ISSUER  
By:   
JOHN R. SADULLO  
Corporate Secretary

Makati City, Philippines March 21, 2011.

**SCHEDULE 1**

The following is a disclosure of the beneficial owners of the shares held by the DMCI Holdings, Inc. in the Corporation as of March 15, 2011:

1.	Dacon Corporation	1,367,756,488	Common	51.51%
2.	PCD Nominee Corporation (NF)	438,471,450	Common	16.51%
3.	PCD Nominee Corporation (F) <sup>15</sup>	316,775,140	Common	11.93%

The following are the two (2) largest beneficial owners of the shares of Dacon Corporation:

Inglebrook Holdings, Inc.	343,330 shares	12.00%
Eastheights Holdings, Inc.	343,330 shares <sup>16</sup>	12.00%

**SCHEDULE 2  
List of Candidates**

In accordance with the Guidelines for Nomination of Directors, Revised Code of Corporate Governance, and SRC Rule 38, the Nomination Committee has selected the following upon nomination to the Board of Directors at the forthcoming Annual Stockholders' Meeting:

**Directors:**

1. **David M. Consunji**, 89, 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, DMCI Holdings, Inc., Semirara Cement Corp., SEM-Calaca Power Corp., and a director of Atlantic Gulf & Pacific Co., Inc. 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'

<sup>15</sup> PCD Nominee Corporation, a wholly-owned subsidiary of Philippine Depository and Trust Corporation ("PDTC"), is the registered owner of the shares in the books of the Corporation's transfer agent in the Philippines. The beneficial owners of such shares are PDTC participants, who hold the shares on their behalf or on behalf of their clients. PDTC is a private company organized by major institutions actively participating in the Philippine capital markets to implement an automated book-entry system of handling securities transactions in the Philippines.

<sup>16</sup> Other beneficial owners of Dacon Corporation with the same number of shares are Gulfshore Inc., Valemount Corporation, Chrismon Investment Inc., Jagjit Holdings, Inc., La Lumiere Holdings, Inc., and Rice Creek Holdings, Inc.

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.

2. **Isidro A. Consunji**, 62, Filipino, is the Vice-Chairman, Chief Executive Officer, and the Chairman of the Nomination & Election Committee of the Corporation. He is a graduate of B.S. Civil Engineering at the University of the Philippines. He holds a Masters Degree in Business Economics from the Center for Research & Communication, and Business Management from the Asian Institute of Management. He also took an Advanced Management from IESE School in Barcelona, Spain. He is currently the CEO of SEM-Calaca Power Corporation. He is also the Chairman and CEO of DMCI Mining Corporation, and Vice-Chairman of DMCI Masbate Power Corporation. He is a Director of Dacon Corporation, M&S Company Inc., DMCI Projects Developers, Inc., Crown Equities, Inc., 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.
  
3. **Victor A. Consunji**, 60, Filipino, is the President, Chief Operating Officer (COO), and a member of the Audit Committee of the Corporation. He is a graduate of A.B. Political Science at the Ateneo de Davao. He is currently the President and COO of SEM-Calaca Power Corporation; Chairman, President & CEO of Semirara Training Center, Inc.; Chairman and CEO of DMCI Power Corporation; Chairman & President of Sirawai Plywood & Lumber Corp.; Chairman of One Network Bank and Divine Word School of Semirara Island, Inc.; President of Sirawai Plywood & Lumber Corp.; and Vice-President of Dacon Corporation. 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., DMCI Masbate Power Corporation, and DMCI Mining Corporation.
  
4. **Jorge A. Consunji**, 59, 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, 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.
  
5. **Cesar A. Buenaventura**, 81, Filipino, is a Director of the Corporation. He graduated from the University of the Philippines with a degree of Bachelor of Science in Civil Engineering. He received his M.S. Civil Engineering as Fulbright Scholar at the Lehigh University, Bethlehem, Pennsylvania. In 1991, Mr. Buenaventura was made Honorary Officer of the Order of the British Empire (OBE) by Her Majesty Queen Elizabeth II. He is currently the Chairman of Maibarara Geothermal, Inc., and Vice-Chairman of Atlantic Gulf & Pacific Company of Manila (AG&P), DMCI Holdings, Inc., and Montecito Properties, Inc. He is a director of DMCI Holdings, Inc., iPeople, Inc., PetroEnergy Resources Corp, AG&P Company of Manila, Maibarara Geothermal, Inc., Montecito Properties, Inc., Pilipinas Shell Petroleum Corporation, Philippine American Life Insurance Company, and Manila International



- Airport Authority. He is the founding Chairman of Pilipinas Shell Foundation, Inc., and founding member of the Board of Trustees of the Makati Business Club. His former affiliations are: President of the Benigno S. Aquino Foundation; Member of the Board of Trustees of Asian Institute of Management; Chief Executive Officer of Shell Group of Companies; Member of the Monetary Board of the Central Bank of the Philippines; Member of the Board of Directors of the Philippine International Convention Center; Member of the Board of Regents of the University of the Philippines. He was also a former director of Ayala Corporation, First Philippine Holdings Corporation, Philippine Airlines, Philippine National Bank, Benguet Corporation, Asian Bank, Ma. Cristina Chemical Industries, and Paysetter International Inc.
6. **Herbert M. Consunji**, 58 years old, Filipino, is a Director and member of the Compensation & Remuneration Committee of the Corporation. He earned his degree of Bachelor of Science in Commerce Major in Accounting at De La Salle University. Currently, he is the Chairman, Subic Water & Sewerage Corp.; CFO, Maynilad Water Services, Inc.; Vice-President & CFO, DMCI Holdings, Inc.; and Partner, H.F. Consunji & Associate. He is also a director of DMCI Holdings, Inc., DMCI Project Developers, Inc., DMCI Power Corporation, DMCI Mining Corporation, SEM-Calaca Power Corp., Maynilad Water Services, Inc. and Subic Water & Sewerage Corp.
  7. **Victor C. Macalincag**, 75, Filipino, is an Independent Director, Chairman of the Audit Committee, member of the Compensation & Remuneration and Nomination & Election Committees 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., Merchants' Bank, and SEM-Calaca Power Corporation. 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.
  8. **George G. San Pedro**, 71, 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.
  9. **Federico E. Puno**, 64, Filipino, is an Independent Director and a member of the Audit and Nomination & Election Committees of the Corporation. He is currently an Independent Director of SEM-Calaca Power 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 Carnegie Mellon University, Pittsburgh, USA. He is President and Chief Executive Officer of Team Energy Corporation. He is also the Chairman of San Roque Power Corporation and ACI

- Philippines, Inc. Currently, he is a director of Republic Glass Holdings, Corp., Pampanga Sugar Development Corp., San Fernando Light & Power Company, and Lima Utilities. He was a Director of the Manila Electric Company, RGC Marine and Transport Corp., Nobel Philippines, Inc., Philippine National Oil Co. & Petrophil Corp., Luzon Stevedoring Corp., Philippine Resource Helicopters Inc., Philippine Dockyard Corp., and Union Savings Bank. He was also the President of National Power Corporation, San Roque Power Corp., Republic-Asahi Glass Corp., and Republic Glass Holdings, Corp.; Chief Financial and Management Services of the Ministry of Energy, Assistant Treasurer of the Ministry of Finance, and Ministry Energy Representative of the National Electrification Administration.
10. **Ma. Cristina C. Gotianun**, 56, Filipino, is a Director, Chairman of the Remuneration & Compensation Committee, Vice-President for Administration and Compliance Officer 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 and Treasurer of SEM-Calaca Power Corporation, DMCI Power Corporation, and DMCI Masbate Power Corporation. She is also the Assistant Treasurer of DMCI Holdings, Inc. and a Trustee, CFO and Corporate Secretary of Divine Word School of Semirara Island, Inc.
11. **Ma. Edwina C. Laperal**, 49, 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.; Director of SEM-Calaca Power Corporation; Treasurer of Dacon Corporation and DMC Urban Property Developers, Inc.; and D.M. Consunji, Inc.

**Executive Officers:**

David M. Consunji*	-	Chairman
Isidro A. Consunji*	-	Vice-Chairman/CEO
Victor A. Consunji*	-	President/COO
George G. San Pedro*	-	VP-Operations/Resident Manager
Junalina S. Tabor	-	Chief Finance Officer
Ma. Cristina C. Gotianun*	-	VP-Administration/Compliance Officer
George B. Baquiran	-	VP-Special Projects
Jaime B. Garcia	-	VP-Procurement & Logistics
John R. Sadullo	-	Corporate Secretary

*\*Member of the Board*

1. **George B. Baquiran**, 66, 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 Masters 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.
2. **Jaime B. Garcia**, 55 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 Masters 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.

3. **Junalina S. Tabor**, 47 years old, Filipino, is the Chief Finance Officer of the Corporation. She graduated with a degree of Bachelor in Science in Commerce, Major in Accounting at Saint Joseph College and is a Certified Public Accountant. She took her Masters 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.
4. **John R. Sadullo**, 40, Filipino, is the Corporate Secretary and Legal Counsel of the Corporation. 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, took the BAR exam in 1996 and was admitted in 1997. He currently holds the position of Corporate Secretary of SEM-Calaca Power Corporation, and Semirara Cement Corporation. He is also the Assistant Corporate Secretary of Semirara Training Center, Inc. and previously the Corporate Secretary of DMCI Mining Corporation, DMCI Masbate Power Corporation, and DMCI Concepcion Power Corporation.

### SCHEDULE 3 2010 Summary of Board Acts and Resolutions

1. Special Meeting held on January 12, 2010:
  - a. Authorization to issue for subscription to 92,524,266 common shares with a par value of Php1.00 per share out of the existing authorized capital stock to be offered by way of Stock Rights Offering in favor of all stockholders as of record date;
  - b. Appointment of BDO Capital and Investment Corporation as underwriter for the Stock Rights Offering;
  - c. Authorization to adopt the Revised Code of Corporate Governance pursuant to SEC Memorandum Circular No. 6, Series of 2009;
  - d. Authorization to sell, dispose transfer and convey motor vehicle in favor of One Network Rural Bank Inc. and designating therefor its authorized representative;
  - e. Approval of the Amended CEO Performance Evaluation Form;
  - f. Approval of additional sale of motor vehicles in favor of various buyer and designating therefor its authorized representative;
  - g. Approval of the publication of the Corporation's projected financial statements for 2010 at the official website of the Philippine Stock Exchange, Inc.; and
  - h. Approval of the purchase of sports materials and recreational facility from Millenium Sports Universal Company and designating therefor its authorized representative.
2. Regular Meeting held on March 9, 2010:
  - a. Approval of the Corporation and its subsidiary's consolidated audited financial statements for the period ended December 31, 2009;
  - b. Approval of the date, time, venue and record date of the Corporation's Annual Stockholders' Meeting; and designating for the purpose a Special Committee of Inspectors on Proxy Validation;
  - c. Approval of the Corporation's corporate suretyship, shareholder's support and the pledge of 67% of the Corporation's shares held in Sem-Calaca Power Corporation (SCPC) to guarantee SCPC's loan obligations in accordance with SCPC's Project Debt Facility Agreement dated February 17, 2010 executed between SCPC and BDO Capital & Investment Corporation and amended on March 18 and 22, 2010;

- d. Approval of the Corporation's waiver of the requirements under Section 73 of the Corporation Code in connection with the lost stock certificates of DMCI Holdings, Inc.; and designating therefor its authorized representative;
  - e. Ratification/Confirmation of the Amended Coal Supply Agreement with SEM-Calaca Power Corporation; and the authority of its representative;
  - f. Reversal and/or abandonment of its earlier resolution dated November 10, 2009, in connection with the authority to release director's bonus for 2009;
  - g. Approval of director's bonuses based on the Corporation's 2009 performance and the release thereof; and
  - h. Approval of the Corporation's authority to avail omnibus credit line with the Bank of Commerce; and designating therefor its authorized representative.
3. Special Meeting held on March 23, 2010:
    - a. Approval and conformity to the changes on the project debt facility between its subsidiary, SEM-Calaca Power Corporation and BDO Capital & Investment Corporation; and designating therefor its authorized representative; and
    - b. Authority to secure replacement for lost plate of its motor vehicle with the Land Transportation Office; and designating therefor its authorized representative.
  4. Special Meeting held on March 30, 2010:
    - a. Authority to dispose the Corporation's 19,302,200 treasury shares; and designating therefor its authorized representative;
    - b. Authority to purchase tugboats and barges; and designating therefor its authorized representative;
    - c. Approval and conformity to the *further* changes on the project debt facility between its subsidiary, SEM-Calaca Power Corporation and BDO Capital & Investment Corporation; and designating therefor its authorized representative; and
    - d. Authority to avail of the benefits under the Social Security Condonation Act of 2009; and designating therefor its authorized representative.
  5. Special Meeting held on April 27, 2010:
    - a. Authority to declare cash dividend at Php6.00 per share to stockholders of record as of May 27, 2010 and payable on June 23, 2010; and designating therefor its authorized representative;
    - b. Authority to to amend, revise and/or modify the stock rights offer ratio to one (1) Rights Share for every five (5) common shares held as of record date;
    - c. Supplement to the Corporations' authority to purchase tugboats and barges by authorizing certain representatives of the Corporation to make follow-up documentary requirements with the Maritime Industry Authority;
    - d. Authority to avail income tax holiday under the Omnibus Investments Code of 1987; and designating therefor its authorized representative; and
    - e. Authority to dispose motor vehicles to company officers; and designating therefor its authorized representative.
  6. Organizational Meeting held on May 13, 2010:
    - a. Election of officers and committee members for 2010-2011;
    - b. Approval of the 1<sup>st</sup> Quarter Financial Report for the period ending March 31, 2010;
    - c. Approval of the amendment to the Corporation's Insider Trading Policy;
    - d. Approval of the amendment to the use of the Corporation's Stock Rights Offering;
    - e. Approval of the purchase of two condominium units from DMC-Urban Property Developers, Inc.; and designating therefor its authorized representative;
    - f. Approval of the application/request for the issuance of duplicate Certificate of Registration from the Land Transportation Office; and designating therefor its authorized representative;

- g. Approval of the appointment of Rizal Commercial Banking Corporation as the Corporation's Receiving Agent in connection with the Corporation's Stock Rights Offering; and designating therefor its authorized representative; and
  - h. Authority to open a trading account for and in behalf of the Corporation's stockholders with BDO Securities Corporation pursuant to the Special Power of Attorney issued in its favor in connection with the Stock Rights Offering of the Corporation.
7. Special Meeting held on May 25, 2010:
- a. Ratification and/or confirmation of the Omnibus Loan and Security Agreement executed by its wholly-owned subsidiary, SEM-Calaca Power Corporation and Banco De Oro Unibank, Inc, Bank of the Philippine Islands and Philippine National Bank; and designating therefor its authorized representative.
8. Special Meeting held on July 1, 2010:
- a. Authority that the Corporation's securities lodged with Philippine Depository and Trust Corporation have been issued in uncertificated form without jumbo or mother certificate pursuant to the requirement under the Amended Rule on Lodgment of Securities of the Philippine Stock Exchange;
  - b. Authority to participate through linkage with the electronic direct registration of Pastra.Net; and designating therefor its authorized representative;
  - c. Authority to obtain probationary certificate of Philippine Registry from the Philippine Embassy in Singapore in connection with the purchase of tugboats and barges; and designating therefor its authorized representative; and
  - d. Authority to establish escrow agreement at Rizal Commercial Banking Corporation - Trust and Investments Division relative to the proceeds of the Corporation's Stock Rights Offering; and designating therefor its authorized representative.
9. Special Meeting held on July 21, 2010:
- a. Approval of the amendment to the schedule on Stock Rights Offering Utilization of Proceeds;
  - b. Authority to reactive dormant account with the Bank of Commerce; and designating therefor its authorized representative; and
  - c. Authority to reactive and close dormant account with Export and Industry Bank, Inc.; and designating therefor its authorized representative;
10. Regular Meeting held on August 10, 2010:
- a. Approval of the Corporation's 2<sup>nd</sup> Quarter Financial Report for the period ended June 30, 2010;
  - b. Approval of the Corporation's equity assignment in DMCI Power Corporation and DMCI Mining Corporation in favor of DMCI Holdings, Inc.; and designating therefor its authorized representative;
  - c. Authority to invest in Calaca power plant expansion through another wholly-owned subsidiary to be incorporated for the purpose;
  - d. Authority to purchase power plant of Goodyear Philippines, Inc.; and designating therefor its authorized representative;
  - e. Approval of loan application with China Banking Corporation; and designating therefor its authorized representative;
  - f. Authority to deal with the Maritime Industry Authority in connection with the purchase of barges and tugboats; designating therefor its authorized representative; and revocation of prior resolutions on the matter dated March 30, 2010 and April 27, 2010;
  - g. Authority to lease parking spaces from the Bank of the Philippine Islands located at Don Chino Roces Avenue, Makati City; and designating therefor its authorized representative;
  - h. Authority to issue instructions in connection with the Corporation's bank account with Banco De Oro Unibank, Inc.; and designating therefor its authorized representative;

- i. Approval of the amendment to the Board's resolution dated August 10, 2006 in connection with the limit of authority to the Corporation's mine site bank signatories;
  - j. Authority to apply for Import Commodity Clearance with the Department of Trade and Industry; and designating therefor its authorized representative;
  - k. Approval of the Corporation's directors and officers liability insurance with Chartis Philippines Insurance, Inc.; and designating therefor its authorized representative; and
  - l. Authority to purchase two condominium units of La Verti Residences of DMCI-Project Developers, Inc.; and designating therefor its authorized representative.
11. Regular Meeting held on November 9, 2010:
- a. Approval of the 3<sup>rd</sup> Quarter Financial Report for the period ending September 30, 2010;
  - b. Approval of the release of directors' reimbursable allowance;
  - c. Approval of the sale of motor vehicle; and designating therefor its authorized representative;
  - d. Authority to waive prescription under the statute of limitations of the Bureau of Internal Revenue Code; and designating therefor its authorized representative;
  - e. Authority to apply for a Certificate of Public Convenience Exemption with the Martine Industry Authority; and designating therefor its authorized representative;
  - f. Approval of the assignment of H2 Metal Enterprises, Kamho Enterprises and Rayong Enterprises against the Corporation in favor of the assignee, Cathay Industrial & Mill Supply, Inc.; and designating therefor its authorized representative;
  - g. Approval on the renewal of accreditation with the Bureau of Customs relative to the Corporation's coal exportation and importation of spare parts, machineries and equipment, among others;
  - h. Designation of authorized check signatories relative to the withdrawal of cargoes and settlement of trade transactions with Philippine Ports Authority, Batangas, pursuant to PMO Batangas Administrative Order No. 01-2005;
  - i. Authority to relinquish a ten (10)-hectare area under the Exploration Permit with Permit No. EP-99-001-VI from the period of March 23, 2010 to March 22, 2012, in favor of or in connection to the Quarry Permit Application of the Corporation and the Integrated Workers Multi-purpose Cooperative covering five (5) hectares each;
  - j. Authority to open, establish, maintain and operate Trust Account/s, Investment Management Account/s and such other accounts with Banco De Oro Unibank, Inc. - Trust and Investment Group;
  - k. Approval on the purchase of parking slots at the La Verti Residences of DMCI-Project Developers, Inc.
  - l. Authority to open, establish, maintain and operate Trust Account/s, Investment Management Account/s and such other accounts with Bank of Commerce - Trust Services Group;
  - m. Authority to open, establish, maintain and operate Trust Account/s, Investment Management Account/s and such other accounts with Bank of the Philippine Islands;
  - n. Approval on the purchase of tugboats and barges, and the authority to deal with the Maritime Industry Authority on the importation of such tugboats and barges; and
  - o. Authority to represent and to vote the Corporation's shares held in SEM-Calaca Power Corporation at the latter's its Special Stockholders Meeting on February 24, 2011.

----- nothing follows -----



**SEMIRARA  
MINING  
CORPORATION**

**SEMIRARA MINING CORPORATION**

2<sup>nd</sup> Floor DMCI Plaza Building, 2281 Don Chino Roces Avenue  
Makati City, Metro Manila, Philippines

**NOTICE OF ANNUAL STOCKHOLDERS' MEETING**

Dear stockholders:

Please be notified that the Annual Meeting of Stockholders of Semirara Mining Corporation (the "Corporation") will be held on **May 2, 2011, Monday at 10:00 o'clock in the morning at the Fairways Room, Manila Golf & Country Club, Harvard Road, Forbes Park, Makati City, Philippines**, with the following agenda:

1. CALL TO ORDER & PROOF OF NOTICE OF MEETING
2. CERTIFICATION OF QUORUM
3. APPROVAL OF MINUTES OF PREVIOUS MEETING HELD MAY 4, 2010
4. MANAGEMENT REPORT
5. RATIFICATION OF THE ACTS OF THE BOARD OF DIRECTORS AND MANAGEMENT FROM THE DATE OF THE LAST ANNUAL STOCKHOLDER'S MEETING UP TO THE DATE OF THIS MEETING
6. ELECTION OF DIRECTORS FOR 2011-2012
7. APPROVAL TO PURSUE ECOZONE DEVELOPMENT IN BALAYAN AND CALACA, BATANGAS
8. APPOINTMENT OF AN INDEPENDENT EXTERNAL AUDITOR
9. ADJOURNMENT

Stockholders of record as of March 21, 2011 will be entitled to notice of, and vote at the said annual meeting or any adjournment or postponement thereof. Validation of proxies shall be held on April 26, 2011, 4:00 o'clock in the afternoon at the office of the Corporation.

On the day of the meeting, you or your duly designated proxy is hereby required to bring this notice, proper authorization and forms of identification, i.e. driver's license, company, GSIS, SSS and the other valid identification to facilitate registration. Our registration starts at exactly 8:45 and closes at 9:45 o'clock in the morning.

Makati City, Metro Manila March 21, 2011.

For the Board of Directors

By:

(sgd.) **JOHN R. SADULLO**  
Corporate Secretary

**PROXY FORM  
SEMIRARA MINING CORPORATION**

**Item 1. Identification.** This proxy is being solicited by the **MANAGEMENT OF THE SEMIRARA MINING CORPORATION** (the “**Corporation**”). The Chairman of the Board of Directors or, in his absence, the Vice-Chairman or President of the Corporation will vote the proxies at the Annual Stockholders’ Meeting to be held on **May 2, 2011, 10:00 o’clock in the morning at the Fairways Room, Manila Golf & Country Club, Harvard Road, Forbes Park, Makati City 1220, Philippines.**

**Item 2. Instructions.**

- (a) The proxy must be duly accomplished by the stockholder of record as of Record Date, or his duly authorized agent. In case of a stockholder that is a corporation or a partnership, the proxy must be accomplished by the officer or agent that is duly authorized to do so by virtue of an appropriate corporate or partnership resolution.
- (b) Duly accomplished proxies must be delivered to the Corporate Secretary of the Corporation not later than April 26, 2011 at the following address: **SEMIRARA MINING CORPORATION, 2<sup>nd</sup> Floor DMCI Plaza Building, 2281 Don Chino Roces Avenue, Makati City.**
- (c) In case of a corporate stockholder, the proxy must be accompanied by a corporate secretary’s certificate quoting the board resolution authorizing the relevant corporate officer to execute the proxy for the corporate stockholder.
- (d) In case of shares of stock owned jointly by two or more persons, the consent of all co-owners must be necessary for the execution of the proxy. For persons owning shares in an “and/or” capacity, any one of them may execute the proxy.
- (e) Validation of proxies will be done by the Special Committee of Inspectors designated by the Board on April 26, 2011 at 4:00 o’clock in the afternoon at the 2<sup>nd</sup> Floor, DMCI Plaza Building, 2281 Don Chino Roces Avenue, Makati City, Philippines. Any dispute which may arise pertaining to the validation shall be resolved by the Securities and Exchange Commission upon formal complaint filed by the aggrieved party.
- (f) Unless otherwise indicated by the stockholder, a stockholder shall be deemed to have designated the Chairman of the Board of Directors, or in his absence, the President of the Corporation, as his proxy for the annual stockholders meeting to be held on May 2, 2011.
- (g) If the number of shares of stock is left in blank, the proxy shall be deemed to have been issued for all of the stockholder’s shares of stock in the Corporation as of Record Date.
- (h) The manner in which this proxy shall be accomplished, as well as the validation hereof shall be governed by the provisions of SRC Rule 20 (11) (b).
- (i) The stockholder executing the proxy shall indicate the manner by which he wishes the proxy to vote on the matters in (1), (2), (3), (4) and (5) below by checking the appropriate box. **WHERE THE BOXES (OR ANY OF THEM) ARE UNCHECKED, THE STOCKHOLDER EXECUTING THE PROXY IS DEEMED TO HAVE AUTHORIZED THE PROXY TO VOTE IN FAVOR OF THE ITEMS SPECIFIED HEREUNDER.**

**The Undersigned hereby appoints:**

- (a) **The Chairman of the Board of Directors of the Corporation, or in his absence, the Vice-Chairman or the President of the Corporation, or in their absence,**
- (b) \_\_\_\_\_

as his/her/its Proxy to attend the above meeting of the stockholders of the Corporation, and any adjournment or postponement thereof, and thereat to vote all shares of stock held by the undersigned as specified below and on any matter that may properly come before said meeting.

1. Approval of minutes of previous Annual Stockholder’s meeting held on May 4, 2009.

For                       Against                       Abstain

2. Ratification of the acts of the Board of Directors and Management from the date of the last Annual Stockholders’ Meeting up to the date of this Meeting.

For                       Against                       Abstain



3. Approval to pursue Ecozone Development in Balayan and Calaca, Batangas.

For                       Against                       Abstain

4. Election of Directors

For all the nominees below, except those whose names are stricken out.

WITHHOLD AUTHORITY TO VOTE FOR ALL NOMINEES LISTED BELOW.

**(Instructions: TO STRIKE OUT A NAME OR WITHHOLD TO VOTE FOR ANY INDIVIDUAL NOMINEE, DRAW A LINE THROUGH THE NOMINEE'S NAME IN THE LIST BELOW).**

**Nominees:**

1. DAVID M. CONSUNJI
2. CESAR A. BUENAVENTURA
3. ISIDRO A. CONSUNJI
4. VICTOR A. CONSUNJI
5. JORGE A. CONSUNJI
6. HERBERT M. CONSUNJI
7. GEORGE G. SAN PEDRO
8. MA. CRISTINA C. GOTIANUN
9. MA. EDWINA C. LAPERAL
10. FEDERICO E. PUNO\*
11. VICTOR C. MACALINCAG\*

*\*Nominated as Independent Directors*

5. Appointment of Sycip Gorres Velayo & Co. ("SGV & Co.") as independent external auditor

For                       Against                       Abstain

**Item 3. Revocability of Proxy.** – Any stockholder who executes the proxy enclosed with this statement may revoke it at any time before it is exercised. The proxy may be revoked by the stockholder executing the same at any time by submitting to the Corporate Secretary a written notice of revocation not later than the start of the meeting, or by attending the meeting in person and signifying his intention to personally vote his shares. Shares represented by an unrevoked proxy will be voted as authorized by the stockholder.

**Item 4. Persons Making the Solicitation.** – The solicitation is made by the Management of the Corporation. No director of the Corporation has informed the Corporation in writing that he intends to oppose an action intended to be taken up by the Management of the Corporation at the annual meeting. Solicitation of proxies shall be made through the use of mail or personal delivery. The Corporation will shoulder the cost of solicitation involving reproduction and mailing of this proxy in an estimated amount of ₱60,000.00, more or less.

**Item 5. Interest of Certain Persons in Matters to be Acted Upon.** – No director, officer, nominee for director, or associate of any of the foregoing, has any substantial interest, direct or indirect, by security holdings or otherwise, on the matter to acted upon at the annual stockholders' meeting to be held on May 2, 2011.

\_\_\_\_\_  
Date of Proxy

\_\_\_\_\_  
(Signature above printed name, including title when signing for a corporation or partnership or as an agent, attorney or fiduciary).

