

# COVER SHEET

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SEC Registration Number

S E M I R A R A M I N I N G C O R P O R A T I O N

(Company's Full Name)

2 N D F L O O R D M C I P L A Z A B U I L D I N G  
 2 2 8 1 P A S O N G T A M O E X T E N S I O N  
 M A K A T I C I T Y

(Business Address: No. Street City/Town/Province)

**Junalina S. Tabor**  
(Contact Person)

**888-3000**  
(Company Telephone Number)

1 2    3 1  
(Fiscal Year)

1 7 - Q  
(Form Type)

    Month    Day  
(Annual Meeting<sup>1</sup>)

\_\_\_\_\_  
(Secondary License Type, if Applicable)

**CRMD**  
Dept. Requiring this Doc.

\_\_\_\_\_  
Amended Articles Number/Section

\_\_\_\_\_  
Total No. of Stockholders

Total Amount of Borrowings  
 \_\_\_\_\_ Domestic    \_\_\_\_\_ Foreign

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To be accomplished by SEC Personnel concerned

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File Number

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Remarks: Please use BLACK ink for scanning purposes.

<sup>1</sup> First Monday of May of each year.

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

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

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

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

For the Period Ending June 30, 2011  
Period Ended

QUARTERLY REPORT FORM 17-Q  
Form Type

**SEC FORM 17-Q**

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

1. For the quarter period ended **June 30, 2011**
2. Commission Identification Number **91447**
3. BIR Tax Identification No. **000-190-324-000**
4. Exact Name of issuer as specified in its charter:  
**SEMIRARA MINING CORPORATION**
5. Province, Country or other jurisdiction of incorporation of organization:  
**PHILIPPINES**
6. Industry Classification Code: \_\_\_\_\_ (SEC use only)
7. Address of issuer's principal office Postal Code  
**2<sup>rd</sup> Floor, DMCI Plaza, 1231**  
**2281 Chino Roces Avenue, Makati City**
8. Registrants telephone Number, including area code:  
**+63 2 8883550 to +63 2 8883565**
9. Former Address : 7<sup>th</sup> Floor, Quad Alpha Centrum Bldg.,  
125 Pioneer St., Mandaluyong City  
Telephone Nos. : 631-8001 to 6318010  
Former name: : Semirara Coal Corporation  
No former fiscal year of the registrant.
10. Securities registered pursuant to Section 4 of the RSA.

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

11. 356,250,000 shares are listed in the Philippine Stock Exchange
12. The registrant has filed all reports required to be filed by Section 11 of the Revised Securities Act (RSA) and RSA Rule 11 (a)-1 thereunder and Sections 26 and 141 of the Corporation Code of the Philippines, during the preceding 12 months.

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

## TABLE OF CONTENTS

	<u>Page No.</u>
<b>PART 1      FINANCIAL INFORMATION</b>	
Item 1      Financial Statements	
Consolidated Statements of Financial Position as of June 30, 2011 and December 31, 2010 .....	4
Consolidated Statements of Comprehensive Income for Jan. to June of the current year and preceding year.....	5
Consolidated Statements of Changes in Equity for current year and preceding year .....	6
Consolidated Statements of Cash Flows for the period ended June 30, 2011 and 2010 .....	7
Notes to Financial Statements .....	8 - 32
Management's Discussion and Analysis of Financial Condition and Results of Operations .....	33 - 42
<b>PART II      OTHER INFORMATION .....</b>	<b>43</b>
<b>PART III     SIGNATURES .....</b>	<b>44</b>
<b>PART IV     ANNEX A (AGING OF RECEIVABLES) .....</b>	<b>45</b>
<b>ANNEX B ( FINANCIAL RISK MANAGEMENT DISCLOSURE ) .....</b>	<b>46 - 54</b>

SEMIRARA MINING CORPORATION AND SUBSIDIARY  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
As of June 30, 2011

	(Unaudited) June 30, 2011	(Audited) December 31, 2010
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents	4,626,586,737	3,813,283,517
Receivables - net	3,361,475,982	3,183,300,192
Inventories - net	1,980,410,503	2,375,874,790
Other current assets	1,252,138,496	912,018,769
<i>Total Current Assets</i>	<i>11,220,611,718</i>	<i>10,284,477,268</i>
Noncurrent Assets		
Property, plant and equipment - net	19,846,100,114	19,584,259,678
Investments and advances	321,288,083	310,229,558
Other noncurrent assets	280,709,184	317,587,850
<i>Total Noncurrent Assets</i>	<i>20,448,097,381</i>	<i>20,212,077,086</i>
<b>TOTAL ASSETS</b>	<b>31,668,709,099</b>	<b>30,496,554,354</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current Liabilities		
Short-term loans	1,426,784,139	449,845,179
Current portion of long-term debt	-	1,132,896,820
Trade and other payables	5,441,741,602	5,351,271,316
<i>Total Current Liabilities</i>	<i>6,868,525,741</i>	<i>6,934,013,315</i>
Noncurrent Liabilities		
Long-term debt - net of current portion	11,385,420,207	11,159,821,454
Deferred tax liabilities - net	28,087,305	28,087,305
Provision for decommissioning and site rehabilitation	11,883,508	14,732,350
Pension liability	19,996,748	19,996,748
<i>Total Noncurrent Liabilities</i>	<i>11,445,387,768</i>	<i>11,222,637,857</i>
<i>Total Liabilities</i>	<i>18,313,913,510</i>	<i>18,156,651,172</i>
Stockholders's Equity		
Capital stock	356,250,000	356,250,000
Additional paid-in capital	6,675,527,411	6,675,527,411
Deposit For Future Subscription	-	-
Retained earnings	6,323,018,179	5,308,125,771
Cost of shares held in treasury	-	-
<i>Total Stockholders' Equity</i>	<i>13,354,795,590</i>	<i>12,339,903,182</i>
<b>TOTAL LIABILITIES AND STOCKHOLDERS EQUITY</b>	<b>31,668,709,099</b>	<b>30,496,554,354</b>

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

For the Period Ending June 30, 2011 and 2010  
For the Quarter Ending June 30, 2011 and 2010

