# COVER SHEET

9 1 4 4 7 - - - - - - -

SEC Registration Number

SEMIRARA MINING CORPORATION

(Company's Full Name)

2ND FLOOR DMCI PLAZA BUILDING

2281 PASONG TAMO EXTENSION

MAKATI CITY

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

**Atty. John R. Sadullo**

(Contact Person)

**816-7301 to 10**

(Company Telephone Number)

1 2   3 1

(Fiscal Year)

2 0 - I S

(Form Type)

Month Day

(Annual Meeting[1])

(Secondary License Type, If Applicable)

**CFD**

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

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To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

STAMPS

Remarks: Please use BLACK ink for scanning purposes.

[1] First Monday of May of each year.

**SEMIRARA MINING CORPORATION**
2nd Floor DMCI Plaza Building, 2281 Don Chino Roces Avenue
Makati City, Metro Manila, Philippines

# AMENDED NOTICE OF ANNUAL STOCKHOLDERS' MEETING

Dear stockholders:

Please be notified that the Annual Meeting of Stockholders of Semirara Mining Corporation (the "Corporation") will be held on **May 3, 2010, Monday at 10:00 o'clock in the morning at the Fairways Room, Manila Golf & Country Club, Harvard Road, Forbes Park, Makati City**, **Philippines,** with the following agenda:

1. CALL TO ORDER
2. PROOF OF NOTICE OF MEETING & CERTIFICATION OF QUORUM
3. APPROVAL OF MINUTES OF PREVIOUS MEETING HELD ON MAY 4, 2009
4. THE MANAGEMENT REPORT
5. RATIFICATION OF THE ACTS OF THE BOARD OF DIRECTORS AND MANAGEMENT FROM THE DATE OF THE LAST ANNUAL STOCKHOLDERS' MEETING TO THE DATE OF THIS MEETING
6. RATIFICATION OF THE CORPORATION'S CORPORATE SURETYSHIP, SHAREHOLDER'S SUPPORT AND THE PLEDGE OF 67% OF THE CORPORATION'S SHARES HELD IN SEM-CALACA POWER CORPORATION ("SCPC") TO GUARANTEE SCPC'S LOAN OBLIGATIONS IN ACCORDANCE WITH SCPC'S PROJECT DEBT FACILITY AGREEMENT DATED FEBRUARY 17, 2010 EXECUTED BETWEEN SCPC AND BDO CAPITAL & INVESTMENT CORPORATION AND AMENDED ON MARCH 18 AND 22, 2010
7. ELECTION OF DIRECTORS FOR 2010-2011
8. APPOINTMENT OF INDEPENDENT EXTERNAL AUDITOR
9. ADJOURNMENT

Stockholders of record as of March 23, 2010 will be entitled to notice of, and vote at the said annual meeting or any adjournment or postponement thereof. Validation of proxies shall be held on April 27, 2010, 4:00 o'clock in the afternoon at the office of the Corporation.

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

Makati City, Metro Manila March 23, 2010.

For the Board of Directors

By:

JOHN R. SADULLO
Corporate Secretary

SEMIRARA MINING CORPORATION

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

1. Check appropriate box

   (✓) Preliminary Information Statement
   ( ) Definitive Information Statement

2. Name of Corporation as specified in its charter: **Semirara Mining Corporation**

3. Province, Country, or other jurisdiction of incorporation or organization: **Philippines**

4. SEC Identification No. **91447**

5. BIR Tax Identification No. **000-190-324-000**

6. Address of Principal office: **2/F DMCI Plaza Building, 2281 Don Chino Roces Avenue, Makati City, Philippines**

7. Corporation's telephone number, including area code: **(2) 888-3000/816-7301 to 10**

8. Date, time and place of meeting of Security Holders: **May 3, 2010, 10:00 o'clock in the morning at the Fairways Room, Manila Golf & Country Club, Harvard Road, Forbes Park, Makati City 1220, Philippines**

9. Approximate Date on which the Information Statement is to be sent or given to Security Holders: **April 8, 2010**

10. **In case of Proxy Solicitations:**

    **Name of Person Filing the Statement/Solicitor: The Management of the Corporation**

    **Address and Telephone No.** **2/F DMCI Plaza Building,**
    **2281 Don Chino Roces Avenue, Makati City, Philippines**
    **(632) 888-3000/816-7301 to 10**

11. Securities registered pursuant to Sections 8 and 12 of the Securities Regulation Code or Sections 4 and 9 of the Revised Securities Act:

| Title of Each Class | Number of Shares of Stock |
|---|---|
| Common Shares | 296,875,000[1] |

12. Are any or all of Corporation's securities listed with the Philippine Stock Exchange?

    Yes (✓) No ( )

    Listed at Philippine Stock Exchange: **Common Shares**

[1] As of March 15, 2010 there were 19,302,200 listed as treasury shares.