Number of Shares Held : \_\_\_\_\_

# **MANAGEMENT REPORT**

## **Pursuant to SRC Rule 20(4)**



## PART I- BUSINESS AND GENERAL INFORMATION

Semirara Mining Corporation (the “Corporation”) was incorporated on February 26, 1980 to explore, develop and mine the coal resources in Semirara Island.

Competition is insignificant in so far as domestic coal mine is concerned. The Corporation remains the largest coal producer in the Philippines, contributing 1.515 million metric tons (MT) or 98.4% of total domestic coal production in 2001 while the nominal balance is shared by small-scale mines in Cebu, Bataan Island, and other areas. Nonetheless, domestic coal demand is still anchored heavily on imported coal. In 2002, importation reached 5.930 million MT, representing 79.4% of aggregate supply, much higher than the 1.539 million MT (or 20.6% of aggregate supply) contributed by domestic coal producers. China brought in the bulk of coal in the country, accounting for 49.84% of the total, followed by Indonesia (36.86%), Australia (9.26%) and Vietnam (4.04%). In 2004, domestic producers supplied 27% of the total demand of 9.5 Million MTs increasing further to 32% of the 9.7 Million MTs market in 2005. However, in 2006 domestic producers supplied only 25% of the total demand of 9.5 Million MT’s because of higher imported volume due to demand of higher quality coal which came from other countries. Semirara supplied 22% of the country’s total coal consumption for 2006. The competitiveness of domestic coal producers is threatened by the more superior quality of imported coal as well as the government’s policy on liberalization. This is however compensated by the Department of Energy’s policy to promote indigenous energy resources and lower freight costs of local coal vis-à-vis imports. The Corporation remains to be 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%.

To be competitive, local coal industry must be priced competitively against imported coals, currently from, Indonesia, China & Australia. Pricing of domestic coal is based on import parity inclusive of taxes and duties (at the current rate of taxes and duties). With the inherent quality of Semirara coal, it is estimated that it will be used by approximately 50% of the total Philippine market. The promptness of delivery and quality of coal is required. The power companies are mostly located in Luzon and a few in the Visayas and Mindanao.

Currently, Corporation has a long term Supply Contract with National Power Corporation (NPC) for its power plants in Calaca. Potential requirement of the Calaca plants is approximately 1.5 to 2.0 Million MTs. In March 2003, NPC tested our coal for its Masinloc plant while deliveries were made to Sual and Pagbilao Power Plants in 2004 and 2005. Both plants (Sual and pagbilao) are being operated by Mirant, Phil., Inc., and are covered by a Coal Supply and Energy Conversion Agreements with NPC. These plants have potential market of 600,000 to 800,000 Mts of coal per annum for Semirara coal.

Historically, approximately 98% of the Corporation’s revenue streams are from the NPC Calaca Plants. NPC’s consumption of Semirara Coal has steadily increased since the Corporation worked on improving the quality of its coal. Note that the Corporation started washing 25% of its production in mid 1999. Resultantly, its market has widened, to include other power plants, 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% and 68% in 2006. In 2008, NPC share in volume and value further dropped to 24% and 40% 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. In 2007, sale to domestic customers (outside NPC) accounted for 39% and 37% respectively in terms of volume and value, and rose to 46% in volume and decreased by 27% in value in 2008. Likewise, in 2007, export sales’ share in volume and value registered at 22% and 18%, respectively and went up to 30% and 22%, in 2008.

The Corporation has secured permits and licenses from the government as follows: a) Coal Operating Contract with the DOE effective until 2012. This has been renewed and extended by the DOE up to 2027; b) Mineral Exploration Permit 99-001-VI issued by the DENR renewable every 2 years; c) Environmental Compliance Certificate No. 9805-009-302 issued by the DENR effective for the duration of the project d) Business Permit issued by Caluya, Antique for 2007; e) Aerodrome Rating Certificate No. 218 issued by the ATO- yearly renewable by site; f) Certificate of Registration of Port Facilities No. 149.

The Corporation under its Coal Operating Contract is obligated to pay royalties to the Department of Energy (DOE) - 3% royalty based on FOB sales and b) compensation for entry and use of private lands under the provisions of PD 972, as amended by PD 1174, to land owners- P0.50/MT for untitled land and P1.00/MT for titled land. On November 12, 2009, DOE and the Corporation executed Second Amendment to Coal Operating Contract No. 5. The second amendment amends the coordinates of the contract area to include a land area of 3,000 and 4,200 hectares, more or less located in Caluya Island and Sibay Island, Antique.

The average number of personnel of the Corporation is 2,137 and 2,043 for the years 2010 and 2009 respectively, inclusive of employees based at the Corporation's head office in Manila. Out of the 2,137 employees for 2010, 249 are employed by Semirara while the rest is employed by DMC Construction Equipment Resources, Inc. an affiliate of Dacon Corporation.

On December 14, 2006, CBA between the Corporation and the Semirara Mining Corporation Labor Union (SMCLU) was signed effective for another five (5) years. There was a notice of strike or dispute which however did not materialized due to settlement resulting to the signing of the new CBA.

The Corporation has obtained all necessary government permits for its operations. The Corporation has been implementing the necessary programs to comply with all regulatory requirements, particularly the Corporation's Environmental Compliance Certificate (ECC), which includes Regular Monitoring by the Multi-partite Monitoring Team (MMT) Marine Assessment Studies/Surveys, Social Development Programs, Reforestation Programs, etc. From 2001-2006 the Corporation has spent P23.6 Million for Social and Environmental Programs such as expanded mangrove areas, initiated and supported livelihood projects, implemented reforestation programs on the island, and cultivated fresh water sanctuary.

The Corporation is legally required to fulfill certain obligations as required under its ECC issued by Department of Environment and Natural Resources (DENR) when it abandons depleted mine pits. The Corporation recognizes this liability and set up an "Asset Retirement Obligation" account in its Balance Sheet.

The Corporation's has established an Environmental Monitoring Fund for MMT, which has an initial amount of P600,000, 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 Corporation.

Taking an extra mile, the Company endeavored to enhance its business processes, such that in 2007, works for ISO certification started. Finally, in 2008, the Company had successfully obtained ISO certification on Integrated Management System covering three (3) standards as follows: Quality Management System (ISO 9001:2000), Environmental Management System (ISO 14001:2004), and Occupational Health and Safety Management System (OSHAS 18001:2007).

On the Corporation's existing legal cases, are as follows:

1. **The HGL Case.** Sometime in January 2004, the Corporation received a complaint filed by HGL Development Corporation (“HGL”). The facts are as follows:

On August 28, 1984, HGL entered into a Forest Land Grazing Lease Agreement (FLGLA No. 184) with the Department of Environment and Natural Resources (“DENR”) covering a 367-hectare land located at the Barrios of Bobog and Pontod, Semirara, Antique. In its Order dated December 6, 2000, the DENR cancelled FLGLA No. 184 explaining that the subject area is within the coverage of Proclamation No. 649, which set apart the island of Semirara in the Province of Antique as coal mining reservations.

HGL filed a letter requesting a reconsideration of the Order but the request was denied in the DENR’s letter-Order dated December 9, 2002.

#### **The Caloocan Case:**

On November 17, 2003, HGL filed a complaint against the DENR for specific performance and damages in Branch 121, Regional Trial Court of Caloocan City (RTC-Caloocan). HGL prayed that DENR should perform its obligations under FLGLA No. 184 and pay HGL for moral and exemplary damages and attorneys’ fees.

On March 2, 2004, the Corporation filed a Motion for Intervention because the Order canceling FLGLA No. 184 sought to be reconsidered by HGL covers property located in the island of Semirara, Antique, which was granted by RTC-Caloocan. Subsequently, the Corporation filed a Motion to Dismiss on the ground of lack of cause of action/jurisdiction and forum shopping. The Corporation’s prayer for dismissal and its subsequent Motion for Reconsideration having been both denied, the Corporation filed its Petition for Review with the Court of Appeals (CA) on November 28, 2005 on the premise that RTC-Caloocan has no jurisdiction over the case.

On January 16, 2007, the CA reversed RTC-Caloocan’s decision and finding grave abuse of discretion on the part of the presiding judge for failing to dismiss the case for lack of jurisdiction. The CA ruled that the DENR Order canceling HGL’s FLGLA No. 184 had long been final and executory on account of its failure to appeal said Order to the Office of the President. Eventually, HGL’s Motion for Reconsideration was denied and the CA accordingly dismissed the case.

Due to CA’s denial of HGL’s Motion for Reconsideration, a Petition for Certiorari (SC G.R. No. 177844, 2<sup>nd</sup> Division) was filed by HGL before the Supreme Court (SC) on November 14, 2007, which was denied by the SC for failure of HGL to sufficiently show any reversible error on the assailed CA decision and further denies HGL’s motion for leave and first and second motions of time to file a reply to the Corporation’s comments on the petition. HGL’s Motion for Reconsideration was denied with finality by the SC on July 2, 2008.

Meanwhile, in a case docketed as SC G.R. No. 180401, 1<sup>st</sup> Division (*DENR vs. HGL*), DENR’s Petition for Certiorari was denied by the SC on February 4, 2008. DENR then filed its Motion for Reconsideration on March 25, 2009, which later denied by the SC with finality.

Citing as basis the dismissal of the RTC-Culasi of *SMC vs. HGL* (the Culasi Case) on the ground of forum shopping, SMC filed a Motion to Dismiss with the RTC-Caloocan (Civil Case No. C-20675). However, RTC-Caloocan denied the motion on December 24, 2008 and cited the SC decision on G.R. No. 180401 (*DENR vs. HGL*) to sustain its decision to retain jurisdiction over the case. With the denial of its MR on June 24, 2009, the Corporation filed its Petition for Certiorari with the CA on September 14, 2009. The case is pending to date.

### The Culasi Case:

HGL also filed a separate case against the Corporation on November 17, 2003 in Branch 13 of the Regional Trial Court of Culasi, Antique (RTC-Culasi) for the recovery of their alleged possession of a 367-hectare land located at the Barrios of Bobog and Pontod, Semirara, Antique. HGL prayed for (i) the issuance of a preliminary mandatory injunction in order to secure immediate possession of the property pending litigation, and (ii) actual, moral and exemplary damages and attorney's fees in the total amount of P10 million. The Corporation received the summons on January 15, 2004.

On February 6, 2004, the Corporation filed its Answer and prayed for the outright dismissal of the case for being baseless and unfounded as the Order canceling FLGLA No. 184 had long been final and executory and can no longer be disturbed. The Corporation claims exemplary and moral damages and attorneys' fees.

On September 16, 2004, the RTC-Culasi granted HGL's prayer for preliminary mandatory injunction, which order was affirmed by the CA-Cebu. The Corporation elevated the case to the SC by way of Certiorari with prayer for Temporary Restraining Order (TRO) and/or Injunction to be issued against HGL, the CA-Cebu and RTC-Culasi. The SC initially granted the TRO on March 2, 2005, but on December 06, 2006, the SC promulgated its decision, which denied the Corporation's Petition for Certiorari. On January 18, 2007, the Corporation filed its Motion for Reconsideration and later on January 25, 2007 due to the ruling by the CA in the Caloocan case filed a Supplemental Motion for Reconsideration.

On February 14, 2007, the SC denied with finality the Corporation's Motion for Reconsideration and its supplement to the aforesaid motion for lack of merit.

Meanwhile, on July 16, 2007, the RTC-Culasi dismissed the main case, as the two (2) cases filed by HGL was a deliberate violation of the rule on forum shopping. RTC-Culasi further stated in its decision that in both cases, HGL's cause of action rests on the validity of its FLGLA No. 184. HGL filed its Motion for Reconsideration, but on November 20, 2007, RTC-Culasi ruled against HGL. No appeal was taken by HGL.

Thereafter, on February 5, 2008, HGL filed before the SC a Petition for Indirect Contempt docketed as "*HGL Development Corporation, represented by its President, Henry G. Lim, Petitioner vs. Hon. Rafael L. Penuela, in his capacity as Presiding Judge of RTC-Culasi, Antique, Branch 13, and Semirara Coal Corporation (now Semirara Mining Corporation, Respondents,*" SC G.R. No. 181353. HGL alleged, among others, that the dismissal of the Culasi case constitutes indirect contempt as HGL was not able to implement the SC's decision dated December 6, 2006 (affirming the earlier order of RTC-Culasi granting HGL's prayer for preliminary mandatory injunction) and resolution dated February 14, 2007, as RTC-Culasi dismissed the main case or the Culasi case on the ground of forum shopping. The Corporation filed its Comments/Opposition to the Petition. Subsequently, the SC required the parties to submit their respective Memoranda. The case is pending to date.

2. **Tax Refund/Credit Case.** The Corporation filed various cases against the Commissioner of Internal Revenue before the Court of Tax Appeals (CTA) for tax credit/refund due to erroneously withheld and remitted VAT on coal sales by National Power Corporation (NPC) in the total amount of P190,500,981.23.

- 2.1 *CTA Case No. 7717 (For P11,847,055.07)*. – On October 15, 2009, the CTA rendered a Decision granting the Corporation’s petition for refund in the amount of P11,847,055.07, representing the final VAT erroneously withheld by NPC on sales of coal for the month of December 2005. The CIR moved for reconsideration. After the Corporation filed its comment on November 21, 2009, the CTA on August 10, 2010 issued a Writ of Execution on its decision dated October 15, 2009.
- 2.2. *CTA Case No. 7867(For P15,292,054.93)*. – On January 4, 2011, the CTA rendered a Decision granting the Corporation’s petition for a refund or issuance of a tax credit certificate in the amount of P15,292,054.91, representing the final VAT erroneously withheld by NPC on sales of coal for the month of January 2007.
- 2.3. *CTA Case Nos. 7727 & 7783 (ForP86,108,626.19)*. – On February 10, 2011, the CTA rendered a Decision granting the Corporation’s petitions for a refund or issuance of a tax credit certificate in the amount of P86,108,626.10, representing the final VAT erroneously withheld by NPC on sales of coal for the period covering January 1, 2006 to June 30, 2006. On February 22, 2011, Respondent CIR filed a Motion for Reconsideration and the Corporation filed its Opposition thereto on March 8, 2011. The case is now pending resolution.
- 2.4. *CTA Case Nos. 7822 & 7849 (ForP77,253,245.39)*. - The parties have submitted their respective Formal Offer of Evidence. The case now is submitted for decision.
3. **Business Tax Case.** On February 26, 2007, SMC filed a complaint (*SMC vs. Municipality of Calaca, RTC-137, Makati City, Civil Case No. 07-180*) to seek the reversal and cancellation of the tax assessment by the Municipality of Calaca for unpaid business tax for the CY 2003, 2004 and 2005 in the amount of P66,685,189.00. The basis of the claim is that since coal is delivered to the port of Calaca and Corporation is doing business there as shown by the existence of an office, the situs of taxation is in Calaca. The Corporation maintains that it is not maintaining an office in the Municipality of Calaca, despite delivery to NPC-Calaca, hence, the proper situs of taxation is not in Calaca but in its principal office. The case was raffled after failure of Judicial Dispute Resolution (JDR).
4. **Real Property Tax Case.** On February 19, 2008, the Municipality of Caluya Antique filed a case against the Corporation (*Municipality of Caluya, Antique vs. SMC (Civil Case No. C-051, RTC-Culasi, Branch 13)*) for enforcement of the compromise agreement against Corporation submitted to the RTC on November 17, 2003 involving the balance of P82,979,702.24 in real property taxes for lots located in Semirara Island. The Corporation maintains that the Motion for Execution has no legal basis and is premature due to a clause in the compromise agreement requiring that the parties first determine the correctness of the tax assessments which shall be subject to the verification of the parties. The case is still pending with the Court.
5. **Specific Performance Case.** – The complaint docketed as *Power & Synergy, Inc. vs. SMC, et. al*, Civil Case No. Q-10-66936, RTC-QC, Branch 97 alleges fraudulent acts against the Corporation and its directors and officers, and prayed that the court ordered the defendants to jointly and severally perform and comply with the terms and conditions under the Consultancy Agreement and to honor plaintiff’s services under the said Agreement. On June 2, 2010, SMC filed its Motion to Dismiss the case on the following grounds: (i) the RTC has no jurisdiction over the case for failure of PSI to pay correct docket fees; (ii) venue is improperly laid in so far as other individual defendants; and (iii) complaint states no cause of action. Awaiting resolution of the Court on the Motion to Dismiss filed by the Corporation.



Except for the foregoing cases, the Corporation or its subsidiaries is not a party to any pending material legal proceedings. It is not involved in any pending legal proceedings with respect to any of its properties. Apart from the foregoing, therefore, it is not involved in any claims or lawsuits involving damages, which may materially affect it or its subsidiaries.

## PART II – SECURITIES OF THE REGISTRANT

### A. MARKET PRICE OF AND DIVIDENDS ON REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

(1) **Market Information. -**

(a) Principal market where the registrant's common equity is traded.

The Corporation is listed in the Philippine Stock Exchange. There has been no substantial trading since 1983 or 17 years. DMCI Holdings, Inc. however in 2004 increased its shareholdings from 74.36% to 94.51%. The National Development Co. (NDC) shares were decreased from 21.27% to 4.55% shares and the others from 4.3% to 0.94% shares. None of them sold their shares hence, no substantial trading occurred. These changes in the percentage of holdings resulted from the Equity Restructuring of the Corporation's authorized capital stock and the subscription of DMCI Holdings, Inc. of 19,120,581 additional shares in 2004.

In February 2005, new additional 46,875,000 shares were sold to the public by the Corporation in its international offer. Also in the same public offering, DMCI-HI as selling shareholder sold 58,171,000 reducing its shareholdings from 94.51% to 60%.

Moreover in June 2010, by way of Stock Rights Offering, the Corporation offered for subscription 59,375,000 common shares (Offered Shares) to eligible existing stockholders at the ratio of 1:5 shares as of Record Date, July 1, 2010.

(b) The Corporation's security was traded at the Philippine Stock Exchange (PSE) at a price of P0.40/share on December 23, 2002. There was no trading of the Corporation's securities in 2003 and 2004. The highs and lows (in Pesos) of trading during the past three (3) years are as follows:

	<u>High</u>	<u>Low</u>	<u>Close</u>
<b><u>2008</u></b>			
Jan-Mar	60.00	40.00	52.00
Apr-Jun	62.00	46.00	62.00
July-Sep	64.00	43.00	45.00
Oct-Dec	43.50	29.50	29.50
<b><u>2009</u></b>			
Jan-Mar	35.50	22.25	33.50
Apr-Jun	42.50	21.00	35.50
July-Sep	43.00	31.50	39.00
Oct-Dec	55.00	37.50	55.00
<b><u>2010</u></b>			
Jan-Mar	60.50	47.00	60.00
Apr-Jun	92.00	60.00	85.00
July-Sep	145.00	80.00	130.20
Oct-Dec	193.00	131.00	185.00
<b><u>2011</u></b>			

Jan-Mar <sup>1</sup>	234.40	180.00	228.00
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- (2) **Holders.** – The number of shareholders of record as of March 21, 2011 was 635. As of March 15, 2011 Semirara Mining Corporation has the following issued shares: Common shares - 356,250,000.

Title Of Class	Name	Number Of Shares Held	% of Total
Common	DMCI Holdings, Inc.	200,647,533	56.32
Common	PCD Nominee Corp. (NF)	68,697,501	19.28
Common	Dacon Corporation	43,500,918	12.21
Common	Others	43,404,048	12.18

Names of Top Twenty (20) Stockholders as of March 15, 2011 (Common Stockholders):

No.	Name of Stockholders	No. of Shares	Percentage <sup>2</sup>
1.	DMCI Holdings, Incorporated	200,647,533	56.32
2.	PCD Nominee Corp. (NF)	68,967,501	19.28
3.	Dacon Corporation	43,500,918	12.21
4.	PCD Nominee Corporation	23,896,858	6.71
5.	National Development Company	11,364,658	3.19
6.	DFC Holdings, Inc.	6,299,666	1.77
7.	Privatization and Management Office	769,450	0.22
8.	Fernwood Investments, Inc.	419,876	0.12
9.	Guadalupe Holdings Corporation	189,809	0.05
10.	Augusta Holdings, Inc.	173,475	0.05
11.	Berit Holdings Corporation	150,937	0.04
12.	Garcia, Jaime B.	40,030	0.01
13.	Amatong, Isagani S.	13,900	0.00
14.	Teng, Ching Bun	10,000	0.00
15.	Rosario, Victor J. Del Rosario, et. al.	6,000	0.00
16.	Chen, Xiaoler	6,000	0.00
17.	Gala, Luismil De Villa	5,000	0.00
18.	Yap, Raymond A.	5,000	0.00
19.	Gala, Luismil De Villa	5,000	0.00
20.	Ho. Doris Teresa M.	3,840	0.00

- (i) The table sets forth the record or beneficial owners of more than 5% of the outstanding Common Shares of the Corporation, which are entitled to vote and the amount of such record or beneficial ownership as of March 15, 2011:

Title Of Class	Name	Number Of Shares Held	% of Total
Common	DMCI Holdings, Inc.	200,647,533	56.32
Common	PCD Nominee Corp. (NF)	68,967,501	19.28
Common	Dacon Corporation	43,500,918	12.21

- (ii) each director and nominee

<sup>1</sup> As of March 15, 2011.

<sup>2</sup> Based on Corporation's outstanding shares recorded with its Stock and Transfer Agent.

Office	Names
Chairman	David M. Consunji
Vice-Chairman/CEO	Isidro A. Consunji
President/COO	Victor A. Consunji
Vice-President/Director	George G. San Pedro
Independent Director	Federico E. Puno
Independent Director	Victor C. Macalincag
Director	Jorge A. Consunji
Director	Cesar A. Buenaventura
Director	Herbert M. Consunji
Director	Ma. Cristina C. Gotianun
Director	Ma. Edwina C. Laperal

(iii) all directors and officers as a group, and the registrant's present commitments to such persons with respect to the issuance of any class of its common equity.

Title of class	Name of beneficial owner	Amount and nature of beneficial ownership	Citizenship	%
Common	David M. Consunji	212 <sup>3</sup>	Filipino	0.00
Common	Isidro A. Consunji	175,487 <sup>4</sup>	Filipino	0.05
Common	Cesar A. Buenaventura	6,010 <sup>5</sup>	Filipino	0.00
Common	Victor A. Consunji	716,492 <sup>6</sup>	Filipino	0.20
Common	Jorge A. Consunji	12	Filipino	0.00
Common	Herbert M. Consunji	10	Filipino	0.00
Common	Victor C. Macalincag	374,010 <sup>7</sup>	Filipino	0.10
Common	George G. San Pedro	40,030 <sup>8</sup>	Filipino	0.01
Common	Federico E. Puno	60,010 <sup>9</sup>	Filipino	0.02
Common	Ma. Cristina C. Gotianun	225,656 <sup>10</sup>	Filipino	0.06
Common	Ma. Edwina C. Laperal	349	Filipino	0.00
Common	Jaime B. Garcia	48,036 <sup>11</sup>	Filipino	0.01
Aggregate Ownership of all directors and officers as a group		1,630,214 <sup>12</sup>	Filipino	0.46

<sup>3</sup> 200 shares are indirect beneficial ownership (held by members of the family sharing the same household). Said shares are with PCD Nominee Corp.

<sup>4</sup> 173,475 shares are indirect beneficial ownership (held by a corporation of which such person is a controlling stockholder). Said shares are with PCD Nominee Corporation.

<sup>5</sup> 6,000 shares are with PCD Nominee Corporation.

<sup>6</sup> 716,480 shares are indirect beneficial ownership (held by a corporation of which such person is a controlling stockholder). Said shares are with PCD Nominee Corporation.

<sup>7</sup> 374,000 shares are with PCD Nominee Corporation, and 12,000 shares of which are indirect beneficial ownership held by members of the family sharing the same household.

<sup>8</sup> 40,000 shares are with PCD Nominee Corporation.

<sup>9</sup> 60,000 shares are with PCD Nominee Corporation.

<sup>10</sup> 225,537 shares are indirect beneficial ownership (held by a corporation of which such person is a controlling stockholder). Said shares are with PCD Nominee Corporation.

<sup>11</sup> 8,006 shares are with PCD Nominee Corporation.

<sup>12</sup> 1,111,392 shares are indirect beneficial ownership (Messrs. David M. Consunji, Isidro A. Consunji, Victor A. Consunji, Ma. Cristina C. Gotianun, and Victor C. Macalincag).



- (3) **Dividends.** - Last April 27, 2010, the Board of Directors approved the declaration of cash dividend at P6.00 per share payable on June 23, 2010 to stockholders as of record date, May 27, 2010.
- (4) **Recent Sales of Unregistered or Exempt Securities.** - No unregistered or exempt securities were sold in 2010, 2009 and 2008.

### PART III-FINANCIAL INFORMATION

#### A. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (YEARS 2007-2010)

##### Full Years 2009-2010

##### I. PRODUCTION AND OPERATIONS

###### Coal:

Over the years, global consumption for thermal coal has steadily increased. To meet rising demand, the Company further expanded capacity in 2010 by commissioning additional mining equipment worth USD32.25 million. With additional three units 16-cubic meter excavators, 25 units 100-tonner dump trucks, and corresponding support equipment, operations registered a new record high of total material movement of 78,681,611 bank cubic meters (bcm). This is 31% higher than 2009 material movement of 60,286,812 bcm. Strip ratio likewise improved by 17% at 9.73:1 from 10.91:1 in 2009. As a result, run-of-mine (ROM) coal produced posted a higher increase of 47% at 7,536,094 metric tons (MTs) from 5,144,143 MTs in 2009. Net total product coal correspondingly grew by 45% at 6,950,333 MTs from 4,798,398 MTs in 2009. Notably, good weather conditions during the year positively impacted mining operations.

The Company supports the expansion in production capacity with exploratory and confirmatory drilling activities. Initial results of the drilling program showed that coal seams extend throughout the eastern part of the 5,500-hectare island.

Moreover, in order to provide logistic support to match increased level of operations, a USD16 million investment was made to purchase additional barges and tugboats for domestic deliveries and to support mid-stream loading for vessels with capacity greater than 30,000MT.

Strong demand from both local and export markets is manifested by a 36% drop in inventory, despite increased production, from a beginning balance of 763,575 MTs to 490,7135 MTs as at the end of the year.

###### Power:

Meanwhile, the two power generating units of SEM-Calaca Power Corporation (SCPC), which is 100% owned by the Company, attained their expected capabilities based on their pre-rehabilitation conditions. In terms of availability, Unit 1 was running for 238 days, representing an availability of 65%, while Unit 2 was running for 174 days, representing an availability of 48%. The lower availability for Unit 2 was due to the scheduled rehabilitation during the second semester of 2010, from August 8 up to year end.

In terms of capacity utilization, the two generating units churned out their expected output when it was bid out by Power Sector Asset & Liability Management (PSALM). Unit 1 was utilizing an

average of 53% of its rated capacity, while Unit 2 was utilizing an average of 57% of its rated capacity. Both units have a rated capacity of 300 MW each.

Coal consumption for the generating units totaled 1,059,538 MTs for the year, inclusive of imported coal, at an average coal price of PHP2,817 per MT.

Total energy generated reached 937 million Kwh for Unit 1 and 720 million Kwh for Unit 2, or an aggregate generation of 1,657 million Kwh for the year 2010.

## II. MARKET

### Coal:

Increasing number of coal-fired plants and supply disruption in key coal exporting countries fueled global demand for thermal coal in 2010. The latest round of capacity expansion enabled the Company to meet more orders, thus recording another marketing milestone with an impressive 60% growth in sales from 4,464,029 MTs in 2009 to 7,146,286 MTs in 2010.

Local sales comprised 43% of total volume at 3,047,405 MTs, while 57% were export sales totaling to 4,098,781 MTs. In 2009, market shares of local and the export sales were 49% and 51%, respectively.