	(Unaudited) For the Period		(Unaudited) For the Quarter	
	2011	2010	2011	2010
<b>REVENUE</b>				
Coal	10,690,897,268	7,058,062,768	6,739,055,110	3,455,693,488
Power	5,280,405,934	5,956,810,684	3,331,492,500	3,465,733,768
	<u>15,971,303,202</u>	<u>13,014,873,452</u>	<u>10,070,547,610</u>	<u>6,921,427,255</u>
<b>COST OF SALES</b>				
Coal	5,477,693,695	4,606,224,405	3,554,306,036	2,230,945,961
Power	3,260,536,103	3,948,788,023	2,012,391,151	2,114,408,921
	<u>8,738,229,798</u>	<u>8,555,012,428</u>	<u>5,566,697,187</u>	<u>4,345,354,882</u>
<b>GROSS PROFIT</b>	<u>7,233,073,404</u>	<u>4,459,861,023</u>	<u>4,503,850,423</u>	<u>2,576,072,373</u>
<b>OPERATING EXPENSES</b>	(2,531,459,350)	(1,666,439,538)	(1,572,783,710)	(601,495,783)
<b>FINANCE INCOME (COSTS)</b>	(184,910,208)	(330,526,754)	(70,925,678)	(129,323,253)
<b>FOREIGN EXCHANGE GAINS (LOSSES)</b>	6,981,733	28,704,400	(9,036,026)	17,664,969
<b>EQUITY IN NET LOSSES OF ASSOCIATES</b>		64,219,801	-	63,606,806
<b>OTHER INCOME</b>	59,830,179	(6,436,346)	42,686,834	1,893,492
	<u>(2,649,557,646)</u>	<u>(1,910,478,437)</u>	<u>(1,610,058,580)</u>	<u>(647,653,769)</u>
<b>INCOME BEFORE INCOME TAX</b>	4,583,515,758	2,549,382,586	2,893,791,843	1,928,418,604
<b>PROVISION FOR INCOME TAX</b>	6,353,910	572,140	2,837,728	(26,550,480)
<b>NET INCOME</b>	4,577,161,848	2,548,810,446	2,890,954,115	1,954,969,084
<b>OTHER COMPREHENSIVE INCOME</b>	-	-	-	-
<b>TOTAL COMPREHENSIVE INCOME</b>	<u>4,577,161,848</u>	<u>2,548,810,446</u>	<u>2,890,954,115</u>	<u>1,954,969,084</u>
<b>Basic / Diluted Earnings per Share</b>	12.85	8.90	8.11	6.82
Basis of EPS :				
EPS = NET INCOME (LOSS) FOR THE PERIOD/NO. OF OUTSTANDING SHARES				
Wherein :				
Wtd Average Outstanding Shares	356,250,000	(as of June 30, 2011)		
Wtd Average Outstanding Shares	286,530,727	(as of June 30, 2010)		

SEMIRARA MINING CORPORATION AND SUBSIDIARY  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
As of June 30, 2011 and 2010

	Common Stock	Additional Paid-In Capital	Deposit for Future Stock Subscriptions	Unappropriated Retained Earnings	Appropriated Retained Earnings	Total	Cost of Shares Held in Treasury	Grand Total
At January 1, 2011	356,250,000	6,675,527,411	-	4,608,356,330	700,000,000	12,340,133,741		12,340,133,741
Net Income for the period				4,577,161,850		4,577,161,850		4,577,161,850
Additional Paid-In Capital						-		-
Deposit for Future Subscription						-		-
Cost of Shares Held in Treasury						-		-
Stockrights Offering						-		-
Dividends				(3,562,500,000)		(3,562,500,000)		(3,562,500,000)
At June 30, 2011	356,250,000	6,675,527,411	-	5,623,018,180	700,000,000	13,354,795,591	-	13,354,795,591
At January 1, 2010	296,875,000	1,576,796,271	5,402,125,985	2,400,238,695	700,000,000	10,376,035,951	(528,891,260)	9,847,144,691
Net Income for the period				2,548,810,446		2,548,810,446		2,548,810,446
Additional Paid-In Capital		764,356,140.00				764,356,140		764,356,140
Deposit for Future Subscription			(2,377,723,727)			(2,377,723,727)		(2,377,723,727)
Cost of Shares Held in Treasury						-	528,891,260	528,891,260
Dividends				(1,781,250,000)		(1,781,250,000)		(1,781,250,000)
At June 30, 2010	296,875,000	2,341,152,411	3,024,402,258	3,167,799,141	700,000,000	9,530,228,810	-	9,530,228,810

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

As of June 30, 2011 and 2010

	(Unaudited)	
	2011	2010
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income before income tax	4,583,515,758	2,548,810,446
Adjustments for:		
Depreciation and amortization	1,684,732,552	1,445,081,342
Finance costs and revenues	184,910,208	330,526,754
Gain on sale of equipment	(53,477,507)	(14,984)
Provision for impairment loss	1,713,378	
Net unrealized foreign exchange gains	7,349,721	36,794,100
Equity in net earnings of associates		(64,219,801)
Provision for Income Tax		(572,140)
Pension expense		1,501,248
Operating income before changes in working capital	6,408,744,109	4,297,906,965
Decrease (increase) in:		
Receivables	(156,164,666)	(1,412,800,923)
Inventories	395,464,287	575,166,931
Other current assets	(334,393,487)	(364,220,710)
Increase (decrease) in:		
Trade and other payables	10,060,271	864,430,365
Cash generated from (used in) operations	6,323,710,514	3,960,482,628
Interest received	56,016,674	7,069,149
Income tax paid	6,353,910	(572,140)
Interest paid	(217,642,992)	(135,868,528)
<b>Net cash provided by (used in) operating activities</b>	<b>6,168,438,106</b>	<b>3,831,111,109</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Decrease (increase) in other noncurrent assets	36,878,666	266,081,778
Proceeds from sale of equipment	53,477,507	14,984
Decrease (increase) in Investments	(11,058,525)	(304,808,620)
Additions to property, plant and equipment	(1,946,572,988)	(1,572,277,326)
<b>Net cash used in investing activities</b>	<b>(1,867,275,340)</b>	<b>(1,610,989,184)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Short-term loans	(144,502,249)	
Loan Availments	1,384,039,443	18,376,234,086
Payment of dividend	(3,562,500,000)	(1,781,250,000)
Loan Repayment	(1,164,896,743)	(17,015,287,813)
Movement in deposit for future stocks		(2,377,723,727)
Proceeds from sales of shares held in Treasury		1,293,247,400
Proceed from additional issuance of capital stocks		-
<b>Net cash provided by (used in) financing activities</b>	<b>(3,487,859,549)</b>	<b>(1,504,780,054)</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>813,303,218</b>	<b>715,341,871</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>3,813,283,519</b>	<b>481,920,935</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>4,626,586,736</b>	<b>1,197,262,806</b>



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

### Basis of Preparation

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

### Statement of Compliance

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

### Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Group as at June 30, 2011 and for the year then ended. A subsidiary is an entity over which the Parent Company has the power to govern the financial and operating policies of the entity. The subsidiary is fully consolidated from the date of incorporation, being the date on which the Parent Company obtains control, and continues to be consolidated until the date that such control ceases. The results of subsidiaries acquired or disposed of during the year are included in the consolidated statements of comprehensive income from the date of acquisition or up to the date of the disposal, as appropriate.

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

The financial statements of the subsidiary are prepared for the same reporting 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 Interpretation Committee (IFRIC) effective as of January 1, 2010.

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

- PFRS2, *Share-based Payment : Group Cash-settled Share-based Payment Transactions (effective January 1, 2010)*
- PFRS3, *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 2008, with respect to PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations*
- Improvements to PFRSs 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.
- 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 segregation 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

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 the 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 (or 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 the 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 July 1, 2012. 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*  
 (effective for annual periods beginning on or after July 1, 2009 with early application permitted)  
 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 where 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 liabilities. The classification depends on the purpose for which the investments were acquired and whether these are quoted in an active market. Management determines the classification of its financial instruments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

As of June 30, 2011 and December 31, 2010, the Group's financial instruments are of the nature of loans and receivables, and other financial liabilities.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument or a component that is a financial liability, are

reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity, net of any related income tax benefits.