**PART I.**

**INFORMATION REQUIRED IN INFORMATION STATEMENT**

## A. GENERAL INFORMATION

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

The enclosed Information Statement will be used in connection with the annual meeting of the stockholders of Semirara Mining Corporation (the "Corporation") to be held on **May 3, 2010, at 10:00 o'clock in the morning, Fairways Room, Manila Golf & Country Club, Harvard Road, Forbes Park, Makati City 1220, Metro Manila, Philippines.**

The Definitive Information Statement will be sent to the stockholders of record as of March 23, 2010 (the "Record Date") at least fifteen (15) business days prior to May 3, 2010 or not later than April 8, 2010.

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

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

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

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

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

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

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

Appraisal right is not available in any item in the agenda for the May 3, 2010 scheduled stockholders' meeting.

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

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

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

**B. <u>CONTROL AND COMPENSATION INFORMATION</u>**

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

(a) As of March 15, 2010 the Corporation has the following outstanding shares:

| | | |
|---|---|---|
| Common shares | - | 277,572,800 |

(b) The Board of Directors of the Corporation has set March 23, 2010, as the record date (the "Record Date") to determine the stockholders of the Corporation entitled to notice of and to vote at the annual stockholders' meeting scheduled for May 3, 2010.

(c) At the annual stockholders' meeting to be held on May 3, 2010, the holders of common shares as of the Record Date shall be entitled to vote. On the following items, each share of outstanding common stock shall be entitled to one (1) vote: (i) approval of the minutes of the previous meeting of stockholders, (ii) ratification of the acts of the Board of Directors and Officers for the year 2009, (iii) approval and/or ratification of securities that will guarantee the loan obligations of SEM-Calaca Power Corporation ("SCPC") under its Project Debt Facility with a group of Primary Institutional Lenders. The securities are in the following forms: Corporate Suretyship; Pledge of 67% of the shares held by the Corporation in SCPC and Shareholder's Support, and (iv) appointment of the independent external auditors.

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

(d) **Security Ownership of Certain Record and Beneficial Owners and Management.** - The following table sets forth as of March 15, 2010, the record or beneficial owners of more than five percent (5%) of the outstanding common shares of the Corporation and the amount of such record or beneficial ownership.

| Title of Class | Name, Address of record owner and relationship with Issuer | Name of Beneficial Owner of more than 5% and Relationship with Record Owner | Citizenship | Amount/ Nature of Record/ Beneficial Ownership | Percent of Class |
|---|---|---|---|---|---|
| Common | DMCI Holdings, Inc. 2/F DMCI Plaza Building, 2281 Pasong Tamo Extension, Makati City, Stockholder of record | *See* Schedule 1 | Filipino | 163,432,385 | 58.88% |
| Common | PCD Nominee Corp (NF), stockholder of record | 52,280,686 (18.83%) shares are listed under HSBC 10, Hongkong and Shanghai Banking Corporation, Ltd.-C1 | Other Alien | 79,025,362 | 28.47% |
| Common | Dacon Corporation | *See* Schedule 1 | Filipino | 16,030,085 | 5.78% |

(e) **Security Ownership of Management.** - The table sets forth as of March 15, 2010 the beneficial stock ownership of each Director of the Corporation and all Officers and Directors as a group.

| Title of class | Name of beneficial owner | Amount and nature of beneficial ownership | Citizenship | Percentage |
|---|---|---|---|---|
| Common | David M. Consunji | 10 | Filipino | 0.00% |
| Common | Isidro A. Consunji | 74,010[2] | Filipino | 0.03% |
| Common | Cesar A. Buenaventura | 5,010[3] | Filipino | 0.00% |
| Common | Victor A. Consunji | 590,910[4] | Filipino | 0.21% |
| Common | Jorge A. Consunji | 10 | Filipino | 0.00% |
| Common | Herbert M. Consunji | 10 | Filipino | 0.00% |
| Common | Victor C. Macalincag | 250,010[5] | Filipino | 0.09% |
| Common | George G. San Pedro | 25,030[6] | Filipino | 0.01% |

[2] 10,000 shares are indirect beneficial ownership with PCD Nominee Corporation. The shares are held by a corporation of which such person is a controlling shareholder.
[3] 5,000 shares are with PCD Nominee Corporation
[4] 590,900 shares are indirect beneficial ownership with PCD Nominee Corporation. The shares are held by a corporation of which such person is a controlling shareholder.
[5] 250,000 shares are with PCD Nominee Corporation.
[6] 25,000 shares are with PCD Nominee Corporation.

| | | | | |
|---|---|---|---|---|
| Common | Federico E. Puno | 50,010[7] | Filipino | 0.02% |
| Common | Ma. Cristina C. Gotianun | 90,346[8] | Filipino | 0.03% |
| Common | Ma. Edwina C. Laperal | 101 | Filipino | 0.00% |
| Common | Jaime B. Garcia | 40,030 | Filipino | 0.01% |
| Aggregate Ownership of all directors and officers as a group | | **1,125,487**[9] | Filipino | 0.40% |

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

(f) **Voting trust holders of five percent (5%) or more**. - There are no voting trust agreements or any other similar agreement which may result in a change in control of the Corporation of which the Corporation has any knowledge.

(g) **Changes in Control.** - From May 4, 2009, to date, there has been no change in control in the Management of the Corporation.