Of the total volume sold to local markets, more than half were delivered to power plants. Deliveries to SCPC aggregated to 957,908 MTs, and other power plants sales totaled to 746,911 MTs, thus registering total sales to local power plants at 1,704,819 MTs. Two newly commissioned plants in the Visayas area started to buy Semirara coal this year. Despite recording a 31% increase over 2009 power plants' sales of 1,301,776 MTs, current market share of the local power industry dropped to 24% from 29% last year.

Sales to local cement plants posted a modest growth of 8% from 615,164 MTs in 2009 to 661,392 MTs in 2010. A major player in the cement industry started to use Semirara coal this year. Due to a more significant increase in total sales, its market share likewise dropped from 14% in 2009 to 9% in 2010.

Conversely, other industrial plants increased its market share from 6% in 2009 to 10% in 2010 with a more significant increase of 139% in sales volume. A total of 681,242 MTs were delivered in 2010 to different industrial users, usually through local traders who have the logistic support to supply to inland customers. This market only accounted for 285,392 MTs in 2009.

Export sales continued to be the Company's main growth driver with a remarkable 81% increase from 2009 sales volume of 2,261,695 MTs. Around 75% of export deliveries in 2010 went to China. The rest were delivered to India, Thailand, Hong Kong, and South Korea.

Composite average FOB price per MT dropped by 10% at PHP2,343 this year from PHP2,600 in 2009. When the Company acquired the power business in December 2009, the pricing mechanism was amended to reflect current market prices, instead of the import parity pricing scheme as provided for in the Coal Supply Agreement with National Power Corporation.

### Power:

SCPC sold a total of 1,370 million Kwh to its customers by virtue of its Transition Supply Contracts (TSCs), which form part of the Asset Purchase Agreement (APA) when SCPC acquired the Calaca Coal-fired Power Plants from PSALM in December 2009. The major customers under the TSCs include Meralco, which comprised 51% of total TSC volume sold, the Cavite Export Processing Zone

(CEPZ) for 29%, Batangas Electric Cooperative 1 (Batelec 1) for 18%, and other small customers for the remaining 2%.

In excess of SCPC's TSC commitments, additional power sales were generated by selling to the Wholesale Electricity Spot Market (WESM) during off-peak hours. Total spot sales reached a volume of 480 million Kwh for the year.

In some instances, SCPC purchased power from the WESM to be able to meet its commitment under the TSCs. Power purchased from the spot market totaled to 340 million Kwh for the year. It is worthy to note that replacement power contracts with other power generators were put in place before the scheduled rehabilitation of Unit 2, which resulted in putting a cap on SCPC's exposure from the WESM by generating savings of over PHP200 million for the year.

Of total sales volume for the year, SCPC's sales mix ratio was at 77% for TSCs and 23% for spot sales. This sales mix ratio is deemed to be within the ideal mix to limit SCPC's exposure to the volatility of the spot market, and to minimize exposure to the contracted capacities in case of unavailability.

### III. FINANCE

#### A. Sales and Profitability

The Company's investment in SCPC boosted profitability in 2010. Consolidated Revenue of PHP22.90 billion is almost double 2009's Revenues of PHP11.94 billion. Net of eliminating entries, PHP14.24 billion and PHP8.66 billion represented coal and energy revenues, respectively. The 24% increase in coal revenues versus PHP8.92 billion generated in 2009 is mainly driven by the significant increase in sales volume. Before elimination, total coal revenue amounted to P16.75 billion. On the other hand, the surge in energy sales from PHP443.49 million in 2009 is due to the full year contribution of SCPC in the current period under review against barely a month operation in 2009

Net of eliminating entries, the coal and power segments recorded Cost of Sales amounting to PHP10.14 billion and PHP5.77 billion, respectively. Although consolidated Cost of Sales increased by 70% from PHP9.34 billion in 2009 to PHP15.90 billion this year due to higher number of units sold for both coal and power, the results reflected a lower cost for each unit sold. For the coal segment, Cost of Coal Sold/MT dropped to PHP1,698 from PHP1,919 in 2009, manifesting the positive impact of economies of scale. Non-Cash Cost slightly rose from 12% in 2009 to 14% this year reflecting increased accounting for depreciation of new mining equipment. On the other hand, cost of energy sales registered at PHP3.12 per Kwh sold.

The resulting consolidated Gross profit recorded an increase of 169% from PHP2.60 billion in 2009 to PHP6.99 billion this year. Gross profit margin likewise registered an improvement at 31% in the current year as against 22% last year.

Operating Expenses of the coal segment amounting to PHP1.81 billion in 2010 is mainly composed of Government Share at PHP1.31 billion. SCPC incurred PHP982.09 million, thus resulting to a consolidated Operating Expenses of PHP2.79 billion. The 272% increase from 2009 consolidated Operating Expenses of PHP749.58 million is due to expanded operations for the coal segment and full year accounting for the power business, inclusive of P383.29 million provision for billing disputes with PSALM.

A substantial portion of consolidated Finance Costs of PHP685.91 million this year was incurred by SCPC mainly in relation to its PHP9.6 billion loan which refinanced the PSALM debt. SCPC booked total financing charges of PHP490.63 million, while the coal segment incurred a total of PHP195.27

million for new loans availed to finance purchase of equipment and other capital expenditures. Finance Cost in 2009 is significantly lower at PHP112.19 million.

Meanwhile, Finance Income rose by 9% from 2009 level of PHP52.75 million to PHP57.67 million this year. It is however important to note that ending cash balance is healthier this year. Two factors will explain the minimal growth in finance income vis-à-vis higher increase in cash: interest rates are lower this year and the Company only accumulated cash towards the end of the year after it has paid dividends.

Meanwhile, fluctuations in foreign exchange rates benefited the coal segment as shown by recording Forex Gains of PHP235.80 million this year, of which P67.31 milion represented net unrealized Forex gain due to restatement of foreign currency denominated loans outstanding as of end of the year. Conversely, the power business incurred Forex Losses of PHP36.31 million due to peso depreciation at the time of full settlement of PSALM loan in USD. As a result, the Company reported a consolidated Net Forex Gains of PHP199.49 million. This figure is 318% higher than 2009 Forex Gains of PHP47.70 million.

In July 2010, the Company divested its investments in DMCI Power Corp. and DMCI Mining Corp. As presented at consolidated level, it booked Equity in Net Income of Associates amounting to PHP76.83 million, prior to divestment. At beginning of the year, the accumulated share in equity losses amounted to PHP39.35 million, thus recognized Income from Divestments during the year is PHP41.38 million using equity method. At the parent level, recognized gain on sale of investment is P77.09 million using the cost method.

In addition, the coal segment recorded Other Income amounting to PHP24.05 million from gain on sale of retired equipment, recoveries from insurance claims and other miscellaneous income. In 2009, Other Income was remarkably higher at 107.94 million also consisting of similar nature.

Consolidated Net Income Before Tax showed a sizeable jump of 105% from PHP1.91 billion in 2009 (as restated) to PHP3.92 billion this year. The coal and power segments posted net Income Before Tax of PHP2.48 billion and PHP1.41 billion, respectively, before eliminating entries. As both business segments enjoy Income Tax Holidays, consolidated Tax Provision was (PHP 35.16) million, due to reversal of deferred income tax provision on the power segment net of current tax provision representing final taxes on interest income for both segments. The resulting consolidated Net Income After Tax is PHP3.95 billion, the coal and power segments each contributing PHP2.52 billion and PHP1.44 billion, respectively. This year's Net Income is 114% higher than PHP1.85 million in 2009. Increased number of shares outstanding slightly tempered growth in consolidated Earnings per Share to 82% from PHP6.65 in 2009 to PHP12.10 this year.

## **B. Financial Condition, Solvency and Liquidity**

The Company recorded consolidated Ending Cash balance of PHP3.81 billion, almost 7x the beginning Cash balance of PHP481.92 million. The remarkable increase in the coal segment's sales this year was sufficient to fund its own working capital requirements, pay cash dividends of PHP1.78 billion and service debts totaling to PHP5.89 billion. Net Ending Cash contribution of the coal segment was at PHP2.81 billion. Meanwhile, SCPC posted ending cash balance of PHP1.00 billion this year despite spending for rehabilitation of Unit 2.

Consolidated Net Receivables reflected an increase of 154% from PHP1.25 billion in 2009, closing at PHP3.18 billion as at the end of 2010. The substantial Receivables of the coal segment were due to increased sales towards the end of the year when it took advantage of rising coal prices. SCPC's Receivables are mostly composed of Energy Sales.

On the other hand, consolidated Net Inventories dropped by 20% from PHP2.98 billion in 2009 to PHP2.38 billion this year. Orders for semcoal exceeded production, such that ending coal inventory dropped by 43% in terms of value at PHP833.47 million from beginning level of PHP1.47 billion. This offset the 70% increase in value of spare parts and supplies, which correspond to increased equipment complement, from PHP527.64 million in 2009 to PHP894.80 million as at the end of the year. SCPC booked an ending inventory of PHP658.81 million in 2010, recording a 34% drop from beginning balance of PHP998.50 million, which consisted mostly of spare parts and supplies.

Meanwhile, consolidated Other Current Assets increased by 50% from PHP608.94 million 2009 (as restated) closing balance to PHP912.76 million as at the end of 2010. Bulk of this is comprised of security deposits from operating leases and, advances to suppliers. SCPC accounted for PHP138.02 million of Other Current Assets, representing prepaid rent.

As a result of the movements of the foregoing accounts, consolidated Total Current Assets registered a growth of 93% at PHP10.29 billion as at the end of the period from PHP5.33 billion (as restated) in 2009. Before consolidation, the coal and power segments' Total Current Assets level registered at PHP6.94 billion and PHP4.00 billion, respectively.

Consolidated Non-Current Assets registered a more modest growth of 7% at PHP20.21 billion as at the end of the period from 2009 ending balance of PHP18.93 billion (as restated).

Consolidated Net Property, Plant and Equipment (PPE) registered a 7% growth from PHP18.36 billion in 2009 to PHP19.58 billion as at the end of the review period. This is mainly due to accounting of additional mining equipment that arrived during the year. The coal and power segments recorded PHP3.70 billion and PHP15.88 billion ending balances, respectively.

Investment and Advances increased by 27% from PHP244.43 million in 2009 to PHP310.23 million as at end 2010, consisting solely of the sinking fund of SCPC.

Consolidated Other Non-Current Assets reflected a 5% decline to PHP317.59 million from PHP334.95 million (as restated) as at end 2009 due mainly to reclassification to current portion of some accounts. The coal and power segments each contributed PHP139.92 million and PHP138.02 million, at each respective level.

The resulting consolidated Total Assets grew by 26% from PHP24.26 billion in 2009 to PHP30.49 billion this year. Of this amount, PHP10.74 billion is attributed to the coal segment, while PHP19.75 billion reflected SCPC's Total Assets. Before consolidation, each segment reported Total Assets of P18.79 billion and P20.33 billion, respectively.

Consolidated Total Liabilities likewise increased by 26% at PHP18.15 billion from PHP14.38 billion in 2009. Current and Non-current portions of the coal segment stood at PHP4.43 billion and PHP2.86 billion, respectively, adding up to Total Liabilities of PHP7.29 billion. On the other hand, SCPC's Current and Non-current portions closed at PHP2.50 billion and PHP8.36 billion, respectively, resulting to Total Liabilities of PHP10.87 billion.

Consolidated Current Liabilities of PHP6.93 billion recorded a 17% growth from PHP5.91 billion in 2009. The 64% increase in consolidated Accounts and Other Payables which closed at PHP5.35 billion this year from PHP3.25 billion as at end 2009 is mainly due to significant provision for government share close to P1.0 billion, consignment payables and accrued payable for materials, supplies and contracted services. This increase is offset by decrease in Current-portion of Long Term loans which closed at PHP1.13 billion from PHP1.81 billion in 2009. The account reflected the current portion of



SCPC's PHP9.6 billion loan availed to take out PSALM liabilities. Last year's loan balance was already serviced during the year.

Consolidated Non-Current Liabilities posted a 33% increase from 2009 closing balance of PHP8.47 billion to PHP11.22 billion. This is mainly due to the coal segment's loan availments in 2010 to finance its capacity expansion. This is specifically reflected in the 33% increase in consolidated Long-Term Debt from PHP8.36 billion in 2009 to PHP11.16 billion as at the end of 2010. The acquisition of the power plant assets was refinanced by a 7-year project loan of PHP9.6 billion syndicated by three local banks in May 2010. This was already reflected in the books as at the end of 2009 as debt to PSALM.

On 19 July 2010, the Company listed additional 59,375,000 shares to finance its investment in SCPC. This generated PHP4.39 billion for the Company. In addition, in the second quarter of the year, the Company reissued its 19,302,200 Treasury Shares, generating a total of PHP 765 million. These activities, further augmented the cash generated by the company and beefed up Total Stockholders' Equity by 25% from PHP9.88 billion in 2009 to PHP12.34 billion as at the end of 2010. The company recognized additional paid in capital of P5.10 billion resulting from the issuance of new shares via a stock rights offering and reissuance of the treasury shares.

Consolidated Current Ratio significantly improved at 1.48:1 compared to 0.90:1 in 2009 (based on restated amounts). However, Debt-to-Equity ratio dipped slightly from 1.45:1 to 1.47:1 as at the end of 2010. This is due to the availment of additional debts during the year.

#### **D. Performance Indicators**

**1. Earnings per Share** - To finance its investment in SCPC, the Company went into a 1:5 stock rights offering in 2010, increasing issued shares to 356,250,000 from 296,875,000 in 2009. Moreover, all the issued shares are outstanding this year with the sale of 19,302,200 shares previously held in treasury. Despite this development, EPS managed to reflect a healthy growth of 82%. This does not only signify that the coal business is performing well, but the power business as well. The investment in SCPC undoubtedly created more value for the Company.

**2. Debt-to-Equity Ratio**-The Company's robust financial health is indicated by consistently recording low DE ratio in the past few years. As a result, when the opportunity to own its single biggest customer arose, its balance sheet was ripe and ready to take on the challenge. While the Company's current DE ratio of 1.47:1 shows its leveraged condition, it is positive that it can afford to be in this position given the remarkable performance of both coal and power segments.

**3. Business Expansion**- Motivated by good prospects in the power industry, the Company aggressively expands its operations for both business segments. The coal business launched into another expansion activity in 2010, thus enabling it to benefit from strong demand during the year. Meanwhile, Unit 2 of SCPC underwent rehabilitation works to ramp up productivity and improve efficiency. These activities are geared to create more value for the Company.

**4. Expanded Market** - The improved performance of the Company is mainly attributed to its ability to serve growing global demand for coal. Over the years, more customers are steadily buying its coal. On the other hand, the rehabilitation of SCPC's Unit 2 promises to further increase yield since being a cheap producer of power, SCPC is confident that it can successfully dispatch its additional production either through supply contracts or through the open market.



5. **Improved coal quality** - Enhancing coal quality is a going concern for the Company. This challenge is highlighted by the inherent low quality of its product. This is an important aspect of operations as this dictates its marketing success.

#### **Full Years 2008-2009**

### **I. PRODUCTION AND 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 additional 37 units of 100-tonner dump trucks, nine units 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) metric tons (MTs) from 3,470,765 MTs produced last year.

Meanwhile, the coal washing plant was relocated near the auxiliary stockpile to further enhance coal transporting efficiency. This cost-efficient improvement maximized transport of clean coal through the conveying system and free up more space to accommodate more clean coal for stockpiling and blending at the coal blending stockyard. This allowed more storage flexibility and maintenance of readily available coal for immediate shipment.

Another cost efficient initiative was 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 done beyond the ultimate limit of the pit. The Department of Environment and Natural Resources approved the amendment of the company's Environmental Compliance Certificate increasing its annual coal production to 8 million metric (MT). Another significant development was the approval by the Department of Energy on the extension of the Coal Operating Contract until 2027. This confluence of events further encouraged the Company to enhance its exploration pursuits in Semirara Island to develop more mineable areas

Favorable weather conditions during the year gave operations the opportunity 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 MTs.

### **II. MARKET**

The global coal industry offers a vast potential for the Company to expand its market and grow its business. Over the years, the growing demand for coal worldwide gave the Company ample motivation to increase its capacity to create a niche in the export markets. Since it started exporting coal in 2007, export sales became the major growth driver for the Company. Additional investments for modernization of facilities and expansion of capacity demonstrated to be fruitful as the Company was able to prove its reliability as a new player in the export market. Given the vast untapped markets for coal, the challenge of the Company now evolved from establishing product acceptability to capacity expansion in order to meet increasing demand.

Another successful round of capacity expansion program during the year resulted to a 35% growth in sales volume from 3,313,251 MTs in 2008 to 4,464,027 million this year.

The slight 5% drop in local sales at 2,202,332 MTs from 2,320,502 MTs in 2008 was sufficiently compensated by export sales which more than doubled, reflecting a growth of 128% at 2,261,695 MTs from 992,749 MTs in

2008. Market share of export and local sales during the year was 51% and 49%, respectively. In 2008, export sales represented 30% of total volume sold or 36% based on peso sales, the rest represents sales to domestic market.

Sales to the Calaca power plants in Batangas recovered by posting a 43% growth from previous year's volume of 756,421 MTs to 1,082,094 MTs this year. However, total sales to the power industry declined by 10% from 1,453,144 MTs in 2008 to 1,301,776 MTs this year. The local power industry still accounted for a significant market share of 29%.

Similarly, sales to local cement industries showed a slight 3% drop from 2008 volume of 631,510 MTs to 615,164 MTs as few customers decreased their orders during the year. Nevertheless, the Company welcomed a positive development during the year when it was able to successfully secure a supply contract with a new customer who is a significant player in the cement industry. Cement plants accounted for 14% of the Company's market share.

Meanwhile, sales to other industries continued to grow during the year. A 21% increase was recorded from previous year's sales of 235,848 MTs to 285,392 MTs in 2009. Other industries sales reflected a 6% market share.

Partnerships with new global coal traders pushed the Company's marketing efforts. With the help of these traders, the Company was able to penetrate new markets, including Thailand, Japan, and Taiwan. Meanwhile, it continued its deliveries to India, China, and Hong Kong. With the expansion of its export markets, the Company's export sales had been increasing over the years.

Composite FOB average price for the year remained healthy at PHP2,599.77 per MT, posting a 2% growth over last year's average price of PHP2,549.17 per MT.

### III. FINANCE

#### A. Investment in Calaca, Batangas Power Plants

Historically, the 2 x 300 MW NPC-owned and operated power plants in Calaca, Batangas (the Power Plant), has been the major customer of the Company. Before embarking on a market diversification strategy in 2000, the plants took up more than 90% of the Company's market share.

After a series of failed attempts to privatize the Power Plant, the Power Sector Assets and Liabilities Management Corporation (PSALM) conducted a negotiated sale of the Power Plant in early 2009. DMCI-HI, the Company's parent company, participated and was awarded as the winning bidder on 8 July 2009.

Under an Amendment, Accession and Assignment Agreement dated 2 December 2009 among PSALM, DMCI-HI and SEM-Calaca (a wholly-owned subsidiary of the Company), DMCI-HI, with PSALM's consent, assigned its rights and obligations under the Asset Purchase Agreement (APA) and Land Lease Agreement (LLA) to SEM-Calaca. Under an Assignment Agreement dated 1 December 2009, DMCI-HI and SEM-Calaca agreed to an assignment cost of PHP54,343,156 for the APA and LLA. On 2 December 2009, SEM-Calaca paid PSALM PHP7,107,740,798 broken down as follows:

- a. PHP6.62 billion in peso equivalent using the exchange rate of PHP47.13 representing 40% down payment for US\$351.0 million purchase price of the Power Plant; and
- b. PHP0.49 billion in peso equivalent using the exchange rate of PHP47.20 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.

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.

The 60% balance of the purchase price will be paid to PSALM via 14 equal semi-annual payments beginning 2 June 2010 with an interest rate of 12% per annum, compounded semi-annually. 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 any time. Subsequently, SEM-Calaca has fully settled the 40% balance of the bid cost on 5 March 2010 which was funded by a combination of internally generated cash and bridge loans availed from several banks.

The acquisition of the Power Plant is a strategic move on the part of Company to allow forward integration of its core business and secure its market share in the power industry. The investment posts rewarding opportunities because as a stand-alone investment, it is expected to generate fair return on investment.

## **B. Sales and Profitability**

High coal prices combined with healthy sales volume resulted to a historical high level of Coal Revenues at PHP11.50 billion, posting a 35% growth from 2008 Coal Revenues of PHP8.49 billion. Meanwhile, with the acquisition of the Power Plant in December, the consolidated revenue for 2009 amounted to PHP11.94 billion. Energy Sales from 2 December until 31 December 2009 was accounted at PHP443.49 million.

Meanwhile, although the Company incurred higher fixed costs 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 PHP1,964.21 in 2008 to P1,917.98 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 subjected to sale and leaseback. Total Cost of Coal Sold, inclusive of Shipping, Hauling, and Shiploading costs amounted to PHP8.92 billion and PHP6.94 billion in 2009 and 2008, respectively. The recorded cost of Energy Sales of PHP440.47 million from the power business, brought total Cost of Sales in 2009 to PHP9.36 billion.

Gross Profit recorded an impressive growth of 67% from PHP1.55 billion last year to PHP2.58 billion this year. This is a result of higher income generation in the coal business, plus additional income on the new investment in the Power Plant.

The Company recorded a 58% increase in Operating Expenses from PHP458.93 million in 2008 to PHP723.92 million in the current year. Government share, which is a function of Net Coal Revenues accounted for 63% of the total expense which is now beyond the minimum of 3% to gross revenue. 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. In addition, the power business incurred Operating Expenses amounting to PHP25.66 million, resulting to a consolidated Operating Expenses of PHP749.58 million in 2009.

Bulk or 70% of the consolidated Finance Costs of PHP112.19 million is attributed mainly to the interest cost of the PSALM debt amounting to PHP78.76 million plus other credit availments by the Power Plant. Meanwhile, the Company's Finance Costs significantly dropped by 67% from PHP101.24 million in 2008 to PHP33.44 million in 2009 due to the declining long-term loan balances and decelerated further by lower interest rates during the year.

Conversely, almost all of the recorded consolidated Finance Income of PHP52.75 million was generated by the Company, posting an income of PHP52.74 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. Hence, the current year's Finance Income dropped by 32% compared to 2008 level of PHP77.23 million.

Meanwhile, the Company recorded a significant amount of Foreign Exchange Losses at PHP152.25 million, 84% more than last year's losses of PHP82.78 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 recognized Foreign Exchange Gains totaling to PHP199.95 million mainly coming from unrealized forex gain resulting from the fluctuation of the PHP against the USD from PHP47.2 / USD1 at the time the power plant was acquired to PHP46.2 / USD1 as at yearend which correspondingly brought down the peso equivalent of the liability to PSALM on the 60% balance of the purchase price.

Furthermore, the Company recognized Equity in Net Losses of Associates amounting to PHP39.35 million, a sizeable jump from 2008 level of PHP1.77 million. This accounted for the losses incurred by its investments in DMCI Mining Corporation and DMCI Power Corporation at PHP21.99 million and PHP17.36, respectively.

On the contrary, the Company recorded Other Income of PHP91.77 million this year, 69% more than 2008 level of PHP54.44 million. This is mainly comprised of gains on equipment sale and recoveries from insurance claims. Additional PHP0.50 million was generated by the Power Plant, thus consolidated Other Income totaled to PHP92.27 million.

The resulting Net Income Before Tax posted an impressive 81% growth at PHP1.87 billion from PHP1.03 billion. Provision for Income Tax fell by 73% at PHP63.29 million from PHP237.02 million in 2008. The Company enjoyed the full-year effect of the Income Tax Holiday from its registration with the Board of Investments last year. Of the consolidated provision for income tax amounting to PHP63.29 million, PHP57.93 million represented derecognition of deferred tax asset.

Before elimination entries, the parent Company posted a Net Income After Tax of PHP1.79 billion from PHP796.40 million last year, while the Power Plant generated a Net Income after tax of PHP63.19 million. Total consolidated Net Income After Tax was PHP1.81 billion, more than double at 127% increase from last year's level. Consolidated Earnings per Share correspondingly increased from PHP2.87 in 2008 to PHP6.52 this year.

### C. Financial Condition, Solvency and Liquidity

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. In addition, purchases of mining equipment amounting to PHP2.86 billion, debt repayment of PHP1.47 billion, and payment of cash dividends of PHP1.67 billion also used up substantial cash during the year. As a result, the Company's Cash and Cash Equivalents declined by 54% from PHP1.01 billion in 2008 to PHP464.94 billion this year. Meanwhile, the Power Plant posted an ending cash balance of PHP16.98 million, thus consolidated Cash and Cash Equivalents closed at PHP481.92 million.

The Company's Net Receivables also dropped by 46% from PHP1.78 in 2008 to PHP963.24 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. Towards the end of the year, the Company sold more to the export markets which had shorter receivable turn-over rates. Export sales were covered by irrevocable stand by letters of credits in congruence with the Company's risk management policy. On the other hand, the power business booked Receivables amounting to PHP290.85 million, which is mainly comprised of Energy Sales. The resulting consolidated Net Receivables totaled to PHP1.25 billion, which is 23% of Total Current Assets.

Meanwhile, with more coal inventory at the stockpile as at the end of the period, cost of coal inventory correspondingly went up by 63% at PHP1.47 billion from 2008 level of PHP896.73 million. Also, spare parts and supplies went up by 8% from PHP486.49 million in 2008 to PHP527.64 million this year. This is explained by the increased number of mining equipment units which required more spare parts and materials. The Company's Net Inventories reflected a 44% increase from PHP1.38 billion in 2008 to PHP1.99 billion as at the close of the current year. The Power Plant also booked total Inventories amounting to PHP1.01 billion. This is mainly comprised of spare parts and supplies. Consolidated Inventories is sizeable at PHP3.08 billion, representing 55% of Total Current Assets.

The 59% increase in the Company's Other Current Assets from PHP323.73 million in 2008 to PHP515.62 million this year is mainly due to the recording of prepaid income tax amounting to PHP149.44 million and increase in advances to suppliers by PHP85.34 million. Meanwhile, Other Current Assets of PHP19.34 million of the Power Plant represents withholding taxes amounting to P13.10 million. Consolidated Other Current Assets represented 13.62% of Total Current Assets at PHP759.89 million.

Given the movements of the foregoing accounts, the Company's Total Current Assets dropped by 6.5% at PHP4.21 billion from PHP4.50 billion in 2008. However, with the Power Plant's Total Current Assets of PHP1.64 billion, consolidated amount of PHP5.58 billion posted a 24% increase from last year's level.

On the other hand, the Company's Total Non-Current Assets grew by 515% at PHP9.69 billion from 2008 level of PHP1.61 billion. This is mainly caused by the surge in Total Investments from PHP223.23 million to PHP7.40 billion this year as a result of the acquisition of the Power Plant. Furthermore, Net Property, Plant and Equipment (PPE) doubled from PHP1.11 billion in 2008 to PHP2.21 billion this year with the purchase of new mining equipment for capacity expansion. Finally, Other Non-Current Assets posted a 86% decrease from PHP283.75 million to PHP39.97 million this year since security deposits for its operating lease transactions amounting to 270.75 million will already be realizable next year. As a result, consolidated Total Non-Current Assets amounted to PHP18.25 billion.

Total consolidated Assets closed at PHP23.83 billion, PHP15.70 billion of which accounted for the Power Plant's Total Assets. The Company's Total Assets in 2008 stood at P6.11 billion.

With the expansion of its business and investments, the Company's Total Liabilities correspondingly rose by 125% at PHP4.07 billion from PHP1.81 billion in 2008. Furthermore, consolidated Total Liabilities closed at P13.98 billion.