#### *Determination of fair value*

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

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

#### *Day 1 difference*

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

#### *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.

### *Financial asset*

#### Loans and Receivables

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

#### Deferred Financing Costs

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

#### Impairment of Financial Assets

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



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

#### *Loans and receivables*

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

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

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial assets' original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through use of an allowance account and the amount of loss is charged to the profit or loss during the period in which it arises. Interest income continues to be recognized based on the original effective interest rate of the asset. Receivables, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery has been realized.

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

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of such credit risk characteristics as industry, customer type, customer location, past-due status and term. Future cash flows in a group of financial assets

that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

#### Derecognition of Financial Assets and Liabilities

##### *Financial Assets*

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

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

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.

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

#### Offsetting of Financial Instruments

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

### Inventories

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

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

### 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:

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

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

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

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the profit or loss in the year the item is derecognized.

#### Investments and Advances

This account includes investments and advances for future stock acquisition in associates.

An associate is an entity in which the Group has significant influence and which is

neither a subsidiary nor a joint venture. Investments in associates are accounted for under the equity method of accounting.

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

The Group discontinues applying the equity method when their investments in associates are reduced to zero. Accordingly, additional losses are not recognized unless the Group has guaranteed certain obligations of the associates. When the associates subsequently report net income, the Group will resume applying the equity method but only after its share of that net income equals the share of net losses not recognized during the period the equity method was suspended.

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

#### Other intangible assets

Other intangible assets include computer software.

Intangible assets acquired separately are measured on initial recognition at cost, which comprises its purchase price plus any directly attributable costs of preparing the asset for its intended use. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization on a straight line basis over their useful lives of three (3) to five (5) years and any accumulated impairment losses.

Internally generated intangible assets are not capitalized and expenditure is reflected in the 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 and Goodwill

#### *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.

IFRS 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 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 Non-financial Assets

The Group assesses at each reporting date whether there is an indication that the property, plant and equipment, software, investment in associates or jointly controlled entities may be impaired. If any such indication exists, or when an annual impairment testing for an asset is required, the group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash generating unit's fair value less cost to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that largely independent of those from other assets or group of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired

and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses of continuing operations are recognized in the consolidated statement of comprehensive income in those expense categories consistent with the function of the impaired asset.

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

#### *Investments in associates*

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

#### 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.

#### *Spot electricity sales*

Revenue derived from the sale to the spot market of excess generated electricity over the contracted energy using price determined by the spot market.

#### *Rendering of services*

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

#### *Finance income*

Finance income is recognized as interest accrues.

#### Cost of Sales

##### *Cost of coal*

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

##### *Cost of power*

Cost of power includes expenses directly related to the production and sale of electricity such as cost of coal, fuel, depreciation and other related costs. Cost of coal and fuel are recognized at the time the related coal and fuel inventories are consumed for the production of electricity. Cost of energy also includes electricity purchased from the spot market and the related market fees. It is recognized as expense when the 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 profit or loss in the period in which they are incurred.

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

### Pension Expense

The Group has a noncontributory defined benefit retirement plan.

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

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

Past-service costs, if any, are recognized immediately in 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 profit or loss as a finance cost. Additional disturbances or changes in rehabilitation costs will be recognized as additions or charges to the corresponding assets and rehabilitation liability when they

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

#### Leases

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

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

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

#### *Group as a lessee*

Finance leases, which transfer to the Group substantially all the risks and rewards incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and the reduction of the lease liability so as to achieve a constant periodic rate of interest on the remaining balance of the liability. Finance charges are recognized in the consolidated 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 stocks at par value and additional paid-in capital in excess of the total contributions received over the aggregate par values of the equity share. Incremental costs incurred directly attributable to the issuance of new shares are deducted from proceeds.

Retained earnings represent accumulated earnings of the Company less dividends declared.

#### Treasury Shares

Own equity instruments which are reacquired (treasury shares) are recognized at cost and deducted from equity. No gain or loss is recognized in the 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.

#### Contingencies

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

#### Events after the Reporting Period

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

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

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

### Judgment

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

#### *Determining functional currency*

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

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

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

#### *Contingencies*

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

#### Management's Use of Estimates

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

#### *Revenue recognition*

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

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

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

#### *Estimating 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.

#### *Estimating stock pile inventory quantities*

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

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

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

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

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

The Group is legally required to fulfill certain obligations under its Department of Environment and Natural Resources 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.

#### *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.

#### *Estimating impairment for nonfinancial assets*

The Group assesses impairment on assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the Group considers important which could trigger an impairment review include the following:

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

An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's 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.

#### *Deferred tax assets*

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

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

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

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

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

### **2011 FIRST HALF OPERATION**

#### **Coal**

The Company took advantage of the dry season to maximize its capacity, such that total material movement in the first half reached 49,144,224 bank cubic meters (bcm). Notably, this volume is already 65% of full year capacity of 75 millionbcm. With a strip ratio of 11.22:1, total run-of-mine (ROM) coal produced was at 4,117,137 metric tons (MTs). The high strip ratio was due to pre-stripping done to expose around 600,000MTs of coal. This was done to ensure that production will not be disrupted during the rainy season. Clean coal production stood at 3,396,544 MTs, while washable coal totaled to 720,593 MTs. The resulting net product coal was 3,828,899 MTs.

Extensive exploratory drilling at the minesite is still in progress. Drilling data from the eastern part of the island continues to show positive results during the period. The Company targets to jumpstart the certification of the additional volume discovered by a local competent person on coal resource and mineable reserve within the year to increase its mineable coal reserve inventory, prior to its certification in accordance with JORC standards.

Another barge loading facility is constructed near the auxiliary stockpile in addition to the three existing loading facilities in the island. The increase in production and sales required a corresponding improvement of the Company's logistic support to improve loading efficiency. The strategic location of the new pier will shorten coal transfer time. This is expected to start operating in the next quarter.

High coal sales of 4,157,162 MTs underscored strong demand for Semirara coal. Export demand recovered from a slight slump in Q1 as previous year's inventory levels were used up. Meanwhile domestic demand remained steady during the period. Ending coal inventory closed at 74,574 MTs.

Machine availability registered at 92% and 89% for the excavators and dumptrucks from 88% and 81% in 2010, respectively. The improvement is attributed to the re-fleeting of dump trucks and purchase of additional new excavating units.

Meanwhile, the power segment's total gross generation during the period was 1,073 GWhr. Unit 1 and 2 generated 488 GWhr and 584 GWhr, respectively. Capacity factor and availability for Unit 1 was at 37.28% and 72.25%, while Unit 2 was at 44.61% and 65.9%, respectively. Average capacity of Unit 1 was at 155 MW with 52% utilization. On the other hand, Unit 2 registered an average capacity of 202 MW with 67%

utilization. The dependable capability of Units 1 and 2 registered at 158 MW and 300 MW, respectively.

Power Unit 2 experienced forced outage after its rehabilitation due to failure of some equipment during the commissioning, thus it registered low performance in Q1. These were immediately addressed at the onset of Q2, hence, the improvements in terms of gross generation, availability, capacity factor and efficiency of the unit were evident during the period.

## **2011 FIRST HALF FINANCIAL CONDITION**

The Company has surpassed in just six months of operations its 2010 full year profits. Net of eliminating entries, the coal and power segments respectively generated Revenues of PHP10.69 billion and PHP5.28 billion in the first half this year. This resulted to consolidated Revenues of PHP15.97 billion. The coal segment's Revenues reflect both domestic (excluding Calaca) and export sales of 1.30 million MTs (net of 730,000 MT to Calaca) and 2.13 million MTs, respectively, at a composite average price of PHP 3,014 per MT. On the other hand, the power segment's revenue generation came from bilateral contracts and spot sales of 1,127 GWhr at an average price of PHP4.68 per KWhr.

Meanwhile, net of eliminating entries, the coal and power segments recorded Cost of Sales of PHP5.48 billion and PHP3.26 billion, respectively. The resulting consolidated Cost of Sales amounted to PHP8.74 billion. The coal segment's Cost of Sales (before eliminating entries) is mainly comprised of Materials, Fuel and Lube of PHP5.87 billion and Depreciation and Amortization of PHP1.1 billion. Shipping, Loading and Hauling Costs of PHP467.3 million and Marketing expenses of P54.3 million mainly comprised the power segment's Cost of Sales.

The resulting consolidated Gross Profit stood at PHP7.23 billion, with the coal and power segments contributing PHP5.21 billion and PHP2.02 billion, respectively. Consolidated Operating Expenses amounted to PHP2.53 billion, the coal and power segments accounted for PHP2.01 billion and PHP523.76 million, respectively. Government Share temporary accrual for the interim period of PHP1.70 billion is the main component of the coal segment's Operating Expenses. The significant accrual is due to higher net margin resulting from higher average effective coal price. On the other hand, management fees amounting to PHP314.47 million is the biggest item in the power segment's Operating Expenses representing O&M fees for Calaca Plants' operation.

Consolidated Other Expenses totaled to PHP118.10 million, representing financing cost of PHP184.91 million, net of PHP6.98 million forex gains and other income of PHP59.83 million. The power segment's total Other Expenses of PHP150.46 million (representing financing cost, net of other income) was partially offset by the coal segment's Other Income of PHP32.36 million (net of interest expense of PHP61.5 million). The coal

segment accounted for non-recurring other income from gain on sale of retired and fully depreciated equipment amounting to PHP53.48 million; forex gains of PHP5.85 million due to the strengthening of the peso against the USD; interest income from money placements from excess cash, offset by bank charges of PHP28.18 million; and finance charges from its medium-term loans of PHP61.51 million. Meanwhile, the power segment incurred interest expenses amounting to PHP173.59 million for its PHP9.6 billion long-term loan; interest income of PHP22.01 million; and PHP1.13 million Forex gains.

The resulting consolidated Income Before Tax stood at PHP4.58 billion. The coal and power segments' contribution was at PHP3.24 billion and PHP1.35 billion, respectively. Since both business segments have Income Tax Holidays as Bureau of Investments (BOI)-registered companies, consolidated Income Tax Provision is at minimal level of PHP6.35 million, the coal and power segments accounted for PHP3.60 million and PHP2.75 million, respectively.

The resulting consolidated Income After Tax amounted to PHP4.58 billion. The coal and power segments' contribution stood at PHP3.23 billion and PHP1.34 billion, respectively. Consolidate first half EPS was PHP12.85.

The Company's balance sheet closed with consolidated Assets, Liabilities, and Equity of PHP31.67 billion, PHP18.31 billion, and PHP13.34 billion, respectively.

The coal segment's total Assets as at end of first half stood at PHP11.26 billion, growing by 4.8% from beginning balance of PHP10.74 billion. Of this amount, current portion stood at PHP7.72 billion, reflecting an increase of 12.5% from beginning level of PHP6.86 billion. Strong sales during the period resulted to a healthy closing Cash and Cash Equivalents balance of PHP3.96 billion. Net Receivables of PHP1.33 billion are mainly trade related. Net Inventories amounting to PHP1.26 billion is comprised of coal inventory of PHP125 million and materials and supplies of PHP1.15 billion. Due from related parties closed at PHP137.78 million. Other current assets of PHP1.02 billion mainly consist of advances to suppliers of PHP400.40 million; prepaid income taxes and VAT receivable of PHP300.63 million and PHP304.40 million security deposits.

Meanwhile the coal segment's non-current portion closed at PHP3.54 billion, 8.7% less than beginning balance of PHP3.88 billion. This is comprised of Property, Plant and Equipment - net of depreciation at PHP3.40 billion; Investment and Advances of PHP2.5 million accounting for Investments in Calaca Ecozone project; and other noncurrent assets of PHP142.69 million covering cost of software (net of amortization) of PHP6.85 million, while the balance pertains to noncurrent portion of VAT receivable.

The power segment reflected total assets of PHP20.46 billion, recording a 20% growth from beginning balance of PHP20.42 billion. Current assets which closed at PHP3.50 billion is comprised of Cash and Cash Equivalents of PHP661.79 million, net Receivables of PHP1.76 billion, Inventories of PHP717.11 million, due from related

parties of PHP58 million, and Other Assets of PHP357.00 million. The decrease of 34% and increase of 9% in Cash and Cash Equivalents and Receivables, respectively, were mainly driven by payment of dividends to the Company and decrease in spot purchases by 54%; while the 1% increase in investments mainly came from the cash placement in sinking fund amounting to PHP305 million. On the other hand, noncurrent assets closed at PHP16.91 billion. This accounted for Property, Plant and Equipment of PHP16.45 billion, Investments and Advances of PHP318.79 million, and Other noncurrent assets of PHP138.02 million.

The coal segment's total Liabilities closed at PHP8.47 billion, showing an increase of 13.5% from beginning balance of PHP7.46 billion. Current Liabilities of PHP5.02 billion accounted for Accounts and Other Payables which are mainly trade-related at PHP4.65 billion, Due to Affiliated Companies of PHP70.94 million, and short-term and current portion of loans amounting to PHP297.20 million. Noncurrent Liabilities closed at PHP3.45 billion. This accounted for Long-Term Debt of PHP3.39 billion, Pension Liability of PHP20.00 million, Provision for decommissioning and site rehabilitation of PHP11.88 million, and Deferred Income Tax of PHP28.09 million.

Meanwhile, the power segment's total Liabilities of PHP10.78 billion grew by 1% from beginning balance of PHP10.91 billion. Current Liabilities closed at PHP2.79 billion, consisting of trade payable and due to government agencies, totalling to PHP1.41 billion; due to affiliated companies of PHP244 million; and short-term loans and current portion of long-term loans of PHP1.13 billion. The increase in Trade and Other Payables is principally due to purchase of spare parts and materials related to the rehabilitation of the power plants. Noncurrent liability of PHP7.99 billion reflects the long-term portion of the balance of the PHP9.6 debt related to the acquisition of the business.

Despite paying dividends of PHP3.56 billion, the coal segment's Equity remained robust at PHP11.67 billion, after accounting for strong earnings during the period. Likewise, income generated by the power segment offset the impact of the PHP1.2 billion dividends declared in April, such that its Equity closed at PHP1.68 billion as at the end of first half.