The Company's Total Current Liabilities of PHP3.53 billion increased by 116% from PHP1.64 billion in 2008. The bulk of this year's Current Liabilities is comprised of Trade and Other Payables amounting to PHP2.55 billion, or representing 72% of Total Current Liabilities. Trade and Other Payables accounted for Trade Payables, Payables to Related Parties, Accrued Expenses, and Payable to the Department of Energy and other government units. Availment of additional credit facilities increased Current Portion of Long Term Debt by 151% from 2008 level of PHP389.23 million to PHP977.90 million. Meanwhile, relative to its investment in the Power Plant, the Company recorded another PHP2.03 billion Current Liabilities, resulting to a consolidated Total Current Liabilities of PHP5.52 billion.

Similarly, the Company's Non-Current Liabilities totaled to PHP537.98 million, 209% more than 2008 level of PHP173.89 million. Bulk of this is Long-Term Debt - net of current portion amounting to PHP474.36 million or 88% of Total Non-Current Liabilities. This account increased with the booking of loan amounting to USD10M to finance equipment purchase. Consolidated Total Non-Current Liabilities surged to PHP8.64 billion as the Power Plant recognized its liability to PSALM representing 60% of the purchase price which will be amortized in 7 years.

Total Equity of the Company was beefed up with the recording of Deposit for Future Subscription amounting to PHP5.40 billion, representing deposits made by DMCI-HI and Dacon Corporation for subscription of additional shares of stocks for the stock rights offering planned by the Company to strengthen its equity base to match its sizeable investment in the Power Plant with provision for oversubscription for their commitment to take all unsubscribed shares by the public. After dividend payout amounting to PHP1.65 billion and recording of additional Retained Earnings from the Company's Income for the year amounting to PHP1.75 billion and the Power Plant's Net Income generation of PHP62.93 million, net of eliminating entries, the consolidated Equity, net of Cost of Shares Held in Treasury, closed at PHP9.84 billion, 129% more than Total Equity in 2008 of PHP4.30 billion.

In the current year, the Company's Current Ratio closed at 1.19:1, while consolidated Current Ratio stood at 1.01:1. Current Ratio was healthier in 2008 at 2.75:1. The deterioration in this ratio is mainly due to the availment of more short-term debts to bridge finance the investment in the Power Plant and use of internally generated cash to fund the acquisition of the power assets from PSALM.



Meanwhile, prior to consolidation, the Company maintained last year's Debt-to-Equity ratio of 0.41:1. However, consolidated balance sheets reflected a Debt-to-Equity ratio 1.42:1.

#### D. Performance Indicators

1. **Average Selling Price** - After successfully introducing Semirara coal to a more diverse market, it has since enjoyed a fair price for its product. High coal prices towards the end of 2008 spilled over in the first half of 2009. As a result, the Company's composite average FOB price remained strong during the year. Notably, the Company's coal price already started picking up to become at par with the global market.
2. **Debt to Equity Ratio** - Over the years, the Company was able to consistently report a strong balance sheet. As a result, it was able to enjoy a higher credit rating from its creditors and consequently avail of competitive credit terms. Moreover, since it is not highly leveraged, it was able to afford substantial investment in the Power Plant, thus taking advantage of an opportunity to further grow its business by creating more value for its stakeholders.
3. **Capital Expenditures** - Timely and well-planned Capex programs successfully helped the Company attain its market diversification program. Having proved its dependability as a serious player in the global market, more buyers are now interested in dealing with the Company. With huge unmet demand, especially from the export markets the Company is looking at a limitless growth potential.
4. **Expanded Market** - The Company's persistent efforts in market diversification, supported by its aggressive capacity expansion and facilities improvement programs, paid off as it has successfully expanded its market. A remarkable achievement in 2009 was the penetration of wider export market base expanding to Thailand, Japan, and Taiwan. With its expanded market, the Company enjoys more reasonable and competitive commercial terms for its coal sales.
5. **Consistent Improved Coal Quality** - The Company recognized at the onset that for it to be able to improve its market base, it is a pre-requisite to work on its quality improvement measures first and make it a priority concern. Given the inherent quality of its coal, the biggest challenge that the Company faces is maintaining the right blend to satisfy customer requirement. Acceptability of Semirara coal is the key in sustaining the Company's success in market diversification.

#### Full Years 2007-2008

#### I. PRODUCTION AND OPERATIONS

To cater to increasing demand for coal, both from the domestic and export markets, the Company launched into another capacity expansion and modernization program in 2008 to increase capacities. A total of 24 units 100-tonner dump trucks, 6 units excavators with bucket capacities ranging from 7-cubic meter to 15-cubic meter, and various complementing support mining equipment arrived in the mine site during the year.

Although weather conditions were not favorable, the upgraded capacity generated high Total Material movement of 38,318,623 bank cubic meters (bcm), posting a 20% increase over 2007 material movement of 32,054,236 bcm. Waste material to coal ratio or strip ratio also inched up at 9.55:1 from 7.82:1 since the augmented excavating capacities were used for pit stabilization activities to reinforce the slopes after the occurrence of minor slide in June 2008, caused by continuous heavy rains in the second quarter. As a result, more focus was directed on movement of waste materials over coal release. Correspondingly Run-of-Mine (ROM) coal production dropped slightly by 1% from 3,754,774 metric tons (MTs) in 2007 to 3,733,001 MTs this year. After washing, Net Total Product Coal also recorded a drop by 1% from 3,462,534 MTs last year to 3,436,879 MTs in the current year.

In-house exploration drilling at the eastern side of Panian Mine resulted to the discovery of coal deposit extension beyond the pit limit of the mine. The new discovery is designated as East Panian deposit, which stretches to about 1.5 km x .07 km, with 44 holes drilled. With the guidance of a Japanese consultant, data gathered from the drilled holes were analyzed to come up with an estimated resource. Coal resource based on current estimates from this site is 48 million MTs. Additional activities are programmed to determine mineable reserves in the area.



Rainy season at the island is unusually long this year. Moreover, the downpours were likewise extraordinarily heavy and started as early as second quarter of 2008, recording an average rainfall of 279 millimeters compared to same period last year's rainfall of 145 millimeters. Rainy season extended up to November in the current year. For the 8-month period starting April, the highest recorded rainfall was at 697 millimeters and lowest at 156 millimeters. Incessant heavy rains resulted to a partial caving in of a portion of the pit and disrupted coal production in the second half of the year. This event prompted the Company to declare a force majeure on 2 July 2008 which lasted until almost the end of the year. The force majeure was only lifted on 2 December 2008 when the rainy season finally ended.

The commissioning of the 4 MW bunker-fired generator set at the start of the year intended to power dewatering pumps proved to be a prudent and timely decision as these pumps became very handy when rain started to pour early this year.

With the improvement in weather conditions, operations pushed capacity to the limit to record a year-end closing coal inventory of 463,802 MTs.

On 13 May 2008, the granting of the Company's request filed before the Department of Energy for a fifteen (15)-year term extension of its Coal Operating Contract turned out as one of the highlights of operations this year. The Company's right to mine in the island is extended up to 14 July 2027.

The end of 2008 marked another milestone for the Company. Continuing efforts to uplift quality of operations earned the Company three certificates of recognition for conforming to international quality standards covered by ISO 9001:2000 for Quality Management System, ISO 14001:2004 for Environmental Management System, and OSHAS 18001:2007 for Occupational Health and Safety Management System.

## II. MARKET

Growing demand from the local and export markets provided impetus for the Company to beef up capacity to seize the opportunity to further diversify and expand its market base. This is primarily driven by the sharp inflation of oil prices which motivated some industrial power plants to shift from bunker or diesel to coal for fuel. The arrival of new mining equipment at first allowed the Company to match demand. However, when rainy season kicked in earlier in the second quarter of the year, which consequently triggered the declaration of force majeure, the Company lost the opportunity to sell and ship out about 600,000 tons of contracted export volume. Notwithstanding, export sales grew by 24% at 922,749 MTs in 2008 from 798,806 MTs in 2007. Total exports claimed a 30% market share, posting an improvement over 2007 share in the pie of 22%.

Meanwhile, local sales dropped by 16% from 2,775,771 MTs in 2007 to 2,320,287 MTs this year. The slump mainly came from the 41% decline in sales to the National Power Corporation (NPC) at 799,190 MTs in the current year from 1,365,168 MTs last year as the Calaca plants in Batangas continued to experience technical problems. On the other hand, sales to other power plants recorded an 18% improvement at 590,254 MTs from 501,990 MTs in 2007. The increased off-take by Non-NPC power plants tempered the decline in total sales to the power industry at 26% from 1,867,158 MTs in 2007 to 1,389,444 MTs this year. Remarkably, this industry still accounted for the biggest market share at 42%.

Moreover, sales to other industries posted a slight 2% increase at 931,043 MTs from 908,613 MTs in 2007. The 53% surge in sales to other industries at 235,847 MTs in the current year from 153,732 MTs in 2007 offset the 8% drop in sales to cement plants which posted sales of 695,196 MTs in 2008 from 754,881 MTs in 2007.

Total sales volume in 2008 dipped by 7% from 3,574,577 MTs in 2007 to 3,313,236 MTs this year.

On a positive note, rising demand for coal amidst high oil prices drove FOB selling price at record high in the latter part of the year. Despite weaker first half prices, Composite Average Selling Price for the year marked a 43% growth at P2,549/MT from P1,784/MT in 2007.

### III. FINANCE

#### A. Sales and Profitability

High coal prices compensated for the slight decrease in sales volume, such that Coal Revenues posted a healthy increase of 32% from 2007 level of P6.38 billion to P8.45 billion this year. On the other hand, the slow down in the Calaca operations translated to a 51% drop in Coal Handling Revenues from P90.7 million in 2007 to P43.99 million in the current period. The resulting Total Revenues showed an improvement of 31% at P8.49 billion from P6.47 billion last year.

Spike in oil prices, coupled with depreciation of the peso from 2007 level, resulted to cost push inflation in 2008. As a consequence, per metric ton fuel and lube, materials and supplies, and ship loading costs registered a 74%, 89%, and 62% increase, respectively. Maintenance costs incurred for industrial facilities and campsite facilities also contributed to the increase in cost per metric ton since these are charged to production cost. These greatly contributed to the 44% increase in Cost of Coal Sold/MT at P2,095.71 this period from P1,453.04 last year. Applied to the volumes sold, Cost of Sales reflected a 34% increase at P6.94 billion from P5.19 billion in 2007. Non-Cash component dropped to 17% 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 is 22% higher at P1.55 billion this year compared to P1.27 billion last year. Higher Cost of Sales/MT explains the decrease in Gross Profit margin from 20% in 2007 to 18% this period.

Government share, which is a function of Net Coal Revenues, after operating costs, recorded a corresponding increase by 32% at P253.38 million from P191.29 million in 2007. Government share is maintained at the minimum of 3% of Coal Revenues. Meanwhile, increase in General and Administrative Expenses by 54% at P205.54 million from P133.09 million in 2007 signified expanded operations. This amount, however, included the recognition of P34.04 million wharfage fees billed by the Philippine Ports Authority (PPA) for deliveries made to the NPC Calaca Plants. The payment of 50% of the amount billed was made under protest, citing its exemption under Section 16 (a) of Presidential Decree 972 which provides that the Company is exempt from all taxes except income tax.

With decreased interest bearing loans, Finance Costs fell by 28% from P140.25 million in 2007 to P101.24 million this year. Meanwhile, higher placements in 2008 earned higher Finance Revenues amounting to P77.23 million this year from P40.20 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 P82.78 million this year. In contrast the company recognized Foreign Exchange Gains of P102.96 million in 2007. Finally, Other Income increased by 478% at P54.44 million from P9.42 million last year, mainly from sale of a number of retired dump trucks and recoveries from insurance claims.

Net Income Before Tax increased by 8% at P1.03 billion from P960.77 million in 2007. On the other hand, Provision for Current Income Tax fell by 13% at P290.50 million from P333.67 million. After provision for Net Deferred Tax liability of P53.48 million, Net Current Tax provision is at P237.02 million. In September 2008, the Company successfully registered with the Board of Investments 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 Income Tax Holiday (ITH) for the registered activity. In the case of the Company, registered activity is the expanded capacity with base figure of 2.71 million MTs. Sales volume beyond this base figure is entitled to an ITH for six years from date of registration.

The resulting Net Income After Tax reflected a 26% growth at P796.40 million from P633.28 million in 2007. Earnings per Share correspondingly increased by 24% from P2.28 in 2007 to P2.87 this year.

#### B. Financial Condition, Solvency and Liquidity

In 2008, the Company launched a capacity expansion program to meet the demands from the newly developed export markets. Mining equipment amounting to P1.68 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 purchased assets during the year were covered by sale and leaseback arrangements as at the end of the year. Moreover, cash dividends declared and paid during the year amounted to P1.11 billion, 233% higher than dividends of P333.09 million paid last year. These translated to a 39% drop in Cash and Cash Equivalents which closed at P1.01 billion from P1.65 billion beginning balance.

Meanwhile, Net Receivables went up by 50% from P1.25 billion in 2007 to P1.88 billion this year. The increase was due to the 66% surge in Trade Receivables, which accounted for the bulk of the item at P1.77 billion in the current period from P1.07 billion in 2007. Coal shipments in the later part of the year comprised the bulk of trade receivables. Meanwhile, Non-Trade Related Receivables, which included the due from related parties and advances to suppliers dropped by 37%, closing at P124.97 million from P196.76 million beginning balance. This is mainly attributed to the decrease in receivables from related parties.

The improvement in weather conditions in December 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 the year, closed at a more normal level at 463,802 MTs as at the end of the year. This is 12% higher than beginning inventory of 413,747 MTs. The increase in volume, compounded by higher Cost of Coal Inventory, brought Ending Coal Inventory at P896.73 million, 57% higher than beginning balance of P570.81 million. On the other hand, Materials and Parts Inventory dropped by 45% from P881.86 million beginning balance to P486.49 million as at the end of the year 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 started to implement. As a result, Total Inventories maintained at almost the same level at P1.38 billion, from beginning balance of P1.45 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 P205.99 million to P226.11 billion. 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 P4.50 billion as at the end of the period from P4.56 billion beginning balance.

Non-Current Assets decreased by a more significant percentage at 20% from P2.00 billion as at the start of the year to P1.61 billion ending balance. This is mainly caused by the 42% slump in Property, Plant and Equipment which closed at P1.11 billion from P1.90 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. On the other hand, Investments and Advances rose by 176% from P80.87 million spent in 2007 to P223.23 million ending balance. Additional investments were made to DMCI Mining Corporation (DMCI-MC) and DMCI Power Corporation (DMCI-PC) during the year. Total investments to these companies amounted to P225 million, P100 million to DMCI-MC representing 100 million common shares par value of P1.00, and P125 million to DMCI-PC representing 125 million common shares at par value of P1.00. As at the end of the period, the Company accounted for 50% share in equity losses of these start-up companies amounting to P1.77 million.

Total Assets recorded a 7% decline at P6.11 billion from P6.56 billion beginning balance.

Likewise, Total Liabilities recorded a slump of 7%, closing at P1.81 billion from P1.94 billion beginning balance. The 15% increase in Current Liabilities which closed at P1.64 billion from P1.46 billion was offset by the huge 64% drop in Non-Current Liabilities from P482.05 million beginning balance to P173.89 million as at the end of the period.

The 74% jump in Trade and Other Payables from P682.43 million to P1.19 billion, 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.

Meanwhile, Income Tax Payable increased by 45% at P58.06 million from P40.17 million as at the start of the period. Higher income generation translated to higher Taxable Income.

Customer's Deposits represent customer advances for coal deliveries. Delivery commitments to three customers accounted for the P8.87 million beginning balance. This amount was totally wiped off when deliveries were made during the year. Meanwhile, the closing balance of P1.21 million represented balance of new advances from another local customer.

Debt repayments during the year amounting to P2.13 billion brought down both Current and Long-Term portions to P389.23 million and P137.07 million, respectively, or a total of P526.30 million. This effectively decreased Total Long-Term debts by 53% from total beginning balance of P1.13 billion.

Other Non-current Liabilities accounts also showed significant movements. Deferred Tax Liability dropped by 80% from P67.60 beginning balance to P14.13 as at the end of the year. On the other hand, Provision for Decommissioning and Site Rehabilitation grew by 8% from P12.21 million to P13.20 million. Meanwhile, Pension Liability closed at P9.50 million, registering a 104% increase from P4.66 million at the start of the year.

Current Ratio remained healthy at 2.75:1 at the close of the current year, although this dropped by 12% compared to 2007 level at 3.12:1.

Meanwhile, despite the 233% increase in total Cash Dividends paid out in 2008 amounting to P1.11 billion as against 2007 Cash Dividends of P333.09 million, Stockholders' Equity only registered a minimal drop of 7%, closing at P4.30 billion from beginning balance of P4.61 billion after accounting for Net Income generation of P796.4 million. Debt-to-Equity ratio continued to demonstrate the stability of the Company at a low level of 0.43:1, a minimal slide from 0.42:1 in 2007.

### C. Performance Indicators

1. **Average Selling Price** - Now that the Company has a diverse market base, pricing for its coal is not anymore dictated by its dependence on a few customers. Since it started exporting, pricing mechanism became more dynamic and updated with the international prices for the commodity. This is an important milestone as the Company further seeks to develop its export capabilities. FOB price of Semirara coal for the year moved with the rising world prices towards the end of the period.
2. **Debt to Equity Ratio** - The aggressive expansion and investment strategies of the Company is carefully hinged on its financial capabilities as reflected in the strength of its balance sheet. The DE Ratio is maintained at a low level for a few years now, such that when a good opportunity presents itself, the Company can afford to further leverage. This clearly underscores its growth potential.
3. **Capital Expenditures** - The Company's high Capex in 2008 indicates an optimistic view of its future. The expansion and modernization program is in response to the growing demand for Semirara Coal, especially from the export markets. It is important that the Company can prove supply dependability to the newly penetrated markets to ensure long-term success in marketing the product. To achieve this, investments in new mining equipment were made during the year.
4. **Expanded Market** - In its second year of venturing to the global markets, the Company is still looking for opportunities to further strengthen its brand in the industry. In 2008, market share of export sales increased to 30% from 22% in 2007. Of the 922,749 MTs exported, 58% went to China, 36% to India, and 6% to Hong Kong.
5. **Improved Coal Quality** - The success of the Company's diligent efforts at quality improvement is clearly indicated in its successful attempt at market diversification. Taking an extra mile, the Company further endeavors to enhance the holistic development of its business, such that in 2007, works on having the Company ISO certified were started. Finally, in 2008, the Company obtained ISO certifications on Integrated Management System covering three (3) standards as follows: Quality Management System (ISO 9001:2000), Environmental Management System (ISO 14001:2004), and Occupational Health and Safety Management System (OSHAS 18001:2007). Compliance to international standards as attested by these ISO certifications will advance the Company's goal of lifting product standard and will consequently enable it to secure a niche in and gain respect from both the domestic and international coal markets.

**B. INFORMATION ON INDEPENDENT ACCOUNTANT AND OTHER RELATED MATTERS**

The principal accountants and external auditors of the Corporation and its Subsidiary is the accounting firm Sycip, Gorres, Velayo and Co. (SGV). Pursuant to the General Requirements of SRC Rule 68, paragraph 3 (Qualifications and Reports of Independent Auditors), the Corporation and its Subsidiary (the latter incorporated in November 2009) have engaged the services of SGV as external auditor of the Corporation, and Ms. Jessica D. Cabaluna is the Partner-In-Charge starting 2006 only or less than five years following the regulatory policy of audit partner rotation every five years.

1. External Audit Fees and Services

- a. **Audit & Audit Related Fees-** The Corporation and its Subsidiary paid its external auditors the following fees in the past two (2) years:

In Millions Pesos with VAT	
2009	2.4 <sup>13</sup>
2010	3.3 <sup>14</sup>
<b>Total</b>	<b>5.7<sup>15</sup></b>

- b. **Tax Fees-** There are no fees billed in each of the last fiscal years for professional services rendered by the SGV for tax accounting, compliance, advice, planning and any other form of tax services.
  - c. **All Other Fees-** There are no fees billed in each of the last two fiscal years for products and services provided by SGV other than services reported under item a. above.
2. There have been no changes in or disagreement with the Corporation and its Subsidiary’s accountant on accounting and financial disclosures.
3. The Corporation’s Audit Committee oversees the external audit function on behalf of the Board of Directors (Board). It recommends the appointment, reappointment or replacement of external auditor to the Board. It is charged with the evaluation of the audit work engagements, its scope, fees and terms for approval of the Board. The Audit Committee also reviews non-audit services and taxation advice, if any, by the external auditor. At the conclusion of the annual audit, it discusses with Management and the external auditor significant reporting issues. Lastly, the Audit Committee reviews external audit findings in respect of any significant deficiencies or weaknesses in controls and ensures that Management responds appropriately with timely corrective actions, including audit adjusting entries noted or proposed but passed as immaterial or otherwise.

**PART IV - DISCUSSION ON COMPLIANCE WITH LEADING PRACTICE ON CORPORATE GOVERNANCE**

**CORPORATE GOVERNANCE**

The Company is committed to the principles and leading practices of good corporate governance that promote higher standards of accountability and transparency, provide effective oversight of the Company’s business, and enhance shareholder value. It constantly reviews its corporate governance policies with the end in view of improving the same. The Company has substantially complied with

<sup>13</sup> Includes Subsidiary’s audit fee of P0.1 Million.

<sup>14</sup> Includes Subsidiary’s audit fee of P1.2 Million.

<sup>15</sup> Audit and audit-related fees only; no fees for other assurance and related services were paid.



the principles and leading practices of good governance. To date, there has been no deviation from the Company’s Revised Code of Corporate Governance which has been amended to align with SEC’s 2009 Revised Code of Corporate Governance.

**THE BOARD**

The Board of Directors (Board) is responsible for the overall corporate governance of the Company. It formulates the vision, mission, strategic objectives, key policies, and adequate control mechanisms to effectively manage and monitor Management’s performance. The Board’s other mission is to maintain a sense of responsibility to the Company’s customers, employees, suppliers and the communities in which it operates.

The full Board consists of eleven (11) Directors, including two (2) Independent Directors, with qualifications and such numbering in compliance with the Philippine regulatory requirements for publicly-listed companies. An Independent Director is defined as one with no interest or relationship with the Company that may hinder his independence from the Company or its management, or interfere in the exercise of independent judgment in carrying out the responsibilities expected of a director.

The roles of the Chairman and Chief Executive Officer (CEO) are separate to foster an appropriate balance of power, increased accountability and better capacity of the Board for independent decision-making. The Chairman oversees and leads the Board on behalf of the shareholders, while the CEO implements the key strategies set by the Board. The Vice Chairman concurrently holds the position of CEO.

**BOARD PERFORMANCE**

The Board had eleven (11) meetings including its organizational meeting, and one (1) shareholders’ meeting in 2010. All Directors have fully complied with SEC’s minimum attendance requirement of 50%. Board meetings are open and candid with independent views given due consideration. The Independent Directors bring an objective mindset during Board deliberations.

**BOARD COMMITTEES**

The Board established three (3) Committees in aid of good governance to support its fiduciary functions and to achieve effective checks and balances. The Committees are guided by Board-approved Charters in the discharge of their roles and oversight responsibilities. The Board Committees annually assess the effectiveness of their Charters, and recommend any proposed changes to the Board for approval. The Corporate Secretary, Good Governance Officer and Legal unit provide full support to the Board’s good governance committees.

The Board, its Committee memberships and meeting attendance are herein summarized in matrix presentations.

SEMIRARA MINING CORPORATION - BOARD OF DIRECTORS 2010				
Directors	Board Membership	Committee Membership		
		Nomination and Election Committee	Compensation and Remuneration Committee	Audit Committee
David M. Consunji	Chairman			
Isidro A. Consunji	Vice Chairman & CEO	Chairman		
Victor A. Consunji	President & COO			Member
George G. San Pedro	Director & VP-Operations			
Ma. Cristina C. Gotianun	Director,		Chairman	



	VP-Administration, & Compliance Officer			
Jorge A. Consunji	Director			
Herbert M. Consunji	Director		Member	
Cesar A. Buenaventura	Director			
Ma. Edwina C. Laperal	Director			
Victor C. Macalincag	Independent Director	Member	Member	Chairman
Federico E. Puno	Independent Director	Member		Member

BOARD OF DIRECTORS 2010 MEETING PERFORMANCE					
	Board Meetings, incl. Organizational	Annual Stockholders' Meeting	Nomination and Election Committee	Compensation and Remuneration Committee	Audit Committee
David M. Consunji	11/11	1/1			
Isidro A. Consunji	11/11	0/1	1/1		
Victor A. Consunji	8/11	1/1			9/9
George G. San Pedro	7/11	1/1			
Ma. Cristina C. Gotianun	9/11	0/1		2/2	
Jorge A. Consunji	11/11	1/1			
Herbert M. Consunji	8/11	1/1		2/2	
Cesar A. Buenaventura	11/11	1/1			
Ma. Edwina C. Laperal	9/11	1/1			
Victor C. Macalincag	10/11	1/1	1/1	2/2	9/9
Federico E. Puno	10/11	1/1	1/1		7/9

#### Nomination and Election Committee

The Nomination and Election Committee is comprised of three (3) Members of the Board, two of whom are Independent Directors. The Committee's main function is to review, recommend and promulgate guidelines involving the nomination process and criteria for the Board of Directors as stated in the Amended By-Laws, Revised Code of Corporate Governance and pertinent SEC rules.

In 2010, the Committee had one (1) meeting attended by all Members. It reviewed the qualifications of Board nominees for directorship ensuring they meet the requisite qualifications and endorsed the final list of nominees for election. It periodically conducts the Board's performance evaluation process involving board self-assessment as a whole and individual peer director evaluation, provides the results thereof to the Board, including private feedback to individual directors for affirmation and/or effectiveness of performance.

#### Compensation and Remuneration Committee

The Compensation and Remuneration Committee is comprised of three (3) Members of the Board, one of whom is an Independent Director. The Committee's main function is to establish a formal and transparent procedure for developing a remuneration policy for Directors, officers and key employees consistent with the Company's culture, strategy and control environment. It also requires Directors and Officers to declare under penalty of perjury all their existing business interests or shareholdings that may directly or indirectly cause conflict of interest in the performance of their duties.

In 2010, the Committee had two (2) meetings attended by all Members. It reviewed and discussed the overall Director and Executive remuneration and benefits framework, results of the Board's evaluation of the CEO's performance based on Board-approved financial and

non-financial measures on key result areas, as well as provided private feedback of the evaluation results to the CEO. It also assisted and reviewed the compensation-related disclosures of Directors and Executives in the Company's annual and related reports to be in accordance with regulatory requirements and reporting standards.

#### **Audit Committee**

The Audit Committee is comprised of three (3) Members of the Board, two of whom are Independent Directors. The Committee's main function is to assist the Board in fulfilling its oversight responsibilities of financial reporting, external audit performance, internal audit function, internal control and risk management processes as well as compliance in reporting, legal and regulatory requirements.

The Committee is chaired by an Independent Director. Its Members possess the requisite levels of financial and accounting competencies, experience and other qualification requirements set by the SEC, as well as having an adequate understanding of the Company's mining business and related industries.

Committee Meetings are scheduled at appropriate points to address matters on a timely basis. Written agenda and materials are distributed in advance to allow for meaningful review and full discussion during meetings. Minutes of the Committee meetings are subsequently circulated to all Board Directors.