## **2011 COMPARATIVE REPORT**

### **I. COAL PRODUCTION / POWER GENERATION**

Additional fleet capacity and shortened hauling distance due to in-pit dumping resulted to the steady increase in material movement quarter-on-quarter. First half total materials moved increased by 21% from 2010 level of 40,632,772 bcm to 49,144,224

bcm this year. The table below shows the quarterly material movement for the two comparative years:

**QUARTERLY MATERIAL MOVEMENT (in million BCM)**

	<b>2011</b>	<b>2010</b>	<b>Inc/(Dec)</b>
<b>Q1</b>	26.85	19.45	38%
<b>Q2</b>	22.29	21.18	5%
<b>YTD</b>	<b>49.14</b>	<b>40.63</b>	<b>21%</b>

Meanwhile, despite the increase in YTD strip ratio at 11.22:1 as at H1 this year as compared to 10.25:1 last year, ROM coal production recorded an 11% increase at 4,117,137 MTs in the current period as compared to H1 2010 level of 3,706,110 MTs. The table below shows the quarterly ROM coal production for the two comparative years:

**QUARTERLY ROM COAL PRODUCTION (in million MTs)**

	<b>2011</b>	<b>2010</b>	<b>Inc/(Dec)</b>
<b>Q1</b>	1.82	1.85	(1%)
<b>Q2</b>	2.30	1.86	24%
<b>YTD</b>	<b>4.12</b>	<b>3.71</b>	<b>11%</b>

Net product coal production correspondingly increased by 12% from 3,416,250 MTs in H1 2010 to 3,828,900 MTs this year. The table below shows the quarterly net product coal production for the two comparative years:

**QUARTERLY NET PRODUCT COAL (in million MTs)**

	<b>2011</b>	<b>2010</b>	<b>Inc/(Dec)</b>
<b>Q1</b>	1.66	1.69	(2%)
<b>Q2</b>	1.27	1.73	26%
<b>YTD</b>	<b>3.83</b>	<b>3.42</b>	<b>12%</b>

Lower beginning inventory and higher coal sales in the current period reflected a lower ending inventory level of 74,399 MTs at the close of H1 this year, as against 193,122 MTs in H1 2010.

Meanwhile, the table below shows the quarterly generation of the power segment's two power plants for the two comparative years:

**SCPC ENERGY GENERATION (in GWhr)**

	2011			2010		
	Unit 1	Unit 2	Total	Unit 1	Unit 2	Total
<b>Q1</b>	243	189	432	224	241	465
<b>Q2</b>	245	395	640	295	322	617
<b>YTD</b>	<b>488</b>	<b>584</b>	<b>1,073</b>	<b>519</b>	<b>563</b>	<b>1,082</b>

Unit 2's rehabilitation which started in August last year lasted until Q1 this year. Fine tuning activities on the plant were still done in the first few months of the year to bring the plant's performance up to its rated capacity. Hence, Unit 2's generation only marked a significant improvement in Q2 this year. On the other hand, Unit 1 was able to hold its ground as its rehabilitation was postponed to the second half of the year to take advantage of high electricity prices during the dry season.

**II. MARKETING**

Sales in the second quarter this year compensated for the weaker delivered volume in Q1. This was mainly driven by the recovery in export sales from an anticipated slump in the first few months of the year since China beefed up on inventory towards the end of 2010. As a result, YTD coal sales reflected a 6% growth at 4,156,989 MTs this year from 3,917,144 MTs last year. The table below shows the quarterly coal sales for the two comparative years:

**QUARTERLY COAL SALES (in MTs)**

	2011	2010	Inc/(Dec)
<b>Q1</b>	1,641,515	2,007,530	(18%)
<b>Q2</b>	2,515,474	1,909,614	32%
<b>YTD</b>	<b>4,156,989</b>	<b>3,917,144</b>	<b>6%</b>

Local and export sales are almost leveled this year, accounting for 49% and 51%, respectively. As at H1 2010, market share of local and export sales were at 42% and

58%, respectively. The table below shows the comparative YTD sales volume per industry for 2010 and 2009:

**COAL SALES PER INDUSTRY (in MTs)**

	<b>2011</b>	<b>2010</b>	<b>Inc/(Dec)</b>
<b>LOCAL</b>			
Power	1,606,390	1,201,102	34%
Cement	310,537	341,731	(9%)
Other Industries	112,737	118,756	(5%)
<b>Total LOCAL</b>	<b>2,029,664</b>	<b>1,661,589</b>	<b>22%</b>
<b>Export</b>	<b>2,127,324</b>	<b>2,255,555</b>	<b>(6%)</b>
<b>Total Sales Volume</b>	<b>4,156,989</b>	<b>3,917,144</b>	<b>6%</b>

The increase in the off-take of the power industry was largely due to the increased purchases of a customer who signed a long-term contract with the Company, as well as increased deliveries to the power segment. The increase in deliveries to the power industry offset the 9% decrease in deliveries to cement plants and 5% drop in sales to other industries.

Local customers increased its off-take by 22% from 1,661,589 MTs in H1 2010 to 2,029,664 MTs this year.

Total sales to the export market dropped by 6% from 2,255,555 MTs as at H1 2010 to 2,127,324 MTs this year.

Strong global prices of coal boosted Composite average FOB price per MT from PHP2,219 in H1 2010 to PHP3,014 this year, reflecting an increase of 36%.

Meanwhile, the power segment registered a slight 1% drop in total energy sales this period at 1,127 GWhr, as compared to 1,133 GWhr in H1 2010. This is due to lower volume sold in Q1 this year when Unit 2 was still under fine tuning after its commissioning. Of the total energy sold, 88% was sourced from generation of the plant and 12% was purchased from the spot market. Total spot purchase this year of 131 GWhr is almost the same as H1 2010 level of 133 GWhr. Average selling price/KWhr for the first half registered at PHP5.26 and PHP4.69 in 2010 and 2011,



respectively. The table below shows the quarterly energy sales of the power segment's two power plants for the two comparative years:

**SCPC ENERGY SALES (in GWhr)**

	2011			2010		
	BCQ Sales	Spot Sales	Total	BCQ Sales	Spot Sales	Total
<b>Q1</b>	362	94	455	397	121	518
<b>Q2</b>	457	215	671	405	211	616
<b>YTD</b>	<b>819</b>	<b>308</b>	<b>1,127</b>	<b>801</b>	<b>332</b>	<b>1,133</b>

**III. FINANCE**

**A. Sales and Profitability**

On a standalone basis, the coal and power segments generated Revenues of PHP12.53 billion and PHP5.28 billion. Net of eliminating entries, consolidated Revenues stood at PHP15.97 billion, recording a 23% increase over H1 2010 Revenues of PHP13.02 billion. The growth is mainly due to higher coal sales and increased coal prices, slightly tempered by slight drop in energy sales volume and prices.

Consolidated Cost of Sales slightly increased by 2% at PHP8.74 billion from PHP8.56 billion in H1 2010. Cost of mine rehabilitation activities, upgrading of support facilities, higher oil prices plus higher strip ratio caused upward pressure on cost of coal sold per MT, however this was fully compensated by the increase in selling price. Meanwhile, the power segment's cost of generation dropped by 6% at PHP2.5 billion as against PHP2.7 billion last year as a result to lower power generation and lower and cheaper spot purchases.

The coal segment generated Gross Profit of PHP5.21 billion, while the power segment recorded PHP2.02 billion. Consolidated Gross profit of PHP7.23 billion reflected a 62% growth over PHP4.46 billion in H1 2010. Gross profit margin is sizeable at 45% this year as compared to 34% last year.

Improving efficiency at the minesite is reflected by higher government share provision. At 84%, this largely accounted for the increase in the coal segment's Operating Expenses at PHP2.01 billion from PHP1.19 billion last year. After accounting for the

power segment's Operating Expenses of PHP523.7 million, consolidated Operating Expenses of PHP2.53 billion is 51% higher than PHP1.67 billion in H1 last year.

Consolidated Interest Expenses is significantly lower by 30% at PHP235.10 million as compared to PHP337.60 million last year. The power segment has started to amortize its PHP9.6 billion debt related to the asset's acquisition. Moreover, interest rates are lower this year.

The Company earned Interest Income of PHP50.19 million this year, registering a 600% growth from last year's level of PHP7.07 million, underscoring its healthy cash level position.

Meanwhile, the appreciation of the PHP vis-à-vis the USD generated consolidated Forex gains of PHP6.98 million for the Company. In the same period last year, consolidated Forex gains was at PHP28.71 million.

The coal segment recorded Other Income of PHP53.48 million from gain on sale of retired equipment out of the PHP59.83 million consolidated Other Income.

The resulting consolidated Income Before Tax stood at PHP4.58 billion, 79% higher than H1 2010 level of PHP 2.55 billion.

Since both business segments enjoy Income Tax Holiday, consolidated tax provision is minimal at PHP6.35 million. Total tax provision in H1 2010 was at even lower level of PHP572 thousand.

Consolidated Net Income After Tax surged to PHP4.58 billion, almost doubling H1 last year's bottom line of PHP 2.55 billion. With a bigger capital base, EPS of PHP12.85 this period recorded a 44% growth over H1 2010 level of PHP8.90.

## **B. Solvency and Liquidity**

In the first half of operations, the Company spent a sizeable amount in investments, particularly additional property, plant and equipment which recorded a consolidated amount of PHP1.95 billion.

Moreover, it paid double of last year's dividends amounting to PHP3.56 billion. In addition, it spent PHP1.16 billion for debt payments.

However, with strong income generation, both by the coal and power segments, the Company was able to afford all these expenses. In fact, during the period, it was able to generate additional cash of PHP813.30 thousand to augment beginning cash balance of PHP3.81 billion. As a result, ending cash balance stood at PHP4.63 billion.

Notably, despite a slow start, the power segment contributed significantly to the Company's cash generation during the period. Its healthy cash position enabled it to pay PHP1.2 billion in dividends.

The Current Ratio of 1.63x is a testament of the company's strong liquidity position. Meanwhile, the Debt-to-Equity ratio of 1.37:1 further underscores the Company's solid financial standing.

#### **IV. PERFORMANCE INDICATORS:**

- 1. Earnings per Share** – The Company has achieved in its first six months of operation this year its full year performance in 2010. Despite a bigger capital base, EPS at PHP12.85 reflected a remarkable 50% growth this year compared to H1 last year's level of P8.59. This manifests that management is in the right track in operating the business.
- 2. Debt-to-Equity Ratio** – The power business has started to amortize its PHP9.6 billion debt during the period. Meanwhile, year-on-year, the balance sheet of the Company has grown with the Stock Rights Offering exercise in the second half of 2010. These are the major factors that caused the significant improvement of the Company's DE ratio. With a stronger balance sheet, the Company is ready to bring its business to a higher level with additional investments that are expected to augment stakeholders' value.
- 3. Business Expansion** – The successful rehabilitation of Unit 2 of Sem-Calaca power plants significantly contributed to the Company's profits, especially during the second quarter when fine tuning of the plant was already completed. Meanwhile, the decision to delay the rehabilitation of Unit 1 proved to be prudent as the business was able to take advantage of the higher electricity prices during the summer season. Meanwhile, the coal business further maximized the returns of its capacity expansion in 2010 when coal prices strengthened this year.
- 4. Expanded Market** –The power segment was able to renegotiate an expiring bilateral power supply contract for a new energy quantity and a better energy price. Also, it gained a new customer for a continuous flat load for 24 hours. Meanwhile, the coal segment improved its market base with new export customers this year.
- 5. Improved coal quality** – The persistent effort of the Company to install measures to improve coal quality indicates its firm commitment to ensure customer satisfaction. Increasing sales from a broader customer base clearly demonstrates the success of its endeavors.

## **PART II OTHER INFORMATION**

### **Other disclosures:**

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



SEMIRARA MINING CORPORATION  
AGING OF ACCOUNTS RECEIVABLE  
As of June 30, 2011

	TOTAL	Current	2 - 3 Mon	4 - 6 Mon	7 Mon to 1 Yr	1 to 2 Years	2 to 5 Years	Over 5 Years	Allow for DA
<b>A. AR TRADE RECEIVABLES</b>									
COAL									
EXPORT	301,111,272.20	301,111,272.20							
CEDC	222,386,491.84	156,632,974.48	65,753,517.36						
HOLCIM	178,562,992.65	78,548,008.57	100,014,984.08						
TPC	54,986,289.43	54,986,289.43							
PNOC	44,627,356.85	44,627,356.85							
JPC	53,969,549.58	41,024,127.78	12,945,421.80						
APEC	112,774,022.37	45,548,848.34	67,225,174.03						
PEDC	148,800,697.56	148,800,697.56							
APO	139,094,565.33	64,678,550.45	74,416,014.88						
SOLID	45,191,209.90	16,269,752.91	28,921,456.99						
PPFC	6,498,322.57	6,498,322.57							
OTHERS	6,127,511.34	-	-	-	-	508,115.33	5,619,396.01	-	7,892,343.05
POWER									
MERALCO	993,101,607.94	542,859,373.82	450,242,234.12						53,523,802.47
PSALM	246,635,159.37	-				246,635,159.37			
PEMC	172,569,731.33	147,731,641.69	13,735,329.80		3,208,007.64	7,894,752.20			
CAVITE ECONOMIC ZONE	170,261,553.76	170,261,553.76							
BATELEC	109,012,727.62	109,012,727.62							
TRANS-ASIA OIL	101,565,000.00	51,615,000.00	49,950,000.00						
STEEL CORP	8,190,102.14	8,190,102.14							
PUYAT STEEL	2,289,625.18	2,289,625.18							
POZZOLANIC	1,149,546.11	1,149,546.11							
OTHERS	1,535,441.97	1,009,724.00				525,717.97			
	<b>3,120,440,777.04</b>	<b>1,992,845,495.46</b>	<b>863,204,133.06</b>	<b>-</b>	<b>3,208,007.64</b>	<b>255,563,744.87</b>	<b>5,619,396.01</b>	<b>-</b>	<b>61,416,145.52</b>
Less: Allowance for doubtful account		<u>61,416,145.52</u>							
		<b>3,059,024,631.52</b>							
<b>B. NON - TRADE RECEIVABLES</b>									
COAL									
Advances - Officers	435,502.18	435,502.18							
Advances - Employees	9,041,737.29	9,041,737.29							519,697.08
Advances - Contractors	16,445,725.05	16,445,725.05							6,475,856.38
Advances - for Liquidation	7,799,678.04	7,799,678.04							1,948,808.90
Advances - SSS Claims	459,309.10	459,309.10							500,910.10
Advances - Others	552,958.73	552,958.73							917,702.67
Advances - Medical Accounts	2,929,592.23	2,929,592.23							
POWER									
Advances-Employees	658,824.60	658,824.60							
Advances-For liquidation	796,100.94	796,100.94							
Advances-Others	1,838,481.06	1,838,481.06							
Adv for Govt Institutions	1,240,204.39	1,240,204.39							
	<b>42,198,113.61</b>	<b>42,198,113.61</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>10,362,975.13</b>
Less: Allowance for D/A-AR Others		10,362,975.13							
Net NON - TRADE RECEIVABLE		<u>31,835,138.48</u>							
C. DUE FROM AFFILIATED COMPANIES	270,616,212.49								
NET RECEIVABLES ( A + B + C )		<u>3,361,475,982.49</u>							