In 2010, the Committee had nine (9) meetings attended by all Members, except in April and November 2010 when meetings were held with a quorum of two Members. It recommended, and the Board subsequently approved, a Related Party Transaction Policy with defined threshold levels for disclosure and approval, supplementary guidelines on Business Gifts and Entertainment policy, and an Audit Committee Event Matrix for reporting of specific incidents and the timing of their reporting thereof to the Committee. During the year, the Committee assisted the Board in fulfilling effective oversight of the following functions:

- **Financial reporting**

*The Committee reviewed and approved the quarterly unaudited and annual audited consolidated financial statements. It ensured that financial statements are in accordance with the required accounting and reporting standards. It also reviewed the adequacy of financial reporting disclosures, including significant related party transactions to provide a transparent and fair view that meet shareholder needs.*

- **External audit**

*The Committee recommended to the Board the reappointment of SGV & Co. as external auditor for the year. It approved external audit work engagements, scope, fees and terms. It reviewed and discussed with the external auditor and Management significant financial reporting issues, audit adjusting entries and overall quality of the financial reporting process.*

- **Internal audit**

*The Committee reviewed and approved Internal Audit's annual plan, audit work programs and special reviews for the year. It also evaluated the performance and effectiveness of the internal audit function to provide independent and objective assurance to the Board in support of corporate governance.*

- **Internal control**

*The Committee reviewed and discussed internal control assessments and findings with the external auditor and Internal Audit, and ensured Management responded appropriately for the continuous improvement of control system and risk management processes.*

- **Risk management**  
*The Committee reviewed and discussed with Management the results of risk assessments, risk responses to identified risks and action plans to manage these risks. It also discussed with the Subsidiary's management identified significant risks deemed critical to the achievement of the Subsidiary's strategic objectives.*
- **Compliance with regulatory and legal requirements**  
*The Committee reviewed and discussed with the Compliance Committee significant updates and actions on SEC, PSE, legal, tax, environmental, safety and other regulatory compliance matters.*

The Compliance Officer, Compliance Committee, and the management team of Finance, Legal, Internal Audit and the Subsidiary are regularly invited to Committee meetings to discuss updates in financial performance, regulatory developments and compliance matters. The Committee also reviewed and discussed the Company's annual budget, strategic issues, investments in subsidiaries, risk management, conflict-of-interest, tax planning, equity issues, market/industry developments and best practices.

#### **INTERNAL AUDIT**

The Internal Audit function is guided by a Board-approved Internal Audit Charter and adopts a risk-based, process-focused audit approach in accordance with International Auditing Standards and SEC's 2009 Revised Code of Corporate Governance. It functionally reports directly and has unrestricted access to the Audit Committee. The Internal Audit provides Management and the Audit Committee with independent and objective assurance and advisory services of the Company's business processes, controls and risk management practices. The Internal Audit Manager annually attests that a robust internal audit, control and compliance system are in place and effective.

#### **COMPLIANCE**

Ma. Cristina C. Gotianun, Vice President-Administration, is appointed by the Board as Compliance Officer designated to ensure adherence to corporate governance principles and best practices, as well as compliance to the Company's Revised Code of Corporate Governance.

The Compliance Committee, a sub-committee shares in the responsibility of ensuring compliance with the Company's regulatory requirements. It is headed by the Compliance Officer and is comprised of three (2) Members who are executive officers tasked with ensuring compliance covering SEC, PSE, accounting and reporting standards, environmental, health and safety matters that are aligned to their functional scope of work responsibilities. The Compliance Members regularly report to the Audit Committee for assurance reporting. Continuous monitoring of regulatory developments and compliance matters, including environmental, health, safety and governance issues assure the Board of effective management and strategic sustainability of these concerns.

#### **SEC and PSE**

The Company complies with the disclosure and reportorial requirements of the SEC and Philippine Stock Exchange (PSE). It is also compliant with the reporting of transactions involving any acquisition or disposal of the Company's shares by its Directors within the prescribed reporting period.

#### **Environment**

Environmental stewardship and social responsibility are core values of the Company. The Philippine coal industry is subject to stringent regulations of the Philippine government's Department of Environment and Natural Resources (DENR). The Company is compliant with all the conditionalities of its Environmental Compliance Certificate issued by

the DENR relative to the development and opening of the Panian coal mine, and the closing and rehabilitation of its old mine. A Multi-Partite Monitoring Team (MMT) comprised of various government sector representatives and surrounding stakeholders, oversees the Company's compliance with the ECC conditions and all other applicable laws, rules and regulations. Consequently, the MMT issues a Compliance Monitoring and Verification Report on a quarterly basis.

The Company's coal mining activity is in its third year of certification as conforming to ISO 14001:2004 on Environmental Management System.

### **Safety**

Safety is a core value of the Company. It defines the Company's culture as a responsible energy company. The Company adopts the Australian standards and best practices in open-pit coal mining operation. It strictly adheres to safety procedures, health and safety standards and worker education and training which have resulted to reduced accidents and injury events. The Company is compliant with the regulatory and reporting requirements of various Philippine government agencies tasked to oversee health and safety, among others.

The Company's coal mining activity is in its third year of certification as conforming to OHSAS 18001:2007 on Health and Safety Management System.

### **PSE Corporate Guidelines**

The Company has complied with the reporting and disclosure of its level of adoption of PSE's Corporate Governance Guidelines. The Company's overall assessment of its good governance practices is generally being in conformance and aligned with international best practices.

As the Company constantly seeks to improve corporate governance, it is reviewing recommended guidelines regarding Board structure, specifically on increasing the number of independent directors from the minimum regulatory requirement and as also explicitly embodied in its By-Laws of two (2) to at least three (3), and having its Board Chairman and CEO positions held by individuals who are not related to each other. Its ERM is an entity-wide management process that need not be viewed or implemented as a stand-alone functional unit outside of the Company's core business processes and hence ultimately owned by the CEO as Chief Risk Owner, however the Company is revisiting the need for a dedicated unit at management level to support its overall ERM effort. Other PSE recommended guidelines under review include the holding of executive session between the external auditor and the Independent Directors who are majority members of the Audit Committee, establishment of an equity-based plan that will align employee interests with those of the shareholders, a voting system for approval by non-related party shareholders of certain types of related party transactions in shareholder meetings and a longer period beyond compliance of sending notice with agenda for stockholders prior to the holding of shareholder meeting.

## **ENTERPRISE RISK MANAGEMENT**

The Board sets the tone and establishes the risk appetite level for the Company's Enterprise Risk Management (ERM) framework which provides reasonable assurance that risks are identified, assessed, managed, monitored and communicated in a timely manner across the organization to enable the Board, Management and staff to carry out their responsibilities. It reviews and agrees on risk strategies for managing these risks. Management supports, implements and reports ERM processes, policies and practices.

Per Board-approved Audit Committee Charter, the Audit Committee assists the Board in its risk management oversight that risk management practices are aligned with strategic objectives, policies are followed, limits are respected and controls are in place. The Internal Audit plays a significant role in the ERM through its continual monitoring and evaluation of the effectiveness of risk management processes.

The Company's ERM focuses not only on existing operations, financial and compliance risks but also on significant external, emerging or strategic risks deemed critical to the Company's strategic objectives. ERM is an overall management process applied across the organization and all its levels. The Company's Chief Executive Officer is the Chief Risk Officer who meets regularly with functional unit heads being risk owners to assess, manage and monitor ERM activities. Risk management practices include, among others, enhancement of control procedures, Audit Committee's review and discussion of principal risks related to the achievement of the annual budget, and risk assessments undertaken by functional unit heads of both inherent and residual levels of significant risks to their respective business functions including their management thereof. Results of the risk reviews are reported to the Audit Committee and thereafter to the Board.

The Company's financial risk management objectives and policies to effectively manage its financial assets and liabilities are discussed in the Notes to Consolidated Financial Statements.

### **GOOD GOVERNANCE PROGRAM**

The Company's good governance initiatives aim to foster a culture of compliance, performance, transparency and accountability within the organization and to enhance shareholder value. Its continuing advocacy on good corporate governance has fostered partnership with the Institute of Corporate Directors (ICD), a professional organization committed to the professional practice of corporate directorship and participation in ICD's initiatives on governance forums and working sessions.

#### **Board Performance Review**

The Company adopts best practices of good corporate governance for its Board performance evaluation processes which include full Board self-assessment and peer director evaluation using formal questionnaires as benchmarked against best practices. The Board annually conducts a formal review of the CEO's performance based on key result areas and performance goals. Board Directors subjected themselves to formal self-assessments of their skills and expertise, and identification of training areas of interest to enhance their qualifications and effectiveness as Directors.

The Board Committees annually conduct a review of the effectiveness of the Committees' performance using self-assessment questionnaires as benchmarked against best practices, raise and discuss recommended steps for future action. Moreover, the Audit Committee solicits feedback from Executive Management to affirm and/or improve its Committee performance.

#### **Board and Director Development Program**

The Company's Board and Director development program aims to raise the quality of Board operations to a higher level. This includes orientation, training, continuing education, committee assignments and Board evaluations for improvements, among others. Directors are given a formal Board Director performance expectations list which provides a common ground for their individual performance.

Board orientation focuses on knowing the Company's unique aspects such as its history, operations, product. Board policies, etc. Directors are provided with an orientation kit of

compiled reading and video materials intended to serve as a useful tool and ready reference resource for the Board's work and duties during the year. They are encouraged to visit the Company's mine sites to gain a closer understanding of the current business operations and ongoing community projects.

Training involves participation of Directors including senior management in its parent company's group-wide seminars on leadership, strategic partnership, cross-cultural competences and economic briefing. Directors are periodically provided with reference reading on global best practices, ERM and other relevant subjects as part of their continuing education. The Company encourages enrollment of its Directors in ICD's Professional Directorship Program and supports membership in said organization.

#### **Corporate Governance Training**

The Board Directors, management and key Legal staff have participated in trainings and seminar updates on Corporate Governance and compliance-related topics.

#### **Good Governance Guidelines for Board Directors**

The Board formalized and approved good governance guidelines for its Directors regarding tenure, service on other company boards and conflict of interest, among others.

#### **Code of Conduct**

Semirara Mining Corporation has adopted Codes of Conduct for Directors & Executive Officers, and Employees (Codes) to affirm the Company's standards of professional and ethical business conduct, workplace safety and environmental responsibilities. The Codes promote fair dealings with the Company's customers, service providers, suppliers, and other stakeholders. Principal contractors and consultants are likewise expected to adhere to the provisions of the codes in the course of performance of their services to the Company. Directors, Officers and Employees are required to annually certify compliance with the Codes.

#### **Fraud and Ethics Response Policy**

This Policy reinforces the Company's commitment and determination to maintain a culture of integrity and an opposition to fraud and corruption. It sets out the ways in which employees and other stakeholders can voice their concerns and how the Company will deal with such issues.

#### **Insider Trading Policy**

Directors, Officers and employees are required to abide by the Company's prescribed restrictions and no-trading periods of its shares of stock in the market. They are also required to subsequently report their trades of the Company's shares for eventual compliance reporting to SEC and PSE and/or monitoring.

#### **Executive Succession Plan Policy**

This Policy is a statement of commitment involving assessment of leadership needs and preparation for an eventual permanent leadership change to ensure the stability and accountability of the Company to its stakeholders. It also outlines succession procedures including the process of appointment and time frame in case of an interim leadership.

#### **Related Party Transaction Policy**

It is the Company's policy that related party transactions are arms-length and at terms generally available to an unaffiliated third party under the same or similar circumstances. The Policy sets out the guidelines, categories and thresholds requiring review, disclosure and approval of such transactions.



## **STAKEHOLDERS**

The Company recognizes the rights and interests of its key stakeholders, specifically shareholders, employees, customers, suppliers, creditors, host communities and environment. In conducting its business, it promotes a conflict resolution culture that will minimize conflicts or differences with shareholders and other key stakeholders, and will encourage their fair, efficient and equitable resolutions through alternative dispute resolution options and processes.

### **Shareholders**

The Company promotes a good governance culture of transparency and equal respect of shareholder and investor rights embodied in its Revised Code of Corporate Governance. It maintains a share structure that gives all shares equal voting rights. To sustain investor confidence, the Company maintains a policy of open and constant communication and disclosure of its activities, subject to insider information guidelines. It engages in conference calls and/or meets with institutional and prospective investors, analysts and the financial community, as appropriate. Corporate information is communicated to shareholders by timely and adequate disclosures to the SEC and PSE.

### **Employees**

The Company's workplace development program aims to empower its employees to prosper in a climate of integrity and excellence through employee welfare, training and development. Its policies and programs are implemented to meet its obligations toward its employees. Employee welfare includes health care, insurance and retirement provision. Mine site employees are provided housing benefits, free utilities and free education for dependents, among others. Employee development includes skills upgrade, training and continuing education for career growth. Its wellness program provides seminars on quality work, health, safety and financial wellness, among others.

### **Customers**

The Company promotes fair dealings with its customers. The Company's certification of ISO 9001:2008 on Quality Management System affirms its commitment to achieving and enhancing customer satisfaction through continual improvement of processes.

### **Suppliers**

The Company promotes fair dealings with its suppliers, creditors and other business partners. It supports these strategic partnerships with honoring commitments to agreements and timely payments of contracted obligations. The Company's Business Entertainment policy as embodied in its Code of Conduct explicitly disallows employees from any interest in or benefit from any supplier that could reasonably be interpreted as inducing favoritism towards a particular supplier over others.

### **Community and Environment**

The Company works in partnership with its host communities while engaging in the sustainability of the country's environment and natural resources. Its comprehensive Corporate Social Responsibility program encompasses Five Es - Electrification, Education, Employment, Economics and Environment.

## **RECOGNITION and AWARDS**

The Company is a consistent silver awardee in the Securities and Exchange Commission's "Corporate Governance Scorecard for Publicly-Listed Companies in the Philippines" program in 2009 and 2008. Likewise, it was among the Top 20 Philippine Listed Companies accorded the same due recognition 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.

Semirara Mining Corporation is among the awardees for "Most Committed to a Strong Dividend Policy" for "The Best Managed Companies in the Philippines from Finance Asia Magazine's 10<sup>th</sup> Annual Best Managed Company's Poll" in 2010. Since its domestic and international shares offering in 2005, the Company has been consistently paying out cash dividends more than its adopted dividend policy of 20% of Net Income After Tax.

#### **SHAREHOLDER RIGHTS AND RELATIONS**

Semirara Mining Corporation promotes a good governance culture of transparency and equal respect of shareholders rights embodied in its Revised Code of Corporate Governance. It maintains a share structure that gives all shares equal voting rights.

To sustain investor confidence, the Company maintains a policy of open and constant communication and disclosure of its activities, subject to insider information guidelines. It engages in conference calls and/or meets with institutional and prospective investors, analysts and the financial community, as appropriate. Corporate information is communicated to shareholders by timely and adequate disclosures to the SEC, PSE and its company website.

#### **WEBSITE**

The Company's organization structure, performance and significant corporate information, including disclosures may be viewed at the Company's website, [www.semiraramining.com](http://www.semiraramining.com).

**UPON THE WRITTEN REQUEST OF ANY STOCKHOLDER, THE COMPANY WILL PROVIDE, WITHOUT CHARGE, A COPY OF THE COMPANY'S ANNUAL REPORT IN SEC FORM 17-A AND THE COMPANY'S LATEST QUARTERLY REPORT IN SEC FORM 17-Q DULY FILED WITH THE SECURITIES AND EXCHANGE COMMISSION. THE STOCKHOLDER MAY BE CHARGED A REASONABLE COST FOR PHOTOCOPYING THE EXHIBITS.**

**ALL REQUESTS MAY BE SENT TO THE FOLLOWING:**

**SEMIRARA MINING CORPORATION**

2/F DMCI Plaza Building  
2281 Don Chino Roces Avenue, Makati City  
Philippines

ATTENTION: **JOHN R. SADULLO**  
Corporate Secretary

**STATEMENT OF MANAGEMENT'S RESPONSIBILITY  
FOR FINANCIAL STATEMENTS**

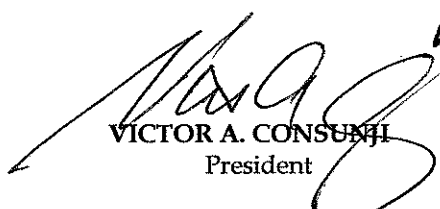
The management of SEMIRARA MINING CORPORATION and its Subsidiary is responsible for all information and representations contained in the consolidated financial statements for the years ended December 31, 2010 and 2009. The financial consolidated statements have been prepared in conformity with the generally accepted accounting principles in the Philippines and reflected amounts are based on the best estimates and informed judgment of the management with an appropriate consideration to materiality.

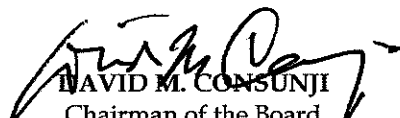
In this regard, management maintains a system of accounting and reporting which provides for the necessary internal controls to ensure that transactions are properly authorized and recorded, assets are safeguarded against unauthorized use or disposition and liabilities are recognized. The management likewise discloses to the company's audit committee and to its external auditor: (i) All significant deficiencies in the design or operation of internal controls that could adversely affect its ability to record, process, and report financial data; (ii) Material weaknesses in the internal control; and (iii) Any fraud that involves management or other employees who exercise significant roles in internal controls.


The Board of Directors reviews the consolidated financial statements before such statements are approved and submitted to the stockholders of the company.

SYCIP GORRES VELAYO & CO., the Independent Auditors and appointed by the stockholders, has examined the consolidated financial statements of the company in accordance with the generally accepted auditing standards in the Philippines and has expressed its opinion on the fairness of presentation upon completion of such examination, in its report to the Board of Directors and Stockholders.

Singed under oath by the following:

  
**VICTOR A. CONSUNJI**  
 President

  
**DAVID M. CONSUNJI**  
 Chairman of the Board

  
**JUNALINA S. TABOR**  
 Chief Finance Officer

**MAR 17 2011**  
 SUBSCRIBED AND SWORN, to before me on this 17 day of March 2011, at Makati City, Metro Manila, affiants exhibited to me:

Name	Passport/CTC No.	Expiry Date/Place Issued
David M. Consunji	EB0531746	July 6, 2015/Manila
Victor A. Consunji	XX0792809	March 25, 2013/Manila
Junalina S. Tabor	XX3473564	April 14, 2014 /Manila

who has satisfactory proven to me their identities through their valid identification cards, and that they are the same persons who personally signed before me the foregoing and acknowledged that they executed the same.

Doc. No. 47;  
 Page No. 11  
 Book No. XXXI  
 Series of 2011.

**ATTY. BASILIO D. GASCON, JR.**  
 NOTARY PUBLIC FOR MAKATI CITY  
 UNTIL DECEMBER 31, 2011  
 NOTARY PUBLIC APPOINTMENT NO. M-57  
 ROLLY OF ATTORNEY NO. 51633  
 MCLE COMPLIANCE NO. III-0005967/ APRIL 23, 2006  
 IBP LIFE MEMBER ROLL NO. 094411 JAN 4, 2011 / ZAMBALES CHAPTER  
 PTR NO. 2643217 / JANUARY 4, 2011 / MAKATI CITY  
 2/F DMCI HOMES CORPORATE CENTRE  
 1321 APOLINARIO STREET, BANGKAL,  
 MAKATI CITY, METRO MANILA



**Semirara Mining Corporation and Subsidiary**

Consolidated Financial Statements  
December 31, 2010 and 2009  
and Years Ended December 31, 2010, 2009 and 2008

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, 2010 and 2009, 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, 2010, and a summary of significant accounting policies and other explanatory information.

### ***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, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

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

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

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



***Opinion***

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Semirara Mining Corporation and Subsidiary as at December 31, 2010 and 2009, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2010 in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.

*Jessie D. Cabaluna*

Jessie D. Cabaluna

Partner

CPA Certificate No. 36317

SEC Accreditation No. 0069-AR-2

Tax Identification No. 102-082-365

BIR Accreditation No. 08-001998-10-2009,

June 1, 2009, Valid until May 31, 2012

PTR No. 2641508, January 3, 2011, Makati City

March 7, 2011





**SEMIRARA MINING CORPORATION AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

	December 31	
	2010	2009 (As restated*)
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents (Notes 4, 28 and 29)	₱3,813,283,517	₱481,920,935
Receivables - net (Notes 3, 5, 17, 28 and 29)	3,183,300,192	1,254,095,120
Inventories - net (Notes 3, 6, 8 and 33)	2,375,874,790	2,982,288,520
Other current assets (Notes 7 and 29)	912,018,769	608,943,613
Total Current Assets	10,284,477,268	5,327,248,188
<b>Noncurrent Assets</b>		
Property, plant and equipment - net (Notes 3, 8, 19, 20 and 33)	19,584,259,678	18,356,642,013
Investments and advances (Notes 3 and 9)	310,229,558	244,432,588
Other noncurrent assets - net (Notes 3, 10 and 29)	317,587,850	334,952,512
Total Noncurrent Assets	20,212,077,086	18,936,027,113
	<b>₱30,496,554,354</b>	<b>₱24,263,275,301</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current Liabilities</b>		
Short-term loans (Notes 11, 28 and 29)	₱449,845,179	₱844,641,556
Current portion of long-term debt (Notes 12, 28, 29 and 33)	1,132,896,820	1,814,339,795
Trade and other payables (Notes 13, 17, 28 and 29)	5,351,271,316	3,253,621,567
Total Current Liabilities	6,934,013,315	5,912,602,918
<b>Noncurrent Liabilities</b>		
Long-term debt - net of current portion (Notes 12, 28, 29 and 33)	11,159,821,454	8,364,484,230
Deferred tax liabilities - net (Notes 3 and 24)	28,087,305	72,056,929
Provision for decommissioning and site rehabilitation (Notes 3 and 14)	14,732,350	17,621,980
Pension liability (Note 18)	19,996,748	12,935,734
Total Noncurrent Liabilities	11,222,637,857	8,467,098,873
Total Liabilities	18,156,651,172	14,379,701,791
<b>Equity</b>		
Capital stock (Note 15)	356,250,000	296,875,000
Additional paid-in capital (Note 15)	6,675,527,411	1,576,796,271
Deposit on future stock subscriptions (Note 15)	-	5,402,125,985
Retained earnings (Note 16)		
Unappropriated	4,608,125,771	2,436,667,514
Appropriated	700,000,000	700,000,000
	12,339,903,182	10,412,464,770
Cost of shares held in treasury (Notes 15 and 16)	-	(528,891,260)
Total Equity	12,339,903,182	9,883,573,510
	<b>₱30,496,554,354</b>	<b>₱24,263,275,301</b>

\* Certain amounts shown here do not correspond to the 2009 financial statements and reflect adjustments made as detailed in Note 33.

See accompanying Notes to Consolidated Financial Statements.



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

	Years Ended December 31		
	2010	2009 (As restated*)	2008 (Note 2)
<b>REVENUE</b> (Note 32)			
Coal	₱14,242,224,629	₱11,500,192,811	₱8,490,045,380
Power	8,655,623,846	443,492,763	–
	<b>22,897,848,475</b>	11,943,685,574	8,490,045,380
<b>COST OF SALES</b> (Notes 17, 19 and 32)			
Coal	10,136,303,396	8,921,965,253	6,943,585,844
Power	5,767,407,484	419,708,530	–
	<b>15,903,710,880</b>	9,341,673,783	6,943,585,844
<b>GROSS PROFIT</b>	<b>6,994,137,595</b>	2,602,011,791	1,546,459,536
<b>OPERATING EXPENSES</b> (Notes 20 and 32)	<b>(2,790,092,746)</b>	(749,582,032)	(458,925,813)
<b>INCOME FROM OPERATIONS</b>	<b>4,204,044,849</b>	1,852,429,759	1,087,533,723
<b>OTHER INCOME (CHARGES)</b>			
Finance income (Notes 22 and 32)	57,667,764	52,752,896	77,234,983
Foreign exchange gains (losses) - net (Notes 28 and 32)	199,487,633	47,703,017	(82,781,003)
Finance costs (Notes 17, 21 and 32)	(685,906,321)	(112,192,664)	(101,240,084)
Equity in net earnings (losses) of associates (Notes 9 and 32)	76,825,789	(39,349,171)	(1,768,241)
Other income (Notes 23 and 32)	65,427,012	107,935,222	54,442,772
	<b>(286,498,123)</b>	56,849,300	(54,111,573)
<b>INCOME BEFORE INCOME TAX</b>	<b>3,917,546,726</b>	1,909,279,059	1,033,422,150
<b>PROVISION FOR (BENEFIT FROM) INCOME TAX</b> (Notes 24 and 32)			
Current	8,808,092	5,362,577	290,501,414
Deferred	(43,969,623)	57,931,775	(53,478,055)
	<b>(35,161,531)</b>	63,294,352	237,023,359
<b>NET INCOME</b>	<b>3,952,708,257</b>	1,845,984,707	796,398,791
<b>OTHER COMPREHENSIVE INCOME</b>	–	–	–
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>₱3,952,708,257</b>	₱1,845,984,707	₱796,398,791
<b>Basic/Diluted Earnings per Share</b> (Note 25)	<b>₱12.10</b>	₱6.65	₱2.87

\* Certain amounts shown here do not correspond to the 2009 financial statements and reflect adjustments made as detailed in Note 33.

*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 (Note 15)	Deposit on Future Stock Subscriptions (Note 15)	Unappropriated Retained Earnings (Notes 2 and 16)	Appropriated Retained Earnings (Note 16)	Total	Cost of Shares Held in Treasury (Notes 15 and 16)	Grand Total
At January 1, 2010 (as restated)	₱296,875,000	₱1,576,796,271	₱5,402,125,985	₱2,436,667,514	₱700,000,000	₱10,412,464,770	(₱528,891,260)	₱9,883,573,510
Reissuance of treasury shares	–	764,356,140	(1,293,247,400)	–	–	(528,891,260)	528,891,260	–
Additional subscriptions through stock rights offering	59,375,000	4,334,375,000	(4,108,878,585)	–	–	284,871,415	–	284,871,415
Net income for the year	–	–	–	3,952,708,257	–	3,952,708,257	–	3,952,708,257
Dividends declared	–	–	–	(1,781,250,000)	–	(1,781,250,000)	–	(1,781,250,000)
<b>At December 31, 2010</b>	<b>₱356,250,000</b>	<b>₱6,675,527,411</b>	<b>₱–</b>	<b>₱4,608,125,771</b>	<b>₱700,000,000</b>	<b>₱12,339,903,182</b>	<b>₱–</b>	<b>₱12,339,903,182</b>
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 on future stock subscriptions	–	–	5,402,125,985	–	–	5,402,125,985	–	5,402,125,985
Net income for the year (as previously stated)	–	–	–	1,809,555,888	–	1,809,555,888	–	1,809,555,888
Dividends declared	–	–	–	(1,665,436,428)	–	(1,665,436,428)	–	(1,665,436,428)
At December 31, 2009 (as previously stated)	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
Effect of PFRS 3	–	–	–	36,428,819	–	36,428,819	–	36,428,819
<b>At December 31, 2009 (as restated)</b>	<b>₱296,875,000</b>	<b>₱1,576,796,271</b>	<b>₱5,402,125,985</b>	<b>₱2,436,667,514</b>	<b>₱700,000,000</b>	<b>₱10,412,464,770</b>	<b>(₱528,891,260)</b>	<b>₱9,883,573,510</b>
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 declared	–	–	–	(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	–	–	–
<b>At December 31, 2008</b>	<b>₱296,875,000</b>	<b>₱1,576,796,271</b>	<b>₱–</b>	<b>₱2,256,119,235</b>	<b>₱700,000,000</b>	<b>₱4,829,790,506</b>	<b>(₱528,891,260)</b>	<b>₱4,300,899,246</b>

*See accompanying Notes to Consolidated Financial Statements.*



**SEMIRARA MINING CORPORATION AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Years Ended December 31		
	2010	2009 (As restated*)	2008 (Note 2)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Income before income tax	₱3,917,546,726	₱1,909,279,059	₱1,033,422,150
Adjustments for:			
Depreciation and amortization (Notes 8, 10 and 19)	2,566,427,137	1,104,933,707	1,159,392,307
Finance costs (Note 21)	685,906,321	112,192,664	101,240,084
Provision for doubtful accounts (Notes 5 and 20)	53,744,668	-	-
Pension expense (Note 18)	7,061,014	3,436,736	4,839,774
Gain on sale of equipment (Notes 8 and 23)	(6,088,124)	(40,205,597)	(44,713,500)
Gain on sale of investment (Notes 9 and 23)	(41,378,255)	-	-
Finance income (Note 22)	(57,667,764)	(52,752,896)	(77,234,983)
Net unrealized foreign exchange losses (gains)	(67,308,294)	(168,563,289)	71,788,836
Equity in net losses (earnings) of associates (Note 9)	(76,825,789)	39,349,171	1,768,241
Negative goodwill (Note 33)	-	(15,666,752)	-
Operating income before changes in working capital	6,981,417,640	2,892,002,803	2,250,502,909
Changes in operating assets and liabilities:			
Decrease (increase) in:			
Receivables	(1,947,398,569)	524,955,210	(625,030,364)
Inventories	73,701,971	(629,152,442)	(7,161,948)
Other current assets	(337,872,065)	(688,178,267)	(21,002,963)
Increase in trade and other payables	2,737,976,145	1,562,098,344	420,558,669
Cash generated from operations	7,507,825,122	3,661,725,648	2,017,866,303
Interest received	91,726,741	86,501,617	87,005,291
Interest paid	(869,829,470)	(56,051,307)	(88,561,504)
Income taxes paid	(8,071,333)	(63,423,038)	(272,607,496)
Net cash provided by operating activities	6,721,651,060	3,628,752,920	1,743,702,594
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Proceeds from sale of equipment	53,000,798	762,961,381	1,532,458,450
Additions to property, plant and equipment (Notes 8 and 31)	(3,007,368,967)	(2,853,983,593)	(1,704,529,706)
Proceeds from sale of investment	327,086,632	-	-
Additions to investments and advances (Note 9)	(310,229,558)	(60,550,001)	(144,128,793)
Decrease (increase) in other noncurrent assets (Note 10)	13,203,852	615,302,744	(282,366,016)
Advance rental paid	-	(150,568,000)	-
Acquisition of a business (Note 33)	(10,018,266,624)	(7,107,740,798)	-
Net cash used in investing activities	(12,942,573,867)	(8,794,578,267)	(598,566,065)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Decrease in short-term loans	(394,796,377)	-	-
Net availments of notes payable	-	742,144,817	102,496,739
Availments of long-term debt	11,554,776,302	1,626,006,970	1,218,495,299
Repayment of long-term debt	(111,315,951)	(1,469,504,224)	(1,994,234,542)
Payment of dividends (Note 16)	(1,781,250,000)	(1,665,436,428)	(1,110,291,200)
Proceeds from additional issuance of capital stocks	4,393,750,000	-	-
Deposit on future stock subscriptions (Note 15)	(5,402,125,985)	5,402,125,985	-
Proceeds from sale of shares held in treasury (Note 15)	1,293,247,400	-	-
Net cash provided by (used in) financing activities	9,552,285,389	4,635,337,120	(1,783,533,704)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	3,331,362,582	(530,488,227)	(638,397,175)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	481,920,935	1,012,409,162	1,650,806,337
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)</b>	₱3,813,283,517	₱481,920,935	₱1,012,409,162

\* Certain amounts shown here do not correspond to the 2009 financial statements and reflect adjustments made as detailed in Note 33.

See accompanying Notes to Consolidated Financial Statements.



# **SEMIRARA MINING CORPORATION AND SUBSIDIARY**

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## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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### **1. Corporate Information**

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

The Parent Company's primary purpose is to search for, prospect, explore, dig and drill for mine, exploit, extract, produce, mill, purchase or otherwise, 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".

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### **2. Summary of Significant Accounting Policies**

#### Basis of Preparation

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

#### Statement of Compliance

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

#### Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Group as at December 31, 2010 and 2009 and for the years then ended (see Note 1). A subsidiary is an entity over which the Parent Company has the power to govern the financial and operating policies of the entity. The subsidiary is fully consolidated from the date of incorporation, being the date on which the Parent Company obtains control, and continues to be consolidated until the date that such control ceases. The results of subsidiaries acquired or disposed of during the year are included in the consolidated statements of comprehensive income from the date of acquisition or up to the date of the disposal, as appropriate.

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



The financial statements of the subsidiary are prepared for the same reporting 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 year except for the following new and amended PFRS and Philippine Interpretations of International Financial Reporting Interpretations Committee (IFRIC) effective as of January 1, 2010.

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

- PFRS 2, *Share-based Payment: Group Cash-settled Share-based Payment Transactions* (effective January 1, 2010)
- PFRS 3, *Business Combinations (Revised)* and Philippine Accounting Standards (PAS) 27, *Consolidated and Separate Financial Statements (Amended)* (effective July 1, 2009, including consequential amendments to PFRS 2, PFRS 5, PFRS 7, PAS 7, PAS 21, PAS 28, PAS 31 and PAS 39)
- PAS 39, *Financial Instruments: Recognition and Measurement - Eligible Hedged Items (Amended)* (effective July 1, 2009)
- Philippine Interpretation IFRIC 17, *Distributions of Non-cash Assets to Owners* (effective July 1, 2009)
- Improvements to PFRSs (May 2008)
- Improvements to PFRSs (May 2009)

Standards or interpretations that have been adopted by the Group are described below. However, the adoption of these standards and interpretations did not have an impact on the consolidated financial statements of the Group, unless otherwise stated.

- PFRS 2, *Share-based Payment (Amendment) - Group Cash-settled Share-based Payment Transactions*  
The amendment to PFRS 2 clarified the scope and the accounting for group cash-settled share-based payment transactions.
- PFRS 3 (Revised), *Business Combinations* and PAS 27 (Amended), *Consolidated and Separate Financial Statements*  
PFRS 3 (Revised) introduces significant changes in the accounting for business combinations occurring after becoming effective. Changes affect the valuation of non-controlling interest (NCI), 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.

PAS 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 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) affect acquisitions or loss of control of subsidiaries and transactions with NCI after 1 January 2010.





- PAS 39, *Financial Instruments: Recognition and Measurement (Amendment) - Eligible Hedged Items*  
The amendment 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.
- Philippine Interpretation IFRIC 17, *Distributions of Non-cash Assets to Owners*  
This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends.

#### *Improvements to PFRSs*

Improvements to PFRSs, an omnibus of amendments to standards, deal primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies but did not have any impact on the financial position or performance of the Group.

#### *Improvements to PFRSs 2009*

- PFRS 5 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 Segments*, 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. As the Group's chief operating decision maker does review segment assets and liabilities, the Group has continued to disclose this information in Note 32.
- PAS 7, *Statement of Cash Flows*, states that only expenditure that results in recognizing an asset can be classified as a cash flow from investing activities. This amendment will impact among others, the presentation in the statement of cash flows of the contingent consideration on the business combination completed in 2010 upon cash settlement.
- PAS 36, *Impairment of Assets*, amendment 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. The amendment has no impact on the Group as the annual impairment test is performed before aggregation.

Other amendments resulting from the 2009 Improvements to PFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Group:

- PFRS 2, *Share-based Payment*
- PAS 1, *Presentation of Financial Statements*
- PAS 17, *Leases*
- PAS 38, *Intangible Assets*
- PAS 39, *Financial Instruments: Recognition and Measurement*
- Philippine Interpretation IFRIC 9, *Reassessment of Embedded Derivatives*
- Philippine Interpretation IFRIC 16, *Hedge of a Net Investment in a Foreign Operation*



#### 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, 2010. This listing consists of standards and interpretations issued, which the Group reasonably expects to be applicable at a future date. The Group intends to adopt those standards when they become effective. The Group does not expect the adoption of these standards to have a significant impact in the financial statements, unless otherwise stated.

- PAS 24 (Amended), *Related Party Disclosures*  
The amended standard is effective for annual periods beginning on or after January 1, 2011. It clarified the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government related entities. Early adoption is permitted for either the partial exemption for government-related entities or for the entire standard.
- PAS 32, *Financial Instruments: Presentation (Amendment)- Classification of Rights Issues*  
The amendment to PAS 32 is effective for annual periods beginning on or after February 1, 2010 and amended the definition of a financial liability in order to classify rights issues (and certain options or warrants) as equity instruments in cases where such rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, or to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency.
- PAS 12, *Income Taxes (Amendment) - Deferred Tax: Recovery of Underlying Assets*  
The amendment to PAS 12 is effective for annual periods beginning on or after January 1, 2012. It provides a practical solution to the problem of assessing whether recovery of an asset will be through use or sale. It introduces a presumption that recovery of the carrying amount of an asset will normally be through sale.
- PFRS 7, *Financial Instruments: Disclosures (Amendments) - Transfers of Financial Assets*  
The amendments to PFRS 7 are effective for annual periods beginning on or after 1 July 2011. The amendments will allow users of financial statements to improve their understanding of transfer transactions of financial assets (for example, securitizations), including understanding the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period.
- PFRS 9, *Financial Instruments: Classification and Measurement*  
PFRS 9 as issued reflects the first phase of the IASB's work on the replacement of PAS 39 and applies to classification and measurement of financial assets as defined in PAS 39. The standard is effective for annual periods beginning on or after January 1, 2013. In subsequent phases, the IASB will address classification and measurement of financial liabilities, hedge accounting and derecognition. The completion of this project is expected in early 2011. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.



- *Philippine Interpretation IFRIC 14 (Amendment), Prepayments of a Minimum Funding Requirement*  
The amendment to IFRIC 14 is effective for annual periods beginning on or after January 1, 2011 with retrospective application. The amendment provides guidance on assessing the recoverable amount of a net pension asset. The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset.
- *Philippine Interpretation IFRIC 15, Agreement for Construction of Real Estate*  
This Interpretation, effective for annual periods beginning on or after January 1, 2012, 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.
- *Philippine Interpretation IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments*  
IFRIC 19 is effective for annual periods beginning on or after July 1, 2010. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognized immediately in profit or loss.

#### *Improvements to PFRSs 2010*

Improvements to IFRSs is an omnibus of amendments to PFRSs. The amendments have not been adopted as they become effective for annual periods on or after either July 1, 2010 or January 1, 2011. The amendments listed below, are considered to have a reasonable possible impact on the Group:

- PFRS 3, *Business Combinations*
- PFRS 7, *Financial Instruments: Disclosures*
- PAS 1, *Presentation of Financial Statements*
- PAS 27, *Consolidated and Separate Financial Statements*
- Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes*

The Group, however, expects no impact from the adoption of the amendments on its financial position or performance.

#### Cash and Cash Equivalents

Cash includes cash on hand and in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less and that are subject to an insignificant risk of changes in value.

#### 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 financial liabilities. The classification depends on the purpose for which the investments were acquired and whether these are quoted in an active market. Management determines the classification of its financial instruments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

As of December 31, 2010 and 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 1 difference) in the consolidated statement of comprehensive income unless it qualifies for recognition as some other type of asset. In cases where the valuation technique used is made of data which is not observable, the difference between the transaction price and model value is only recognized in the consolidated statement of comprehensive income when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the 'day 1' difference amount.

#### *Embedded derivatives*

An embedded derivative is separated from the host financial or non-financial contract and accounted for as a derivative if all of the following conditions are met:

- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristic of the host contract;



- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- the hybrid or combined instrument is not recognized as at FVPL.

As of December 31, 2010 and 2009, the Group has no embedded derivatives.

#### *Financial assets*

##### Loans and Receivables

Loans and receivables are financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. These are not entered into with the intention of immediate or short-term resale and are not designated as AFS financial assets or financial assets at FVPL. These are included in current assets if maturity is within 12 months from the reporting date otherwise; these are classified as noncurrent assets. This accounting policy relates to the consolidated statement of financial position accounts “Cash and cash equivalents”, “Receivables” and Security deposits under “Other current assets”.

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

#### *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 assessed for impairment. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment for impairment.

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 consolidated statement of comprehensive income 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 consolidated statement of comprehensive income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

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.

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

#### *Financial Liabilities*

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

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

#### Offsetting of Financial Instruments

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

#### 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.

#### Exploration and evaluation costs

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

#### Mining reserves

Mining reserves are estimates of the amount of coal that can be economically and legally extracted from the Group’s mining properties. The Group estimates its mining reserves and mineral resources based on information compiled by appropriately qualified persons relating to the



geological data on the size, depth and shape of the coal body, and requires complex geological judgments to interpret the data. The estimation of recoverable reserves is based upon factors such as estimates of foreign exchange rates, commodity prices, future capital requirements, and production costs along with geological assumptions and judgments made in estimating the size and grade of the coal body. Changes in the reserve or resource estimates may impact upon the carrying value of exploration and evaluation assets, mine properties, property, plant and equipment, provision for rehabilitation, recognition of deferred tax assets, and depreciation and amortization charges.

Property, Plant and Equipment

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

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

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

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

Depreciation 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, tools and other equipment	2 to 13 years
Power plant and buildings	10 to 21 years
Roads and bridges	17 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. When assets are retired, or otherwise disposed of, the cost and the related accumulated depreciation are removed from the accounts. Any gain or loss arising on the derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated statement of comprehensive income in the year the item is derecognized.

#### 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 consolidated statement of comprehensive income 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 measured initially at fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization on a straight line basis over their useful lives of three (3) to five (5) years and any accumulated impairment losses.

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

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



#### Input Value-added Tax (VAT)

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

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

#### *Business combinations prior - 2009*

Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs.

The purchase method of accounting involves recognizing identifiable assets and liabilities of the acquired business initially at fair value. If the acquirer's interest in the net fair value of the identifiable assets and liabilities exceeds the cost of the business combination, the acquirer shall (a) reassess the identification and measurement of the acquiree's identifiable assets and liabilities and the measurement of the cost of the combination; and (b) recognize immediately in the consolidated statement of comprehensive income any excess remaining after that reassessment.

PFRS 3 provides that if the initial accounting for a business combination can be determined only provisionally 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 acquirer shall account for the combination using those provisional values. The acquirer shall recognize any adjustments to those provisional values as a result of completing the initial accounting within twelve months of the acquisition date as follows: (i) the carrying amount of the identifiable asset, liability or contingent liability that is recognized or adjusted as a result of completing the initial accounting shall be calculated as if its fair value at the acquisition date had been recognized from that date; (ii) goodwill or any gain recognized shall be adjusted by an amount equal to the adjustment to the fair value at the acquisition date of the identifiable asset, liability or contingent liability being recognized or adjusted; and (iii) comparative information presented for the periods before the initial accounting for the combination is complete shall be presented as if the initial accounting has been completed from the acquisition date.

#### Impairment of Nonfinancial Assets

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



An assessment is made at each reporting date whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If any such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If such is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statement of comprehensive income unless the asset is carried at revalued amount, in which case, the reversal is treated as a revaluation increase. After such reversal, the depreciation and amortization charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

#### *Investments in associates*

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

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

#### *Sale of coal*

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

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

#### *Contract energy sales*

These are revenue 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 energy received by the customer or the actual energy nominated by the customer, net of adjustments, as agreed upon between parties. In arrangements where the Company is acting as principal to its customers, revenue is recognized on a gross basis. However, if the Company is acting as an agent to its customers, revenue is recognized on a net basis.



*Spot electricity sales*

Revenue derived from the sale to the spot market of excess generated electricity over the contracted energy. Revenue is recognized based on the actual energy received by the customer and valued using price dictated by the spot market.

*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).

Cost of Sales

*Cost of coal*

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

*Cost of power*

Cost of *power* includes expenses directly related to the production and sale of electricity such as cost of coal, fuel, depreciation and other related costs. Cost of coal and fuel are recognized at the time the related coal and fuel inventories are consumed for the production of electricity. Cost of energy also includes purchased power which is the electricity purchased from the spot market and is recognized as expense when the Company receives the electricity and simultaneously sells to its customers.

Operating Expenses

Operating expenses are expenses that arise in the course of the ordinary operations of the Group. These usually take the form of an outflow or depletion of assets such as cash and cash equivalents, supplies, and office furniture and equipment. Expenses are recognized in the consolidated statement of comprehensive income as incurred.

Borrowing Costs

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

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



Borrowing costs capitalized in the “Property, plant and equipment” account amounted to ₱86.12 million in 2009.

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

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

#### Income Tax

##### *Current tax*

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

##### *Deferred tax*

Deferred tax is provided, using the balance sheet liability method, on all temporary differences 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.

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

#### Provisions

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

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

The Group records the present value of estimated costs of legal and constructive obligations required to restore operating locations in the period in which the obligation is incurred. The nature of these restoration activities includes dismantling and removing structures, rehabilitating mines and tailings dams, dismantling operating facilities, closure of plant and waste sites, and restoration, reclamation and re-vegetation of affected areas. The obligation generally arises when the asset is installed or the ground environment is disturbed at the production location. When the liability is initially recognized, the present value of the estimated cost is capitalized by increasing



the carrying amount of the related mining assets. Over time, the discounted liability is increased for the change in present value based on the discount rates that reflect current market assessments and the risks specific to the liability. The periodic unwinding of the discount is recognized in the consolidated statement of comprehensive income as a finance cost. Additional disturbances or changes in rehabilitation costs will be recognized as additions or charges to the corresponding assets and rehabilitation liability when they occur. For closed sites, changes to estimated costs are recognized immediately in the consolidated statement of comprehensive income.

#### Leases

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

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

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

#### *Group as a lessee*

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

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

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

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

#### Foreign Currency Translation

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



### Equity

The Group records common stock 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 consolidated statement of comprehensive income on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration is recognized in additional paid-in capital.

### Earnings per Share (EPS)

Basic 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.

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## **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 price adjustments depend on the estimated quality of the delivered coal. These estimates are based on final coal quality analysis on delivered coal using American Standards for Testing Materials (ASTM).

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

Total revenue from coal sales amounted to ₱14.24 billion, ₱11.50 billion and ₱8.49 billion in 2010, 2009 and 2008, respectively.

#### *Estimating impairment of loans and receivables*

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



receivables being evaluated. The Group regularly performs a review of the age and status of receivables and identifies accounts that are to be provided with allowance.

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

In 2010 and 2009, there are reversals of provision amounting to ₱5.68 million and ₱3.19 million, respectively. The reversal was recognized under the “Other income” account in the consolidated statement of comprehensive income. Receivables, net of allowance for impairment loss amounted to ₱3.18 billion and ₱1.25 billion as of December 31, 2010 and 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 and third-party surveyors. The survey is conducted on a monthly basis with a reconfirmatory survey at year end. The process of estimation involves a predefined formula which considers an acceptable margin of error of plus or minus 3%. Thus, an increase or decrease in the estimation threshold for any period would differ if the Group utilized different estimates and this would either increase or decrease the profit for the year. Coal pile inventory as of December 31, 2010 and 2009 amounted to ₱846.37 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 ₱1.53 billion and ₱1.24 billion as of December 31, 2010 and 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.

The discount rate applied in the calculation of the net present value of provision is 2.50% to 7.49% and 4.16% to 5.5% in 2010 and 2009, respectively. Rehabilitation expenditure is largely expected to take place from 2012 to 2027.



As of December 31, 2010 and 2009, the provision for decommissioning and site rehabilitation has a carrying value of ₱14.73 million and ₱17.62 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, 2010 and 2009 amounted to ₱19.58 billion and ₱18.36 billion, respectively (see Note 8). The net book value of the software cost as of December 31, 2010 and 2009 amounted to ₱6.35 million and ₱7.54 million, respectively (see Note 10).

*Estimating impairment for nonfinancial assets*

The Group assesses impairment on investments and advances, property, plant and equipment and software cost whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the Group considers important which could trigger an impairment review include the following:

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

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 fair value less cost to sell and value in use. The fair value less cost to sell 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, 2010 and 2009 follow:

	2010	2009 (As restated)
Property, plant and equipment (Note 8)	<b>₱19,584,259,678</b>	₱18,356,642,013
Investments and advances (Note 9)	<b>310,229,558</b>	244,432,588
Software cost (Note 10)	<b>6,345,855</b>	7,536,022
	<b>₱19,900,835,091</b>	₱18,608,610,623



*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 2010 and 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, 2010 and 2009, the balances of the Group's defined benefit obligation and unrecognized actuarial gains (losses) follow (see Note 18):

	<b>2010</b>	2009
Present value of defined benefit obligation	<b>₱54,391,181</b>	₱40,981,694
Unrecognized actuarial gains (losses)	<b>(5,748,295)</b>	377,427

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, 2010 and 2009 amounted to ₱5.85 million and ₱1.55 million, respectively.

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#### 4. Cash and Cash Equivalents

This account consists of:

	<b>2010</b>	2009
Cash on hand and in banks	<b>₱1,976,645,025</b>	₱112,200,452
Cash equivalents	<b>1,836,638,492</b>	369,720,483
	<b>₱3,813,283,517</b>	₱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:

	2010	2009
Trade (Notes 28 and 29)		
Electricity sales	₱1,651,955,469	₱489,245,876
Local coal sales	757,221,337	337,326,286
Export coal sales	582,130,762	414,815,233
Due from related parties (Notes 17, 28 and 29)	120,628,995	9,067,242
Others (Notes 28 and 29)	143,142,750	27,352,040
	<b>3,255,079,313</b>	1,277,806,677
Less allowance for impairment losses	71,779,121	23,711,557
	<b>₱3,183,300,192</b>	₱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.

As at December 31, 2010 and 2009, trade receivables and other receivables with a nominal value of ₱71.78 million and ₱23.71 million were impaired and provided for. Movements in the allowance for impairment of receivables were as follows:

### **2010**

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

### **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



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## 6. Inventories

This account consists of:

	2010	2009 (As restated)
Spare parts and supplies at NRV (Note 33)	<b>₱1,529,501,990</b>	₱1,239,244,001
Coal pile inventory at cost (Note 33)	<b>846,372,800</b>	1,743,044,519
	<b>₱2,375,874,790</b>	₱2,982,288,520

Spare parts and supplies with original cost of ₱580.93 million as of December 31, 2010 and 2009, were provided with allowance for inventory obsolescence amounting to ₱53.29 million.

The cost of coal inventories recognized as expense in the consolidated statement of comprehensive income amounted to ₱10.14 billion, ₱8.92 billion and ₱6.94 billion for the years ended December 31, 2010, 2009 and 2008, respectively (see Note 19).

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## 7. Other Current Assets

This account consists of:

	2010	2009
Security deposits - current portion (Note 10)	<b>₱304,400,611</b>	₱270,751,295
Advances to suppliers	<b>312,134,305</b>	182,964,827
Creditable withholding tax	<b>235,463,531</b>	117,455,626
Prepaid insurance and others	<b>53,836,891</b>	10,052,424
Prepaid rent (Notes 10 and 30)	<b>6,183,431</b>	27,719,441
	<b>₱912,018,769</b>	₱608,943,613

### *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.



## 8. Property, Plant and Equipment

The rollforward analysis of this account follows:

### 2010

	Mining, Tools and Other Equipment	Power Plant and Buildings	Roads and Bridges	Equipment in Transit and Construction in Progress	Total
<b>At Cost</b>					
At January 1	₱10,333,808,195	₱17,757,658,247	₱279,062,950	₱571,185,355	₱28,941,714,747
Additions	2,589,750,052	9,200,188	–	708,798,651	3,307,748,891
Transfers	517,872,050	20,413,973	–	(538,286,023)	–
Transfers from inventory (Note 31)	–	–	–	529,047,775	529,047,775
Disposals (Note 23)	(54,249,706)	(37,750)	–	(1,750,087)	(56,037,543)
At December 31	13,387,180,591	17,787,234,658	279,062,950	1,268,995,671	32,722,473,870
<b>Accumulated Depreciation and Amortization</b>					
At January 1	8,988,247,985	1,317,761,799	279,062,950	–	10,585,072,734
Depreciation and amortization (Notes 19 and 20)	1,629,170,035	933,096,292	–	–	2,562,266,327
Disposals (Note 23)	(9,123,414)	(1,455)	–	–	(9,124,869)
At December 31	10,608,294,606	2,250,856,636	279,062,950	–	13,138,214,192
<b>Net Book Value</b>	<b>₱2,778,885,985</b>	<b>₱15,536,378,022</b>	<b>₱–</b>	<b>₱1,268,995,671</b>	<b>₱19,584,259,678</b>

### 2009 (As restated)

	Mining, Tools and Other Equipment	Power Plant and Buildings	Roads and Bridges	Equipment in Transit and Construction in Progress	Total
<b>At Cost</b>					
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)	58,347,772	16,153,022,222	–	–	16,211,369,994
Additions	2,191,703,508	111,692,515	–	550,587,570	2,853,983,593
Transfers from inventory (Note 31)	154,665,201	43,408,474	–	(189,007,936)	9,065,739
Disposals (Note 23)	(998,267,572)	–	–	–	(998,267,572)
At December 31	10,333,808,195	17,757,658,247	279,062,950	571,185,355	28,941,714,747
<b>Accumulated Depreciation and Amortization</b>					
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	295,972,926	258,382	–	1,101,085,787
Disposals (Note 23)	(275,511,788)	–	–	–	(275,511,788)
At December 31	8,988,247,985	1,317,761,799	279,062,950	–	10,585,072,734
<b>Net Book Value</b>	<b>₱1,345,560,210</b>	<b>₱16,439,896,448</b>	<b>₱–</b>	<b>₱571,185,355</b>	<b>₱18,356,642,013</b>

Equipment in transit and construction in progress accounts mostly contains purchased mining equipment in transit; as such, no borrowing cost was capitalized in 2010 and 2009.

Certain mining equipment has been pledged as collaterals to secure the indebtedness of the Parent Company to a local bank as of December 31, 2009 (Note 12).



## 9. Investments and Advances

This account consists of:

	2010	2009
<b>Acquisition cost</b>		
At beginning of year	P250,000,000	P225,000,000
Additions during the year	-	25,000,000
Disposals during the year	(250,000,000)	-
	-	250,000,000
<b>Accumulated equity in net earnings</b>		
Balance at beginning of year	(41,117,412)	(1,768,241)
Equity in net earnings (losses) during the year	76,825,789	(39,349,171)
Disposals during the year	(35,708,377)	-
Balance at end of year	-	(41,117,412)
	-	208,882,588
Investment in sinking fund	310,229,558	-
Advances for future subscriptions	-	35,550,000
	P310,229,558	P244,432,588

The Group's equity in the net assets of associates and the related percentages of ownership as of December 31, 2010 and 2009 are shown below:

	Ownership	2010	2009
DMCI Mining Corporation (DMCI-MC)	50%	P-	P87,911,674
DMCI Power Corporation (DMCI-PC)	50%	-	156,520,914
		P-	P244,432,588

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 as of December 31, 2009:

	DMCI-PC	DMC-MC
<b>Assets</b>		
Current assets	P8,901,235	P225,086,326
Noncurrent assets	541,008,336	21,771,995
	549,909,571	246,858,321
<b>Liabilities</b>		
Current liabilities	(272,417,744)	(71,034,972)
Net assets	P277,491,827	P175,823,349
<b>Net loss</b>	(P34,717,965)	(P43,980,377)



*DMCI-MC*

In March 2007, DMCI-MC entered into a 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.

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. (BC) 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.

In March 2010, the Company and Benguet Corp Nickel Mines, Inc, an affiliate of BC, agreed to establish and maintain a Mine Rehabilitation Fund as a reasonable environmental deposit to ensure the availability of funds for its satisfactory compliance with the commitments and performance of activities stipulated in its Environment Protection and Management Program / Annual Environmental Protection and Enhancement Program during a specific project phase.

*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. As of December 31, 2009, DMCI-PC has not yet started commercial operations.

On August 11, 2010, DMCI-PC fully paid the balance of ₱1.88 million subscription in DMCI Concepcion Power Corporation, thereby increasing investment cost to ₱2.50 million.

On August 16, 2010, DMCI-PC entered into a Sale and Purchase Agreement (the Agreement) with Del Callar and Partners (the Buyer) for the sale of its ₱2.50 million shares in DMCI Concepcion Power Corporation, representing its entire investment in the said company, and its 300 square meters land located in Concepcion, Iloilo with aggregate book value of ₱58.95 million for a total consideration of ₱80.00 million payable in accordance with the following schedule of payment: ₱1.00 million as earnest money payable on the date of the Agreement, and the balance of ₱79.00 million upon full compliance of the condition set forth in the Agreement.