**SEMIRARA MINING CORPORATION  
FINANCIAL RISK MANAGEMENT DISCLOSURES  
As of June 30, 2011**

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

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

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

**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 its coal 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 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 the risk, the Parent Company continues to improve the quality of its coal and diversify its market from power industry, cement industry, or other local industries and export market. This will allow flexibility in the distribution of coal to its target customers in such manner that minimum target average price of its coal sales across all its customers will still be achieved (i.e. domestic vs local). Also, in order to

mitigate any negative impact resulting from price changes, it is the 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 :

	<u>06/30/2011</u>	<u>12/31/2010</u>
Domestic Market	31.22%	29.24%
Export Market	51.17%	57.36%

*as a percentage of total coal sales volume*

The following table shows the effect on income tax should the change in the prices of coal occur based on the inventory of the Parent Company as of June 30, 2011 and 2010 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>	Effect on income	
	<u>before income tax</u>	
<u>Change in coal price</u>	<u>06/30/2011</u>	<u>12/31/2010</u>
Increase by 10%	22,479,003	114,971,049
Decrease by 10%	(22,479,003)	(114,971,049)

  

<i>Based on coal sales volume</i>	Effect on income	
	<u>Before income tax</u>	
<u>Change in coal price</u>	<u>06/30/2011</u>	<u>12/31/2010</u>
Increase by 10%	1,253,065,158	1,674,330,035
Decrease by 10%	(1,253,065,158)	(1,674,330,035)

### **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.

**JUNE 30, 2011**

	Interest	Within 1 year	1-2 years	2-3 years	3-4 years	More than 4 years	Carrying Value
(In Thousands)							
Cash equivalents	2% to 4.5%	2,644,278,363	-	-	-	-	2,644,278,363
Foreign Long-term debts at floating rate							
\$16.0 million loan (USD)	1.59-2.88% payable in arrears, to be repriced every 90 days	-	693,280	-	-	-	693,280
\$29.96 million loan (USD)	1.94% p.a. payable semi-annually in arrears, to be repriced every 6 months	-	1,298,307	-	-	-	1,298,307
\$10.09 million loan (USD)	1.80 p.a. for 92 days, to be repriced every 30 to 180 days	-	437,235	-	-	-	437,235
\$12.13 million loan (USD)	1.82% p.a., to be repriced every 3 months	-	525,713	-	-	-	525,713
\$10.145 million loan (USD)	1.309 p.a. for 90 days, to be repriced every 30 to 180 days	-	439,564	-	-	-	439,564
Mortgage Payable at floating rate	PDST-F benchmark yield for three-month treasury securities + 1.75%	1,129,585	1,508,877	1,514,248	1,521,153	3,542,137	9,216,000
		1,129,585	4,902,977	1,514,248	1,521,153	3,542,137	12,610,100

**DEC. 31, 2010**

	Interest	Within 1 year	1-2 years	2-3 years	3-4 years	More than 4 years	Carrying Value
(In Thousands)							
Cash equivalents	2% to 4.5%	1,216,638	-	-	-	-	1,216,638
Foreign Long-term debts at floating rate							
\$16.0 million loan (USD)	1.59-2.88% payable in arrears, to be repriced every 90 days	-	701,440	-	-	-	701,440
\$14.58 million loan (USD)	1.94% p.a. payable semi-annually in arrears, to be repriced every 6 months	-	639,057	-	-	-	639,057
\$10.08 million loan (USD)	1.80 p.a. for 92 days, to be repriced every 30 to 180 days	-	442,081	-	-	-	442,081
\$5.48 million loan (USD)	1.82% p.a., to be repriced every 3 months	-	240,239	-	-	-	240,239
Deferred purchase payment at floating rate	4% p.a. over the rate 180 days	-	774,743	-	-	-	774,743
Mortgage Payable at floating rate	PDST-F benchmark yield for three-month treasury securities + 1.75%	1,129,585	1,508,877	1,514,248	1,521,153	3,821,294	9,495,157
		1,129,585	4,306,437	1,514,248	1,521,153	3,821,294	12,292,717

## **Liquidity Risk**

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

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

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

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

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

The tables below summarize the maturity profile of the Group's financial assets and liabilities as of June 30, 2011 and December 31, 2010 based on undiscounted contractual payments.

## JUNE 30, 2011

	Within 6 months	Next 6 months	1-2 years	2-3 years	More than 3 years	Total
Cash and cash equivalents	4,626,586,737					4,626,586,737
Receivables						
Trade						
Local sales	1,013,019,009					1,013,019,009
Export sales	381,111,272					381,111,272
Electricity sales	1,806,310,469					1,806,310,469
Due from related parties	270,616,212					270,616,212
Others	42,198,114					42,198,114
Security deposits	304,400,611					304,400,611
Environmental guarantee fund					1,500,000	1,500,000
	8,364,242,415	-	-	-	1,500,000	8,365,742,415
Trade and other payables						
Trade	3,853,213,254	-	-	-	-	3,853,213,254
Payable to DOE and local government units	1,770,978,090	-	-	-	-	1,770,978,090
Accrued expenses and other payables	624,678,412	-	-	-	-	624,678,412
Due to related parties	88,690,405	-	-	-	-	88,690,405
Short term loans	297,199,139	-	-	-	-	297,199,139
Long term debt at floating rate						
\$16.0 million loan (USD) with interest payable in arrears, to be repriced every 90 days	-	-	693,280,000	-	-	693,280,000
\$29.9 million loan (USD) with interest payable semi-annually in arrears, to be repriced every six (6) months	-	-	1,298,307,146	-	-	1,298,307,146
\$18.08 million loan (USD) with interest payable in arrears, to be repriced every 30 to 180 days	-	-	437,235,441	-	-	437,235,441
\$12.13 million loan (USD) with interest payable in arrears, to be repriced every three (3) months	-	-	525,713,314	-	-	525,713,314
\$10.145 million loan (USD) with interest payable in arrears, to be repriced every 30 to 180 days	-	-	439,564,243	-	-	439,564,243
P9.60 billion at PDST-F benchmark yield for 3-month treasury securities + 1.75%	493,510,409	636,074,591	1,752,277,703	1,709,598,558	4,624,538,739	9,216,800,000
	7,128,269,711	636,074,591	5,146,377,847	1,709,598,558	4,624,538,739	19,244,859,446
	1,235,972,705	(636,074,591)	(5,146,377,847)	(1,709,598,558)	(4,623,038,739)	(18,879,117,030)