*Disposal of investment in DMCI-MC and DMCI-PC*

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

*SCPC*

On July 8, 2009, Power Plant of Power Sector Assets and Liabilities Management Corporation (PSALM) selected DMCI-HI as the winning bidder for the sale of the 600-megawatt Batangas Coal-Fired Thermal Power Plant (the Power Plant) located in San Rafael, Calaca, Batangas.



On December 1, 2009, the Parent Company was authorized by the BOD to advance the amount of ₱7.16 billion for purchase of the PSALM through its wholly owned subsidiary in order to meet SCPC's financial obligation under Asset Purchase Agreement (APA) and Land Lease Agreement (LLA). As of December 31, 2010, additional advances made by the Parent Company amounted to ₱840.05 million. The said advances were treated as deposit on future subscription in SCPC.

Pursuant to the provision of the 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.

On December 2, 2009, through the Accession, Assignment Agreement (the Agreement) between DMCI-HI, SCPC and PSALM, SCPC acquired the 2 x 300-MW Power Plant from PSALM. On the same date, the total cash payments made to PSALM are broken down as follows:

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 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 provisions of the Agreement include:

- 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.

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## 10. Other Noncurrent Assets

This account consists of:

	2010	2009
Security deposits (Notes 28, 29 and 30)	<b>₱304,400,811</b>	₱291,613,096
5% input VAT withheld - net	<b>150,126,647</b>	150,126,647
Prepaid rent (Note 30)	<b>144,204,098</b>	171,923,539
Software cost - net	<b>6,345,855</b>	7,536,022
Environmental guarantee fund	<b>1,500,000</b>	1,500,000
Others	<b>21,594,681</b>	10,723,944
	<b>628,172,092</b>	633,423,248
Less current portion of		
Security deposits (Note 7)	<b>304,400,811</b>	270,751,295
Prepaid rent (Note 7)	<b>6,183,431</b>	27,719,441
	<b>310,584,242</b>	298,470,736
	<b>₱317,587,850</b>	₱334,952,512

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.

There were no additional security deposits during the year. As of December 31, 2009, security deposits with a nominal amount of ₱22.20 million were initially recorded at fair value. Movement in the unamortized discount of security deposits follows:

	2010	2009
At January 1	<b>₱12,956,371</b>	₱31,279,714
Additions	-	2,300,375
Accretion (Note 22)	<b>(12,787,515)</b>	(20,623,718)
At December 31	<b>₱168,856</b>	₱12,956,371

*5% input VAT withheld*

As a result of the enactment of Republic Act (RA) No. 9337 effective November 1, 2005 (see Note 24), National Power Corporation (NPC) started withholding the required 5% input VAT on the VAT exempt coal sales of the Group. On March 7, 2007, the Group obtained a ruling from the Bureau of Internal Revenue (BIR) which stated that the sale of coal remains exempt from VAT. In 2007, the Group filed a total claim for refund of ₱190.50 million from the BIR representing VAT erroneously withheld by NPC from December 2005 to March 2007, which eventually was elevated to the Court of Tax Appeals (CTA). On October 13, 2009, CTA granted the Parent Company's petition for a refund on erroneously withheld VAT initially on December 2005 sales amounting to ₱11.85 million. The Commissioner of BIR moved for reconsideration of the CTA's Decision. On November 21, 2009, the Parent Company filed its comment thereon. 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 ₱40.37 million (see Note 20).

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

*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).

*Software Cost*

Movements in software cost account follow:

	2010	2009
<b>At Cost</b>		
At January 1	<b>₱16,112,568</b>	₱10,102,737
Additions	<b>2,970,643</b>	6,009,831
At December 31	<b>19,083,211</b>	16,112,568
<b>Accumulated Amortization</b>		
At January 1	<b>8,576,546</b>	4,728,626
Amortization (Note 19)	<b>4,160,810</b>	3,847,920
At December 31	<b>12,737,356</b>	8,576,546
<b>Net Book Value</b>	<b>₱6,345,855</b>	₱7,536,022





## 11. Short-term Loans

Short-term loans 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 and acceptances and trust receipts which are used to facilitate payment for importations of materials, fixed assets and other assets. There are no outstanding notes payable as of December 31, 2010 and amounted to ₱793.19 million during the year 2009. Acceptances and trust receipts as of December 31, 2010 and 2009 amounted to ₱449.85 million and ₱51.45 million, respectively.

## 12. Long-term Debt

This account consists of:

	2010	2009
Mortgage payable	₱9,495,157,286	₱-
Bank loans	2,022,817,439	133,257,823
Deferred purchase payment	774,743,549	474,363,625
PSALM (Note 33)	-	9,571,202,577
	<b>12,292,718,274</b>	<b>10,178,824,025</b>
Less current portion of:		
Mortgage payable	1,132,896,820	-
PSALM	-	1,681,081,972
Bank loans	-	133,257,823
	<b>1,132,896,820</b>	<b>1,814,339,795</b>
	<b>₱11,159,821,454</b>	<b>₱8,364,484,230</b>

Details of the bank loans follow:

Loan Type	Date of Availment	Outstanding Balance		Maturity	Interest Rate	Payment Terms	Covenants/Collaterals
		2010	2009				
(In Millions)							
<b>Local bank loans</b>							
Loan 1	Various availments in 2010	₱701.44	₱-	Various maturities in 2012	1.59% - 2.88% payable in arrears, to be repriced every 90 days	Interest payable in 90 days; not deducted from proceeds of loans and principal repayable in maturity.	Any monies standing to the credit of the borrower's other account with the bank and any securities, deeds, boxes and parcels and their contents and property of any description held in borrower's name
Loan 2	Various availments in 2010	639.06	-	Various maturities in 2012	1.95% p.a. payable semi-annually in arrears, to be repriced every 6 months	Interest payable semi-annually in arrears from 2010 to 2011 inclusive of 10% withholding tax payment of interest shall commence on 2011 and every six months thereafter until fully paid at the prevailing rate.	Unsecured loans

(Forward)



Loan Type	Date of Availment	Outstanding Balance		Maturity	Interest Rate	Payment Terms	Covenants/Collaterals
		2010	2009				
Loan 3	October 2010	₱442.08	₱-	October 2012	1.90% p.a. for 92 days, to be repriced every 30 to 180 days	Interest shall be payable on the last day of the current interest period or the 90th day of said period whichever occurs earlier and full payment of principal at maturity.	Unsecured loans
Loan 4	October 26, 2010	240.24	-	October 26, 2012	1.82% p.a. to be repriced over the rate 180 days	Interest payable starting October 26, 2010 until October 26, 2012 and principal repayable on maturity.	Unsecured loans
<b>Foreign bank loans</b>							
Loan 1	December 14, 2005	-	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	-	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 17)
		<b>₱2,022.82</b>	<b>₱133.26</b>				

The other covenants in loan 1 under the foreign bank loans require the Parent Company 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.

*Long-term debt to PSALM and Mortgage Payable*

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\$199.25 million translated using ₱46.20 peso-dollar closing exchange rate as of December 31, 2009 (see Note 33).

SCPC recognized an unrealized foreign exchange gain amounting to ₱199.25 million in 2009.

On various dates in the first quarter of 2010, SCPC paid PSALM the 60% deferred balance of the Purchased Assets's Purchase Price, net of the unawarded purchase orders and the financial settlement, to wit (in millions, except for exchange rate):

	January 29, 2010	February 26, 2010	March 5, 2010
Principal	4,507.94	2,345.89	2,386.65
Interest	162.06	39.11	5.10
<b>Total Payments in Pesos</b>	<b>4,670.00</b>	<b>2,385.00</b>	<b>2,391.75</b>
Exchange Rate	46.70	46.15	46.00
<b>Total Payments in US \$</b>	<b>100.00</b>	<b>51.68</b>	<b>51.99</b>

As of March 5, 2010, SCPC has fully paid PSALM the Purchase Price of the Purchased Assets and realized a net foreign exchange loss of ₱36.31 million in 2010 and the unrealized foreign exchange gain amounting to ₱199.25 million in 2009.



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

Breakdown is as follows:

BDO Unibank	₱6,000,000,000
BPI	2,000,000,000
PNB	1,600,000,000
	<u>₱9,600,000,000</u>

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

Details of the loan follow:

- a. Interest: At a floating rate per annum equivalent to the three (3) months Philippine Dealing System Treasury-Fixing (PDST-F) benchmark yield for treasury securities as published on the PDEX page of Bloomberg (or such successor electronic service provider at approximately 11:30 a.m. (Manila Time) on the banking day immediately preceding the date of initial borrowing or start of each interest period, as applicable, plus 175 basis points.
- b. Repayment: The principal amount shall be payable in twenty-five equal consecutive quarterly installments commencing on the twelfth month from the initial borrowing date. Final repayment date is seven (7) years after initial borrowing.

The loan was drawn in full on May 20, 2010. Capitalized debt issuance cost amounted to ₱110.04 million and is amortized using the effective interest rate method over the loan’s term. Amortization of debt issuance cost recognized as part of “Finance Cost” account in the consolidated statement of comprehensive income amounted to ₱5.20 million.

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

*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 LIBOR on two (2) business days prior to the first day of such interest period.

Notwithstanding the provisions for payment of the contract amount as stipulated, the 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:

	2010	2009 (As restated)
Trade	<b>₱3,681,704,251</b>	₱1,683,028,961
Payable to Department of Energy (DOE) and local government units (Note 26)	<b>1,013,039,943</b>	216,516,873
Accrued expenses and other payables	<b>456,436,860</b>	744,932,140
Due to related parties (Note 17)	<b>200,090,262</b>	609,143,593
	<b>₱5,351,271,316</b>	₱3,253,621,567

Trade payables include liabilities amounting to ₱530.31 million (US\$12.09 million) and ₱56.79 million (US\$1.23 million) as of December 31, 2010 and 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:

	2010	2009
Probable legal claims (Note 27)	<b>₱215,803,423</b>	₱110,852,446
Withholding and other taxes	<b>38,787,147</b>	337,686,607
Bonus	<b>31,462,610</b>	15,581,914
Real property tax	<b>18,828,610</b>	18,828,610
Rental	<b>15,264,799</b>	14,923,732
Coal hauling	<b>13,034,083</b>	7,606,638
Interest	<b>11,960,348</b>	201,857,395
Professional fees	<b>6,000,000</b>	7,401,786
Salaries and wages	<b>22,967,405</b>	13,832,843
Others	<b>82,328,435</b>	16,360,169
	<b>₱456,436,860</b>	₱744,932,140

Accrued interest arising from the acquisition of the Power Plant from PSALM amounted to ₱164.88 million as of December 31, 2009 (see Note 33). Others include accruals on contracted services, utilities, supplies and other administrative expenses.



#### 14. Provision for Decommissioning and Site Rehabilitation

The rollforward analysis of this account follows:

	2010	2009
At January 1	<b>₱17,621,980</b>	₱13,204,317
Addition	-	2,848,842
Adjustment	<b>(3,663,984)</b>	407,828
Accretion of interest (Note 21)	<b>774,354</b>	1,160,993
At December 31	<b>₱14,732,350</b>	₱17,621,980

#### 15. Capital Stock

The details of the Group's capital stock follow:

	2010	2009
Common stock - ₱1 par value		
Authorized - 1,000,000,000 shares	<b>₱1,000,000,000</b>	₱1,000,000,000
Issued shares	<b>356,250,000</b>	296,875,000

##### Shares Held in Treasury

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

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

##### Deposit on Future Stock Subscriptions

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

##### Stock Rights Offering

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



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## 16. Retained Earnings

### Cash Dividends

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

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

### Restrictions

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

On March 18, 2008, the BOD authorized an additional ₱500.00 million appropriation for capital expenditures and expansion and likewise, on November 11, 2008, the BOD approved the reversal of the appropriated retained earnings in the amount ₱800.00 million. The remaining ₱700 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.

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## 17. Related Party Transactions

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

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

- a. Continuing Indemnity Agreement dated September 3, 1998 with DMCI-HI and certain related parties whereby the 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 loans were fully paid. The loans contracted in 2004 and 2005 were still guaranteed by DMCI-HI. Guarantee fees incurred amounted to ₱0.30 million, ₱2.62 million and ₱7.91 million in 2010, 2009 and 2008, respectively. These are included under finance costs in the consolidated statement of comprehensive income (see Note 21);

- b. DMC-Construction Equipment Resources, Inc. (DMC-CERI), an affiliate, has transactions with the Parent Company for services rendered relating to the Parent Company's coal operations. These 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 ₱59.17 million, ₱166.22 million and ₱117.72 million for the years ended 2010, 2009, and 2008, respectively. These are included under Cost of coal 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 ₱507.86 million, ₱500.75 million and ₱246.94 million in 2010, 2009 and 2008, respectively, and are included under Cost of coal sales - Shipping, hauling and shiploading costs (see Note 19). The reported expense of the Group is net of freight payment by NPC (billing is cost and freight);

Land lease rental with DMC-CERI amounting to ₱13.74 million and ₱13.44 million were accrued during the periods ended December 31, 2010 and 2009, respectively (see Note 13) .

- c. M&S Company, Inc., an affiliate, rents out various equipment 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 Department of Environment and Natural Resources (DENR). Rough lumbers purchased amounted to ₱39.01 million and ₱50.99 million for the years ended December 31, 2009, and 2008, respectively. The related rental expense amounted to ₱91.49 million for the years ended December 31, 2010, 2009 and 2008. This is included under Cost of coal sales - Production Overhead for the year (see Note 19).
- d. D.M. Consunji, Inc. (DMCI), an affiliate under common control of DMCI-HI, 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 ₱63.07 million, ₱69.01 million and ₱17.21 million for the years ended December 31, 2010, 2009 and 2008, respectively. These are included under Cost of coal sales - Outside Services (see Note 19).
- e. DMC Urban Property Developers, Inc. (UPDI), an affiliate, had transactions with the Parent Company representing long-term lease on office space and other transactions rendered to the Parent Company necessary for the coal operations. Office rental expense amounted to ₱6.97 million, ₱7.78 million and ₱1.84 million for the years ended December 31, 2010, 2009 and 2008, respectively. These are included in Cost of coal sales under "Outside services" (see Note 19).



- 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.
- g. Wire Rope Corporation of the Philippines, an affiliate, had transactions with the Parent Company representing supply of cable wires. The related expenses amounted to ₱10.4 million as of December 31, 2010. This is included in Cost of coal sales under “Materials and supplies” (see Note 19).
- h. DMCI was engaged by the Company in the ongoing rehabilitation of the power plant. Billings of DMCI was charged to “Construction in progress” account.

DMCI also had transactions with the Company representing equipment rental and other transactions such as transfer of equipment, and hauling services. The related expenses amounted to ₱1.46 million for the period ended December 31, 2010. Equipment rentals amounted to ₱2.85 million for the year ended December 31, 2010. These are charged in the current year’s result of operation (see Notes 19 and 20).

- i. SCPC’s accounting and administrative functions are handled by the DMCI-PC, an affiliated party under common control of DMCI-HI, including the Company’s payroll starting June 2010. DMCI-PC charges management fees for the services it rendered. Management fees amounted to ₱216.46 million for the period ended December 31, 2010 (see Note 20). Compensation of SCPC’s key management personnel is paid by the said related party. Hence, the disclosure of compensation required under PAS 24, Related Party Disclosures, for key management personnel is included in the financial statements of DMCI-PC.
- j. At a special meeting held on December 1, 2009, the BOD of DMCI-HI approved the assignment to SCPC of DMCI-HI’s rights and obligations under the APA and LLA for an amount equal to at least all costs incurred by DMCI-HI during or relating to its participation in the bidding and acquisition process for the Purchased Assets.

The following table summarizes the total amount of transactions due to or from related parties as of December 31, 2010 and 2009:

	2010	2009
Due from related parties (see Note 5)		
Under common control of DMCI-HI	<b>₱120,605,298</b>	₱9,043,545
Others	<b>23,697</b>	23,697
	<b>120,628,995</b>	9,067,242
Due to related parties (see Note 13)		
Stockholders	<b>298,431</b>	85,231,045
Under common control of DMCI-HI	<b>128,336,654</b>	162,389,000
Others	<b>71,455,177</b>	361,523,548
	<b>200,090,262</b>	609,143,593
	<b>(₱79,461,267)</b>	(₱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 through examining the financial position of the related party and the market in which the related party operates.





Compensation of key management personnel of the Parent Company by benefit type follows:

	2010	2009	2008
Short-term employee benefits	<b>₱101,960,815</b>	₱61,966,888	₱20,153,150
Post employment benefits	<b>2,738,299</b>	1,268,462	1,456,793
	<b>₱104,699,114</b>	₱63,235,350	₱21,609,943

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 consolidated statement of comprehensive income:

	2010	2009	2008
Current service cost	<b>₱4,762,273</b>	₱3,876,679	₱4,536,956
Interest cost on benefit obligation	<b>4,405,532</b>	3,734,738	2,212,513
Expected return on plan asset	<b>(1,635,383)</b>	(1,500,491)	–
Actuarial gain recognized	–	(1,663,057)	(1,909,695)
	<b>₱7,532,422</b>	₱4,447,869	₱4,839,774

The above pension expense is included under Personnel costs in operating expenses (see Note 20).

The pension liability recognized in the statement of financial position follows:

	2010	2009
Present value of defined benefit obligation	<b>₱54,391,181</b>	₱40,981,694
Fair value of plan assets	<b>28,646,138</b>	28,423,387
Excess of present value of defined benefit obligation over fair value of plan assets	<b>25,745,043</b>	12,558,307
Unrecognized actuarial gain (losses)	<b>(5,748,295)</b>	377,427
	<b>₱19,996,748</b>	₱12,935,734

Movements in the present value of defined benefit obligation follow:

	2010	2009
Balance at the beginning of year	<b>₱40,981,694</b>	₱39,107,208
Current service cost	<b>4,762,273</b>	3,876,679
Interest cost on benefit obligation	<b>4,405,532</b>	3,734,738
Actuarial loss (gain)	<b>7,047,090</b>	(5,736,931)
Benefits paid from plan assets	<b>(2,334,000)</b>	–
Benefits paid - direct payments from book reserves	<b>(471,408)</b>	–
Balance at end of year	<b>₱54,391,181</b>	₱40,981,694



Movements in the fair value of plan assets follow:

	2010	2009
Balance at beginning of the year	₱28,423,387	₱25,008,190
Expected return on plan assets	1,635,383	1,500,491
Actuarial gain from plan assets	921,368	1,914,706
Benefits paid	(2,334,000)	-
Balance at end of year	₱28,646,138	₱28,423,387
Actual return	₱2,556,751	₱3,415,197

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, 2010, 2009 and 2008 follow:

	2010	2009	2008
Discount rate	8.10%	10.75%	9.55%
Salary increase rate	3.00%	3.00%	3.00%
Expected rate of return on plan assets	6.00%	5.75%	6.00%

The amounts for the current and previous four periods follow:

	2010	2009	2008	2007	2006
Present value of defined benefit obligation	₱54,391,181	₱40,981,694	₱39,107,208	₱27,760,518	₱52,669,928
Fair value of plan assets	28,646,138	28,423,387	25,008,190	55,374,465	-
Unfunded obligation	25,745,043	12,558,307	14,099,018	(27,613,947)	52,669,928
Experience adjustments on plan liabilities	-	(5,651,794)	(12,320,619)	(37,166,703)	14,502,816
Experience adjustments on plan assets	-	(31,911,761)	1,545,486	-	-

As of December 31, 2010, the Group does not expect any contribution to the pension fund in 2011.

## 19. Cost of Sales and Services

Cost of coal sales consists of:

	2010	2009	2008
Outside services (Note 17)	₱2,850,632,130	₱2,306,385,701	₱688,021,318
Fuel and lubricants	2,359,629,271	1,895,994,109	1,870,250,075
Materials and supplies (Note 17)	1,870,463,292	2,469,067,063	2,289,843,994
Depreciation and amortization (Notes 8 and 10)	1,672,138,597	1,021,208,696	1,154,232,140
Shipping, hauling and shiploading costs (Note 17)	507,859,761	525,769,005	380,577,351
Production overhead (Note 17)	456,460,542	336,768,444	295,817,464
Direct labor	419,119,803	366,772,235	264,843,502
	₱10,136,303,396	₱8,921,965,253	₱6,943,585,844



Cost of power sales consists of:

	2010	2009
Coal	<b>₱2,956,897,728</b>	₱172,809,840
Spot purchases	<b>1,773,351,388</b>	154,852,467
Depreciation and amortization (Notes 8 and 10)	<b>794,013,317</b>	75,338,855
Diesel	<b>99,855,348</b>	2,620,572
Bunker	<b>67,731,908</b>	7,169,892
Lube	<b>37,938,217</b>	2,264,229
Market fees	<b>24,022,888</b>	1,265,307
Coal handling expense	<b>13,596,690</b>	3,387,368
	<b>₱5,767,407,484</b>	₱419,708,530

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

On December 4, 2009, SCPC received from the Philippine Electricity Market Corporation the electronic certificate which evidenced the direct membership of the SCPC in the 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 2010 and 2009, SCPC purchased power from the spot market in the amount of ₱1.77 billion and ₱154.85 million, respectively.

## 20. Operating Expenses

This account consists of:

	2010	2009	2008
Government share (Note 26)	<b>₱1,310,029,153</b>	₱450,151,548	₱253,381,663
Provision for billing dispute (Note 27)	<b>383,293,921</b>	-	-
Personnel costs (Notes 17 and 18)	<b>335,103,976</b>	140,485,645	87,214,869
Management fees (Note 17)	<b>216,458,717</b>	-	-
Depreciation	<b>100,275,223</b>	8,386,156	6,442,988
Professional fees	<b>65,796,354</b>	28,373,909	15,511,658
Insurance and bonds	<b>57,083,139</b>	11,273,086	5,913,058
Provision for doubtful accounts (Note 5)	<b>53,744,668</b>	-	-
Transportation and travel	<b>33,561,854</b>	17,871,246	12,134,020
Entertainment, amusement and recreation	<b>18,855,526</b>	9,251,477	7,628,340
Taxes and licenses	<b>13,521,082</b>	2,729,342	3,568,231
Provision for impairment loss (Note 10)	-	40,374,335	-
Office expenses and others	<b>203,369,133</b>	40,685,288	67,130,986
	<b>₱2,791,092,746</b>	₱749,582,032	₱458,925,813

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



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## 21. Finance Costs

The finance costs are incurred from the following financial liabilities:

	2010	2009	2008
Interest on:			
Bank loans	<b>₱652,152,869</b>	₱100,651,973	₱70,134,901
Acceptances and letters of credits, other short-term borrowings and accretion of interest on ARO (Notes 12, 14 and 17)	<b>33,753,452</b>	11,540,691	31,105,183
	<b>₱685,906,321</b>	₱112,192,664	₱101,240,084

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## 22. Finance Income

Finance income is derived from following sources:

	2010	2009	2008
Interest on:			
Cash in banks	<b>₱25,628,932</b>	₱1,514,481	₱4,892,729
Short term placements and temporary investments	<b>15,668,969</b>	28,604,294	69,348,852
Accretion on security deposits (Notes 7 and 10)	<b>12,787,515</b>	20,623,718	2,993,402
Others	<b>3,582,348</b>	2,010,403	–
	<b>₱57,667,764</b>	₱52,752,896	₱77,234,983

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## 23. Other Income

This account consists of:

	2010	2009	2008
Gain on sale of investments (Note 9)	<b>₱41,378,255</b>	₱–	₱–
Gain on sale of equipment (Note 8)	<b>6,088,124</b>	40,205,597	44,713,500
Reversal of allowance for doubtful accounts (Note 5)	<b>5,677,104</b>	3,191,293	–
Recoveries from insurance claims	<b>5,069,284</b>	18,173,051	9,729,272
Negative goodwill (Note 33)	–	15,666,754	–
Miscellaneous	<b>7,214,245</b>	30,698,527	–
	<b>₱65,427,012</b>	₱107,935,222	₱54,442,772



## 24. Income Tax

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

	2010	2009	2008
Statutory income tax rate	<b>30.00%</b>	30.00%	35.00%
Adjustments for:			
Equity in net losses (earnings)	<b>(0.59)</b>	0.62	0.06
Gain on divestment	<b>(0.32)</b>	-	-
Unrecognized deferred tax assets	<b>0.30</b>	3.35	-
Derecognized deferred tax assets	<b>0.60</b>	-	-
Additional deductible expense from adopt-a-school program	-	-	(0.25)
Interest income already subjected to final tax at a lower rate - net of nondeductible interest expense	<b>(0.11)</b>	(0.19)	(1.25)
Nondeductible interest expense	<b>0.11</b>	0.16	1.06
Nondeductible expense	<b>0.25</b>	-	-
Tax-exempt income	<b>(31.14)</b>	(30.62)	(11.46)
Change in tax rate	-	-	(0.22)
<b>Effective income tax rate</b>	<b>(0.90%)</b>	3.32%	22.94%

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

	2010	2009
Deferred tax assets on:		
Accrual of expenses	<b>₱-</b>	₱23,626,528
Deferred tax liabilities on:		
Incremental cost of property, plant and equipment	<b>7,846,603</b>	25,353,248
Net unrealized foreign exchange gains	<b>20,192,488</b>	66,990,976
Unamortized prepaid rent	<b>48,214</b>	3,339,233
	<b>28,087,305</b>	95,683,457
<b>Net deferred tax liabilities</b>	<b>₱28,087,305</b>	₱72,056,929

In 2010 and 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:

	2010	2009
Allowance for doubtful accounts	<b>₱71,779,121</b>	₱23,711,557
Provision for probable loss	<b>40,374,335</b>	40,374,335
NOLCO	-	395,743
Allowance for inventory write down	<b>53,286,925</b>	53,286,925
Pension costs	<b>19,996,748</b>	12,935,734
Provision for decommissioning and site rehabilitation	<b>14,732,350</b>	17,621,980
Unamortized discount on security deposits	<b>168,856</b>	12,956,371
	<b>₱200,338,335</b>	₱161,282,645



Unrecognized NOLCO for 2010 and 2009 will expire on 2013 and 2012, respectively.

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. It further provides that nondeductible interest expense shall be reduced from 42% to 33% of interest income subjected to final tax beginning January 1, 2009.

#### Board of Investments (BOI) Incentives

##### *The Parent Company*

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.

##### *SCPC*

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

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



- b. For the first five (5) years from the date of registration, SCPC shall be allowed an additional deduction from taxable income of 50% of the wages corresponding to the increment in the number of direct labor for skilled and unskilled workers in the year of availment as against the previous year if the project meets the prescribed ratio of capital equipment to the number of workers set by the BOI of \$10,000 to one worker and provided that this incentive shall not be availed of simultaneously with the ITH.
- c. Employment of foreign nationals. This may be allowed in supervisory, technical or advisory positions for five (5) years from the date of registration. The president, general manager and treasurer of foreign-owned registered companies or their equivalent shall not be subject to the foregoing limitations.
- d. Importation of consigned equipment for a period of ten (10) years from the date of registration, subject to the posting of re-export bond.

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

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**25. Basic/Diluted Earnings Per Share**

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

	2010	2009	2008
Net income	<b>₱3,952,708,257</b>	₱1,845,984,707	₱796,398,791
Divided by the weighted average number of common shares outstanding	<b>326,684,867</b>	277,572,800	277,572,800
Basic / diluted earnings per share	<b>₱12.10</b>	₱6.65	₱2.87

For the years ended December 31, 2010, 2009 and 2008, there were no outstanding dilutive potential common shares.

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**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 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 ₱1.31 billion, ₱450.15 million and ₱253.38 million in 2010, 2009 and 2008, respectively. The liabilities, amounting to ₱1.01 billion and ₱216.52 million as of December 31, 2010 and 2009 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.