## DEC. 31, 2010

	Within 6 months	Next 6 months	1-2 years	2-3 years	More than 3 years	Total
Cash and cash equivalents	3,804,598,734					3,804,598,734
Receivables						
Trade						
Local sales	749,328,994					749,328,994
Export sales	582,130,762					582,130,762
Electricity sales	1,598,431,667					1,598,431,667
Due from related parties	120,628,995					120,628,995
Others	132,779,774					132,779,774
Security deposits	304,400,611					304,400,611
Environmental guarantee fund					1,500,000	1,500,000
	7,292,297,536	-	-	-	1,500,000	7,293,797,536
Trade and other payables						
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	200,090,262	-	-	-	-	200,090,262
Short term loans	449,845,179	-	-	-	-	449,845,179
Long term debt at floating rate						
\$16.0 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	-	-	480,537,511	-	-	480,537,511
\$5.48 million loan (USD) with interest payable in arrears, to be repriced every three (3) months	-	-	244,279,517	-	-	244,279,517
\$17.62 million deferred purchase payment at 4% interest p.a. over the rate 180 days	-	-	775,376,956	-	-	775,376,956
P9.60 billion 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
	6,021,207,724	889,111,096	4,628,711,008	1,709,598,558	5,653,301,175	18,901,929,561
	1,271,989,812	(889,111,096)	(4,628,711,008)	(1,709,598,558)	(5,651,001,175)	(11,608,132,026)

## **Foreign Currency Risk**

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

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

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

	June 30, 2011		December 31, 2010	
	U.S. Dollar	Peso Equivalent	U.S. Dollar	Peso Equivalent
<b>Assets</b>				
Cash and cash equivalents	\$ 75,532,335	3,272,816,066	\$ 47,358,433	2,076,193,708
Trade receivables	7,003,889	303,478,493	12,857,285	563,663,374
	<b>\$ 82,536,223</b>	<b>3,576,294,559</b>	<b>60,215,718</b>	<b>2,639,857,082</b>
<b>Liabilities</b>				
Trade payables	\$ 8,381,782	363,182,626	10,304,844	451,764,348
Long-term debt (including current portion)	78,331,413	3,394,100,144	68,142,585	2,987,370,926
	<b>\$ 86,713,196</b>	<b>3,757,282,770</b>	<b>78,447,429</b>	<b>3,439,135,274</b>
<b>Net foreign currency denominated assets (liabilities)</b>	<b>\$ (4,176,972)</b>	<b>(180,988,211)</b>	<b>\$ (18,231,711)</b>	<b>(799,278,192)</b>

*The spot exchange rates used in June 30, 2011 and December 31, 2010 were 43.33 to US\$1 and 43.84 to US\$1, respectively.*

The following table demonstrates the sensitivity to a reasonably possible change in foreign exchange rates, with all variables held constant, of the Group's income before tax (due to changes in the fair value of monetary assets and liabilities) on June 30, 2011 and 2010.

Reasonably possible change in foreign exchange rate for every five units of Philippine Peso	Increase (decrease) in profit before tax	
	30-Jun-11	31-Dec-10
2	<b>(8,353,945)</b>	(36,463,422)
(2)	<b>8,353,945</b>	36,463,422

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

## **Credit Risk**

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

with recognized, creditworthy third parties. 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:

	6/30/2011	12/31/2010
Trade		
Electricity	57.11%	52.19%
Local sales	32.03%	24.47%
Export sales	9.52%	19.01%
Other receivables	1.33%	4.34%
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>

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

	Gross Maximum Exposure	
	6/30/2011	12/31/2010
Cash and cash equivalents	4,626,586,737	3,804,596,734
Receivables		
Trade		
Local coal sales	1,013,019,009	749,328,994
Export coal sales	301,111,272	582,130,762
Electricity sales	1,806,310,460	1,598,431,667
Due from related parties	270,616,212	120,628,995
Others	42,198,114	132,779,773
Security deposits	304,400,611	304,400,611
Environmental Guarantee Fund	1,500,000	1,500,000
<b>Total credit risk exposure</b>	<b>8,365,742,415</b>	<b>7,293,797,536</b>

## **Capital Management**

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

The following table shows the component of the Group's capital as of June 30, 2011 and December 31, 2010:

	6/30/2011	12/31/2010
Total paid-up capital	7,031,777,411	7,031,777,411
Retained earnings – unappropriated	6,323,018,179	4,608,125,771
Retained earnings – appropriated	700,000,000	700,000,000
	<b>14,054,795,590</b>	<b>12,339,903,182</b>

## **Fair Values**

The following tables set forth the carrying values and estimated fair values of the Group's financial assets and liabilities recognized as of June 30, 2011 and December 31, 2010.

	6/30/2011		12/31/2010	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<b>Financial Assets</b>				
Loans and receivables:				
Cash and cash equivalents	4,626,586,737	4,626,586,737	3,813,283,517	3,813,283,517
Trade				
Electricity sale	1,806,310,460	1,806,310,460	1,598,431,667	1,598,431,667
Local sales	1,013,019,009	1,013,019,009	749,328,994	749,328,994
Export sales	301,111,272	301,111,272	582,130,762	582,130,762
Due from related parties	270,616,212	270,616,212	120,628,995	120,628,995
Others	42,198,114	42,198,114	132,779,773	132,779,773
Security deposits	304,400,611	304,400,611	304,400,611	304,400,611
Environmental Guarantee Fund	1,500,000	1,500,000	1,500,000	1,500,000
Total	<b>8,365,742,415</b>	<b>8,365,742,415</b>	<b>7,302,484,319</b>	<b>7,302,484,319</b>

	6/30/2011		12/31/2010	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<b>Financial Liabilities</b>				
Other financial liabilities:				
Notes payable	297,199,139	297,199,139	449,845,179	449,845,179
Long-term debt	12,610,100,144	12,610,100,144	12,292,718,274	12,292,718,274
Trade and other payables				
Trade payables	3,853,213,254	3,853,213,254	3,681,704,251	3,681,704,251
Accrued expenses and other payables	624,678,412	624,678,412	202,980,678	202,980,678
Due to related parties	88,690,405	88,690,405	200,090,262	200,090,262
Payable to DOE and local government units	1,770,978,090	1,770,978,090	1,013,039,943	1,013,039,943
Total	<b>19,244,859,446</b>	<b>19,244,859,446</b>	<b>17,840,378,587</b>	<b>17,840,378,587</b>

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

#### *Financial Assets*

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

The fair values of security deposits are calculated by discounting expected future cash flows at applicable rates for similar instruments using the remaining terms to maturity. The discount rate used ranged from 3.82% to 4.93% in 2010 and 2009.

#### *Financial Liabilities*

Trade and other payables

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

Long-term Debt

Floating rate loans

The carrying values approximated the fair value because of recent and regular repricing (quarterly) based on market conditions.

Fixed rate loans

Estimated fair value is based on the discounted value of future cash flows using the applicable rates (5%-13%) for similar type of loans.

#### Fair Value Hierarchy

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

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

As of June 30, 2011 and December 31, 2010, the Group does not have financial instruments measured at fair value.