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## 27. Contingencies and Commitments

### *Operating lease commitment - as a lessee*

As discussed in Note 33, the Company entered into a Land Lease Agreement with PSALM for the lease of land with which the plant is situated, for the period of 25 years, renewable for another 25 years with the mutual agreement of both parties. The Company paid US\$3.19 million or its peso equivalent ₱150.57 million as advance rental for the 25 year land lease.

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

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

The Company 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). The performance security shall be maintained by the Company in full force and effect continuously without any interruption until the Performance Security expiration date. The Performance Security initially must be effective for the period of one year from the date of issue, to be replaced prior to expiration every year thereafter and shall at all times remain valid.

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





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

As of December 31, 2010, the Company has not yet exercised the land lease option but has the intention to purchase the Option Asset before the expiration of the OEN.

*Electricity sales contracts*

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

*Provision for probable legal claims*

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

*Provision for billing disputes*

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

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

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

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



The Company made a provision for the total amount withheld by NPC, which amounted to ₱383.29 million (see Note 20). Though a provision has already been made, the Company is confident that the outcome of the dispute resolution would be a favorable settlement for the Company. The provision will be reversed and an income would be recognized in the "Other income" account upon collection of the said receivable.

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## 28. Financial Risk Management Objectives and Policies

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

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

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

The sensitivity analyses have been prepared on the following basis:

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

The assumption used in calculating the sensitivity analyses of the relevant income statement item is the effect of the assumed changes in respective market risks. This is based on the financial assets and financial liabilities held at December 31, 2010 and 2009.

### *Price risk*

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

The price that the Parent Company can charge for its coal is directly and indirectly related to the price of coal in the world coal market. In addition, as the Parent Company is not subject to domestic competition in the Philippines, the pricing of all of its coal sales is linked to the price of imported coal. World thermal coal prices are affected by numerous factors outside the Parent 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 coal supply agreements, this may increase its exposure to short-term coal price volatility.

There can be no assurance that world coal prices will be sustained or that domestic and international competitors will not seek to replace the Parent 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 Parent Company's profits.



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

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

	<b>2010</b>	2009
Domestic market	<b>29.24%</b>	24.91%
Export market	<b>57.36</b>	50.66

*as a percentage of total coal sales volume*

The following table shows the effect on income before income tax should the change in the prices of coal occur based on the inventory of the Parent Company as of December 31, 2010 and 2009 with all other variables held constant. The change in coal prices is based on 1-year historical price movements.

<i>Based on ending coal inventory</i>	<b>Effect on income before income tax</b>	
	<b>2010</b>	2009
Change in coal price		
Increase by 10%	<b>₱114,971,049</b>	₱198,624,209
Decrease by 10%	<b>(114,971,049)</b>	(198,624,209)

<i>Based on coal sales volume</i>	<b>Effect on income before income tax</b>	
	<b>2010</b>	2009
Change in coal price		
Increase by 10%	<b>₱1,674,330,035</b>	₱ 1,160,544,622
Decrease by 10%	<b>(1,674,330,035)</b>	(1,160,544,622)

*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.



**2010**

	Interest	Within 1 year	1-2 years	2-3 years	3-4 years	More than 4 years	Carrying Value
				(In Thousands)			
<b>Cash equivalents</b>	<b>2.00% to 4.50%</b>	<b>₱1,216,638</b>	<b>₱-</b>	<b>₱-</b>	<b>₱-</b>	<b>₱-</b>	<b>₱1,216,638</b>
<b>Local bank loans at floating rate</b>							
\$16.0 million loan (USD)	1.59-2.88% payable in arrears, to be repriced every 90 days	₱-	₱701,440	₱-	₱-	₱-	₱701,440
\$14.58 million loan (USD)	1.95% p.a. payable semi-annually in arrears, to be repriced every 6 months	-	639,057	-	-	-	639,057
\$10.08 million loan (USD)	1.90 p.a. for 92 days, to be repriced every 30 to 180 days	-	442,081	-	-	-	442,081
\$5.48 million loan (USD)	1.82% p.a., to be repriced every 3 months	-	240,239	-	-	-	240,239
<b>Deferred purchase payment</b>	4% p.a. over the rate 180 days	-	774,743	-	-	-	774,743
<b>Mortgage payable at floating rate</b>	PDST-F benchmark yield for 3-month treasury securities +1.75%	1,129,585	1,508,877	1,514,248	1,521,153	3,821,294	9,495,157
		<b>₱1,129,585</b>	<b>₱4,306,437</b>	<b>₱1,514,248</b>	<b>₱1,521,153</b>	<b>₱3,821,294</b>	<b>₱12,292,717</b>





The following table demonstrates the sensitivity of the Group's profit before tax to a reasonably possible change in interest rates on December 31, 2010 and 2009, with all variables held constant, through the impact on floating rate borrowings.

Basis points (in hundred thousands)	Effect on Profit Before Tax			
	2010		2009	
+100	(¥122,934)	(US\$638)	(¥6,076)	(US\$131.52)
-100	122,934	638	6,076	131.52

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

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

*Liquidity risk*

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

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

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

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



The tables below summarize the maturity profile of the Group's financial assets and liabilities as of December 31, 2010 and 2009 based on undiscounted contractual payments.

**2010**

	Less than 6 months	6-12months	1-2 years	2-3 years	More than 3 years	Total
<b>Assets</b>						
<b>Cash and cash equivalents</b>	<b>₱3,804,596,734</b>	<b>₱-</b>	<b>₱-</b>	<b>₱-</b>	<b>₱-</b>	<b>₱3,804,596,734</b>
<b>Receivables</b>						
Trade						
Electricity sales	1,598,431,667	-	-	-	-	1,598,431,667
Local coal sales	749,328,994	-	-	-	-	749,328,994
Export coal sales	582,130,762	-	-	-	-	582,130,762
Due from related parties	120,628,995	-	-	-	-	120,628,995
Others	132,779,774	-	-	-	-	132,779,774
<b>Security deposits</b>	<b>304,400,611</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>304,400,611</b>
<b>Environmental guarantee fund</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,500,000</b>	<b>1,500,000</b>
	<b>₱7,292,297,537</b>	<b>₱-</b>	<b>₱-</b>	<b>₱-</b>	<b>₱1,500,000</b>	<b>₱7,293,797,537</b>
<b>Liabilities</b>						
<b>Trade and other payables</b>						
Trade	₱3,681,704,251	₱-	₱-	₱-	₱-	₱3,681,704,251
Payable to DOE and local government units	1,013,039,943	-	-	-	-	1,013,039,943
Accrued expenses and other payables	183,017,680	-	-	-	-	183,017,680
Due to related parties (Note 17)	200,090,262	-	-	-	-	200,090,262
<b>Short-term loans</b>	<b>449,845,179</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>449,845,179</b>
<b>Long-term debt at floating rate</b>						
\$16.00 million loan (USD) with interest payable in arrears, to be repriced every 90 days	-	-	714,934,072	-	-	714,934,072
\$14.58 million loan(USD) with interest payable semi-annually in arrears, to be repriced every six (6) months	-	-	651,305,249	-	-	651,305,249
\$10.08 million loan (USD) with interest payable in arrears, to be repriced every 30 to 180 days	-	-	490,537,511	-	-	490,537,511
\$5.48 million loan (USD) with interest payable in arrears, to be repriced every three (3) months	-	-	244,279,517	-	-	244,279,517

(Forward)



	Less than 6 months	6-12months	1-2 years	2-3 years	More than 3 years	Total
\$17.62 million deferred purchase payment at 4% interest p.a. over the rate 180 days	₱-	₱-	₱775,376,956	₱-	₱-	₱775,376,956
₱9.60 billion mortgage payable at PDST-F benchmark yield for 3-month treasury securities +1.75%	493,510,409	889,111,096	1,752,277,703	1,709,598,558	5,653,301,175	10,497,798,941
	<b>₱6,021,207,724</b>	<b>₱889,111,096</b>	<b>₱4,628,711,008</b>	<b>₱1,709,598,558</b>	<b>₱5,653,301,175</b>	<b>₱18,901,929,561</b>
	<b>₱1,271,089,813</b>	<b>(₱889,111,096)</b>	<b>(₱4,628,711,008)</b>	<b>(₱1,709,598,558)</b>	<b>(₱5,651,801,175)</b>	<b>(₱11,608,132,024)</b>

2009

	Less 6 months	6-12 months	1-2 years	2-3 years	More than 3 years	Total
<b>Assets</b>						
<b>Cash and cash equivalents</b>	₱473,963,567	₱-	₱-	₱-	₱-	₱473,963,567
<b>Receivables</b>						
Trade						
Electricity sales	489,245,876	-	-	-	-	489,245,876
Local coal sales	323,756,839	-	-	-	-	323,756,839
Export coal sales	414,815,233	-	-	-	-	414,815,233
Due from related parties	9,067,242	-	-	-	-	9,067,242
Others	17,209,930	-	-	-	-	17,209,930
<b>Security deposits</b>	-	-	291,613,096	-	-	291,613,096
<b>Environmental guarantee fund</b>	-	-	-	-	1,500,000	1,500,000
	<b>₱1,728,058,687</b>	<b>₱-</b>	<b>₱291,613,296</b>	<b>₱-</b>	<b>₱1,500,000</b>	<b>₱2,021,171,783</b>
<b>Liabilities</b>						
<b>Trade and other payables</b>						
Trade	₱1,683,028,961	₱-	₱-	₱-	₱-	₱1,683,028,961
Payable to DOE and local government units	216,516,873	-	-	-	-	216,516,873
Accrued expenses and other payables	277,564,477	-	-	-	-	277,564,477
Due to related parties (Note 17)	609,143,593	-	-	-	-	609,143,593
<b>Notes payable</b>	793,191,385	-	-	-	-	793,191,385

(Forward)





	Less 6 months	6-12 months	1-2 years	2-3 years	More than 3 years	Total
<b>Long-term debt</b>						
<i>Fixed Rate</i>						
\$361,481,091 payable to PSALM, 11% compounded semi-annually	₱-	₱2,219,990,177	₱2,160,460,368	₱2,015,658,130	₱6,586,856,371	₱12,982,965,046
Various letters of credit 8-11% interest rate	53,894,054	-	-	-	-	53,894,054
<i>Floating Rate</i>						
\$15.14 million loan (USD) 6 months USD Libor plus 1.5% per annum	61,971,207	-	-	-	-	61,971,207
\$6.64 million loan(USD) 3 months SIBOR plus 1.95% per annum	73,610,394	-	-	-	-	73,610,394
\$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		-	512,312,715	-	-	512,312,715
	₱3,768,920,944	₱2,219,990,177	₱2,672,773,083	₱2,015,658,130	₱6,586,856,371	₱17,264,198,705
	(₱2,040,862,257)	(₱2,219,990,177)	(₱2,381,159,787)	(₱2,015,658,130)	(₱6,585,356,371)	(₱15,243,026,922)



*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 23.44% and 89.44% of debts as of December 31, 2010 and 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:

	December 31, 2010		December 31, 2009	
	U.S. Dollar	Peso Equivalent	U.S. Dollar	Peso Equivalent
<b>Assets</b>				
Cash and cash equivalents	\$47,358,433	₱2,076,193,708	\$6,388,441	₱295,145,974
Trade receivables	12,857,285	563,663,362	8,919,899	412,099,334
<b>Liabilities</b>				
Trade payables	(10,304,844)	(451,764,348)	(2,094,555)	(96,768,441)
Long-term debt (including current portion)	(68,142,585)	(2,987,370,926)	(213,400,753)	(9,859,114,789)
Net foreign currency denominated (liabilities)	<b>(\$18,231,711)</b>	<b>(₱799,278,204)</b>	<b>(\$200,186,968)</b>	<b>(₱9,248,637,922)</b>

*The spot exchange rates used in 2010 and 2009 were ₱43.84 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 December 31, 2010 and 2009.

Reasonably possible change in the Philippine peso-US dollar exchange rate	Increase (decrease) in profit before tax	
	2010	2009
₱2	<b>(₱36,463,422)</b>	(₱400,373,936)
(₱2)	<b>36,463,422</b>	400,373,936

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 ₱199.49 million and ₱47.70 million net foreign exchange gain for the years ended December 31, 2010 and 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 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, thus, there is no requirement for collateral. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. The Group evaluates the financial condition of the local customers before deliveries are made to them. On the other hand, export sales are covered by sight letters of credit issued by foreign banks subject to the Group's approval, hence, mitigating the risk on collection. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. The Group generally offers 80% of coal delivered payable within 30 days upon



receipt of billing and the remaining 20% payable within 15 days after receipt of final billing based on final analysis of coal delivered.

With respect to the credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents, 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:

	2010	2009
Trade		
Electricity sales	52.19%	38.56%
Local sales	24.47	26.59
Export sales	19.01	32.70
Other receivables	4.33	2.15
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>

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

	<b>Gross Maximum Exposure</b>	
	2010	2009
Cash and cash equivalents	₱3,804,596,734	₱473,963,567
Receivables		
Trade		
Electricity sales	1,598,431,667	489,245,876
Local coal sales	749,328,994	323,756,839
Export coal sales	582,130,762	414,815,233
Due from related parties	120,628,995	9,067,242
Others	132,779,773	17,209,930
Security deposits	304,400,611	291,613,096
Environmental guarantee fund	1,500,000	1,500,000
<b>Total credit risk exposure</b>	<b>₱7,293,797,536</b>	<b>₱2,021,171,783</b>

As of December 31, 2010 and 2009, the credit quality per class of financial assets is as follows:

**2010**

	Neither Past Due nor Impaired		Substandard Grade	Past due or Individually Impaired	Total
	Grade A	Grade B			
Cash and cash equivalents	₱3,813,283,517	₱-	₱-	₱-	₱3,813,283,517
Trade					
Electricity sales	1,598,182,785	-	-	53,772,684	1,651,955,469
Local coal sales	296,162,508	347,712,843	-	113,345,986	757,221,337
Export coal sales	582,130,762	-	-	-	582,130,762
Due from related parties	120,628,995	-	-	-	120,628,995
Others	-	117,130,838	-	26,011,912	143,142,750
Security deposits	304,400,611	-	-	-	304,400,611
Environmental guarantee fund	1,500,000	-	-	-	1,500,000
<b>Total</b>	<b>₱6,716,289,178</b>	<b>₱464,843,681</b>	<b>₱-</b>	<b>₱193,130,582</b>	<b>₱7,374,263,441</b>



2009

	Neither Past Due nor Impaired		Substandard Grade	Past due or Individually Impaired	Total
	Grade A	Grade B			
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	27,352,040
Security deposits	291,613,096	-	-	-	291,613,096
Environmental guarantee fund	1,500,000	-	-	-	1,500,000
<b>Total</b>	<b>₱1,733,030,734</b>	<b>₱148,200,102</b>	<b>₱-</b>	<b>₱171,609,872</b>	<b>₱2,052,840,708</b>

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. These financial assets are classified as Grade A due to the counterparties' low probability of insolvency. Due from related parties are considered Grade A due to the Group's positive collection experience. Security deposits are classified as Grade A since these are to be refunded by the lessor at the end of lease term as stipulated in the lease contract. Environmental guarantee fund is assessed as Grade A since this is deposited in a reputable bank, which has a low probability of insolvency.

Included under Grade A are accounts considered to be of high value and are covered with coal supply and power supply contracts. The counterparties have a very remote likelihood of default and have consistently exhibited good paying habits. Grade B accounts are active accounts with minimal 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. Substandard grade accounts are accounts which have probability of impairment based on historical trend. These accounts show propensity to default in payment despite regular follow-up actions and extended payment terms.

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

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

As of December 31, 2010 and 2009, the aging analysis of the Group's receivables presented per class is as follows:

2010

	Past Due but not Impaired		Impaired Financial Assets	Total
	<45 days	45-135 days		
Receivables				
Trade - local coal sales	₱91,602,243	₱ 13,851,400	₱7,892,343	₱113,345,986
Trade - export coal sales	-	-	-	-
Electricity Sales	248,882	-	53,523,802	53,772,684
Others	6,606,976	9,041,960	10,362,976	26,011,912
<b>Total</b>	<b>₱98,458,101</b>	<b>₱22,893,360</b>	<b>₱71,779,121</b>	<b>₱193,130,582</b>



2009

	Past Due but not Impaired		Impaired	Total
	<45 days	45-135 days	Financial Assets	
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
<b>Total</b>	<b>₱124,104,204</b>	<b>₱23,794,111</b>	<b>₱23,711,557</b>	<b>₱171,609,872</b>

*Capital management*

The primary objective of the Group's capital management strategy is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value. The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Parent Company 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, 2010 and 2009:

	2010	2009
Total paid-up capital	<b>₱7,031,777,411</b>	₱1,873,671,271
Deposit on future subscription	-	5,402,125,985
Retained earnings – unappropriated	<b>4,608,125,771</b>	2,436,667,514
Retained earnings – appropriated	<b>700,000,000</b>	700,000,000
Cost of shares held in treasury	-	(528,891,260)
	<b>₱12,339,903,182</b>	<b>₱9,883,573,510</b>

**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, 2010 and 2009.

	2010		2009	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<b>Financial Assets</b>				
Loans and receivables:				
Cash and cash equivalents	<b>₱3,813,283,517</b>	<b>₱3,813,283,517</b>	₱481,920,935	₱481,920,935
Trade				
Electricity sales	<b>1,598,431,667</b>	<b>1,598,431,667</b>	489,245,876	489,245,576
Local sales	<b>749,328,994</b>	<b>749,328,994</b>	323,756,839	323,756,839
Export sales	<b>582,130,762</b>	<b>582,130,762</b>	414,815,233	414,815,233
Due from related parties	<b>120,628,995</b>	<b>120,628,995</b>	9,067,242	9,067,242
Others	<b>132,779,773</b>	<b>132,779,773</b>	17,209,930	17,209,930
Security deposits	<b>304,400,611</b>	<b>304,400,611</b>	291,613,096	296,438,346
Environmental guarantee fund	<b>1,500,000</b>	<b>1,500,000</b>	1,500,000	1,500,000
<b>Total</b>	<b>₱7,302,484,319</b>	<b>₱7,300,984,319</b>	<b>₱2,029,129,151</b>	<b>₱2,033,954,101</b>

(Forward)



	2010		2009	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<b>Financial Liabilities</b>				
Other financial liabilities:				
Notes payable	<b>₱449,845,179</b>	<b>₱449,845,179</b>	₱844,641,556	₱844,641,556
Long-term debt	<b>12,292,718,274</b>	<b>12,292,718,274</b>	10,178,824,025	10,858,249,006
Trade and other payables				
Trade payables	<b>3,681,704,251</b>	<b>3,681,704,251</b>	1,683,028,961	1,683,028,961
Payable to DOE and local government units	<b>1,013,039,943</b>	<b>1,013,039,943</b>	216,516,873	216,516,873
Accrued expenses and other payables	<b>202,980,678</b>	<b>202,980,678</b>	296,136,784	296,136,784
Due to related parties	<b>200,090,262</b>	<b>200,090,262</b>	609,143,593	609,143,593
<b>Total</b>	<b>₱17,840,378,587</b>	<b>₱17,840,378,587</b>	₱13,828,291,792	₱14,507,716,773

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.

*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.

Fair Value Hierarchy

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

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

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

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

As of December 31, 2010 and 2009, the Group does not have financial instruments measured at fair value.



### 30. Lease Commitments

#### *Equipment Rental Agreement*

On various dates in 2010 and 2009, 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, 2010 and 2009, the future minimum lease payments under this operating lease are as follows:

	2010	2009
Within one year	<b>₱67,535,097</b>	₱648,771,220
After one year but not more than 2 years	–	14,364,414
	<b>₱67,535,097</b>	₱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 which the plant is situated, for a period of 25 years, renewable for another 25 years with the mutual agreement of both parties. The Group paid US\$3.19 million or its peso equivalent of ₱150.57 million as payment for the 25 years of rental.

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

### 31. Note to Consolidated Statements of Cash Flow

Supplemental disclosure of noncash investing and financing activities follows:

	2010	2009	2008
Transfers from inventory	<b>₱529,047,775</b>	₱9,065,739	₱–
Acquisition of conventional and other mining equipment on account (Notes 12 and 13)	<b>300,379,924</b>	474,363,625	639,570,147
Acquisition of business (Note 33)	–	9,571,202,577	–
Assignment of APA and LLA (Note 33)	–	54,343,156	–

As of December 31, 2010 and 2009, total cost incurred in the rehabilitation of the power plant and other facilities under construction amounted to ₱529.05 million and ₱9.07 million, respectively. These were initially recognized as part of the inventories and were capitalized in the “Construction in progress” account upon issuance (see Note 8).



## 32. Operating Segments

### Segment Information

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

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

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

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

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

### 2010

	In thousands			Consolidated
	Mining	Power	Adjustments and Eliminations	
<b>Revenue</b>				
Sales to external customers	P14,242,225	P8,655,624	P-	P22,897,849
Inter-segment sales	2,511,722	2,330	(2,514,052)	-
Equity in net earnings (loss) of an associate	89,175	(12,349)	-	76,826
	16,843,122	8,645,605	(2,514,052)	22,974,675
<b>Cost of sale</b>	(10,973,993)	(4,975,609)	45,891	(15,903,711)
<b>Depreciation</b>	(1,672,139)	(794,128)	2,466,267	-
<b>Gross profit</b>	4,196,990	2,875,868	(1,894)	7,070,964
<b>Operating expenses</b>	(1,808,002)	(982,091)	-	(2,790,093)
<b>Operating profit</b>	2,388,988	1,893,777	(1,894)	4,280,871
<b>Other income</b>				65,427
<b>Finance income</b>				57,668
<b>Foreign exchange gain</b>				199,488
<b>Finance costs</b>				(685,906)
<b>Provision for income tax</b>				35,162
<b>Net income</b>	P2,529,656	P1,424,948	(P1,894)	P3,952,710
<b>Operating assets</b>	P18,779,152	P20,111,124	(P8,703,952)	P30,186,324
<b>Investments and advances</b>	-	310,230	-	310,230
	P18,779,152	P20,421,354	(P8,703,952)	P30,496,554
<b>Operating liabilities</b>	P4,688,519	P1,425,708	(P728,226)	P5,386,001
<b>Long-term debt</b>				12,742,563
<b>Deferred tax liability</b>				28,087
	P4,688,519	P1,425,708	(P728,226)	P18,156,651
<b>Other disclosures</b>				
Capital expenditure	P3,291,597	P16,152	P-	P3,307,749
Investment in associates	-	-	-	-





2009

	In thousands			Consolidated
	Mining	Power	Adjustments and Eliminations	
<b>Revenue</b>				
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)	(945,990)	(9,341,674)
Depreciation	(1,037,073)	(75,339)	1,112,412	-
Gross profit	2,565,551	6,685	(9,573)	2,562,663
Operating expenses	(723,238)	(25,656)	(688)	(749,582)
<b>Operating profit</b>	1,842,313	(18,971)	(10,261)	1,813,081
Other income				107,935
Finance income				52,753
Foreign exchange gain				47,703
Finance costs				(112,193)
Provision for income tax				(63,294)
<b>Net income</b>	₱1,773,983	₱82,263	(₱10,261)	₱1,845,985
<b>Operating assets</b>	₱13,615,842	₱17,776,293	(₱7,373,293)	₱24,018,842
<b>Investments and advances</b>	87,912	156,521	-	244,433
	₱13,703,754	₱17,932,814	(₱7,373,293)	₱24,263,275
<b>Operating liabilities</b>	₱2,577,891	₱905,620	(₱199,332)	₱3,284,179
<b>Long-term debt</b>				11,023,466
<b>Deferred tax liability</b>				72,057
	₱2,577,891	₱905,620	(₱199,332)	₱14,379,702
<b>Other disclosures</b>				
Capital expenditure	₱2,853,553	₱16,211,800	₱-	₱19,065,353
Investment in associates	87,912	156,521	-	244,433

2008

	In thousands			Consolidated
	Mining	Power	Adjustments and Eliminations	
<b>Revenue</b>				
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)
	8,499,947	(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	1,549,918	(11,670)	6,443	1,544,691
Operating expenses	(458,926)	-	-	(458,926)
<b>Operating profit</b>	1,090,992	(11,670)	6,443	1,085,765
Other income				54,443
Finance income				77,235
Finance costs				(101,240)
Foreign exchange gain (loss)				(82,781)
Provision for income tax				(237,023)
<b>Net income</b>	₱808,069	(₱11,670)	₱-	₱796,399
<b>Operating assets</b>	₱5,888,226	₱-	₱-	₱5,888,226
<b>Investments and advances</b>	109,902	113,330	-	223,232
	₱5,998,128	₱113,330	₱-	₱6,111,458

(Forward)



	In thousands			
	Mining	Power	Adjustments and Eliminations	Consolidated
<b>Operating liabilities</b>	₱1,212,074	₱-	₱-	₱1,212,074
<b>Long-term debt</b>				526,299
<b>Deferred tax liability</b>				14,125
<b>Income tax payable</b>				58,060
	₱1,212,074	₱-	₱-	₱1,810,558
<b>Other disclosures</b>				
Investment in associates	₱223,231	₱-	₱-	₱223,231
Capital expenditure	1,704,530	-	-	1,704,530

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 ₱28.09 million, ₱72.06 million and ₱14.13 million in 2010, 2009 and 2008, 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, 2010, 2009 and 2008 reviewed by the management follows:

	2010	2009	2008
<b>Revenue</b>			
Local coal sale	₱5,315,636,853	₱7,252,952,002	₱6,648,580,099
Export coal sale	8,926,587,776	4,247,240,809	1,841,465,281
	₱14,242,224,629	₱11,500,192,811	₱8,490,045,380

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 ₱2.37 billion and ₱4.47 billion for the year ended December 31, 2010 and for the nine months period ended December 31, 2009, respectively.

### **33. Business Combination**

On July 8, 2009, 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.



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, 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, 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:

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

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 ₱47.20 US\$ to Peso exchange rate PSALM alleges to be in accordance with the APA. The assessed amount was accrued in 2009 as additional acquisition cost allocated to Property, plant and equipment. Subsequently, the amount was paid by the Group in February 8, 2010.



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

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

	Fair value recognized on acquisition (Restated)	Provisional values previously recognized
Property, plant and equipment (Note 8)	<b>₱16,211,370</b>	₱15,697,026
Materials and supplies (Note 6)	<b>618,340</b>	720,932
Coal (Note 6)	<b>273,936</b>	273,936
Prepaid rent (Note 10)	<b>150,568</b>	150,568
Fuel and diesel (Note 6)	<b>86,705</b>	86,705
Net assets acquired	<b>17,340,919</b>	16,929,167
Negative goodwill arising on acquisition	<b>(15,667)</b>	-
Net assets acquired	<b>₱17,325,252</b>	₱16,929,167

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

Cash consideration	<b>₱7,107,741</b>	₱7,107,741
Payable to PSALM (Note 12)	<b>9,767,083</b>	9,767,083
Transaction cost (Note 20)	<b>450,428</b>	54,343
Total cost	<b>₱17,325,252</b>	₱16,929,167

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

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

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



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### 34. Other Matters

#### a. Electric Power Industry Reform Act (EPIRA)

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

Under EPIRA, NPC's generation assets are to be sold through transparent, competitive public bidding, while all transmission assets are to be transferred to the TRANSCO, 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 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 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.

#### *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 Implementing Rules and Regulations (IRR) of the Philippine Clean Air Act (PCAA) took effect. The IRR contains provisions that have an impact on the industry as a whole and on SCPC in particular, that need to be complied with within 44 months (or 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 IRR. Based on SCPC’s initial assessment of its power plant’s existing facilities, SCPC believes that it is in full compliance with the applicable provisions of the IRR of the PCAA as of December 31, 2009.

**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 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.

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**35. Approval of Financial Statements**

The consolidated financial statements of Semirara Mining Corporation and Subsidiary as at December 31, 2010 and 2009 and for each of the three years in the period ended December 31, 2010 were endorsed for approval by the Audit Committee on February 21, 2011 and were authorized for issue by the Executive Committee of the BOD on March 7, 2011.