(h) **Certain Relationship and Related Transactions.** - There has been no transaction or proposed transactions for the last two (2) years, to which the Corporation was or is to be a party, in which any of the directors, executive officers or nominees for directors has direct or indirect material interest. Note 16 (pages 32-34) of the attached Audited Financial Statements for the period ended December 31, 2009 indicates the Corporation's significant transactions with related parties.

**Item 5. Directors and Executive Officers**

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

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

| No. | Names | Citizenship | Age |
|---|---|---|---|
| 1. | David M. Consunji | Filipino | 88 |
| 2. | Isidro A. Consunji | Filipino | 61 |
| 3. | Victor A. Consunji | Filipino | 59 |
| 4. | Jorge A. Consunji | Filipino | 57 |
| 5. | Cesar A. Buenaventura | Filipino | 80 |
| 6. | Ma. Cristina C. Gotianun | Filipino | 55 |
| 7. | George G. San Pedro | Filipino | 70 |
| 8. | Ma. Edwina C. Laperal | Filipino | 48 |
| 9. | Herbert M. Consunji | Filipino | 57 |
| 10. | Victor C. Macalincag *(Independent)* | Filipino | 74 |
| 11. | Federico E. Puno *(Independent)* | Filipino | 63 |

Messrs. David M. Consunji, Isidro A. Consunji, Victor A. Consunji, Jorge A. Consunji, Herbert M. Consunji, and Cesar A. Buenaventura were formally nominated to the Nomination and Election Committee (Nomelec) by a shareholder of the Corporation, Ms.

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[7] 50,000 shares are with PCD Nominee Corporation.

[8] 90,247 shares are indirect beneficial ownership with PCD Nominee Corporation. The shares are held by a corporation of which such person is a controlling shareholder.

[9] 781,147 shares are indirect beneficial ownership (Messrs. Isidro A. Consunji, Victor A. Consunji and Ma. Cristina C. Gotianun).

Ma. Cristina C. Gotianun on March 4, 2010. Further, Messrs. Cristina C. Gotianun, Ma. Edwina C. Laperal and George G. San Pedro were nominated by Mr. Isidro A. Consunji on March 5, 2010. Finally, Messrs. Victor C. Macalincag and Federico E. Puno, both independent directors, were nominated by Mr. Antonio C. Olizon on March 8, 2010. The deadline for submission of nominees is not later than March 10, 2010 and the validation of proxy is scheduled on April 27, 2010, 4:00 p.m. at the office of the Corporation and shall be conducted by the Special Committee of Inspectors designated by the Board.

The nominees to the Board for election at the annual stockholders' meeting on May 3, 2010, have served the Corporation for more than five years except for Ms. Ma. Edwina C. Laperal who have served as director for two years.

The record of attendance of the Board of Directors who were present (✓)/absent (–) during the meeting of the Corporation for the year 2009 is as follows:

| Name of Directors | 2009 Board Meetings | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 3-12 | 3-30 | 5-4[10] | 5-14 | 8-6 | 9-18 | 10-16 | 11-10 | 12-01 |
| David M. Consunji | ✓ | ✓ | – | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Isidro A. Consunji | ✓ | ✓ | ✓ | – | ✓ | ✓ | ✓ | – | ✓ |
| Victor A. Consunji | ✓ | ✓ | ✓ | ✓ | – | ✓ | ✓ | ✓ | ✓ |
| Jorge A. Consunji | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Herbert M. Consunji | – | ✓ | ✓ | ✓ | ✓ | – | ✓ | ✓ | ✓ |
| Cesar A. Buenaventura | ✓ | ✓ | ✓ | – | – | – | ✓ | ✓ | ✓ |
| Ma. Cristina C. Gotianun | – | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Ma. Edwina C. Laperal | ✓ | ✓ | – | – | ✓ | – | ✓ | ✓ | ✓ |
| George G. San Pedro | ✓ | ✓ | ✓ | – | – | ✓ | – | – | ✓ |
| Victor A. Macalincag* | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Federico E. Puno* | ✓ | ✓ | – | – | ✓ | ✓ | ✓ | ✓ | ✓ |

**Independent Director*

2. **Executive Officers. -**

| No. | Names | Position | Citizenship | Age |
|---|---|---|---|---|
| 1. | David M. Consunji | Chairman | Filipino | 88 |
| 2. | Isidro A. Consunji | V-Chairman/CEO | Filipino | 61 |
| 3. | Victor A. Consunji | President/COO | Filipino | 59 |
| 4. | Nestor D. Dadivas | Chief Finance Officer | Filipino | 59 |
| 5. | Ma. Cristina C. Gotianun | VP-Administration/ Compliance Officer | Filipino | 55 |
| 6. | George G. San Pedro | VP-Operations/ Resident Manager | Filipino | 70 |
| 7. | George B. Baquiran | VP-Special Projects | Filipino | 65 |
| 8. | Jaime B. Garcia | VP-Procurement & Logistics | Filipino | 53 |
| 9. | Junalina S. Tabor | OIC-CFO | Filipino | 46 |
| 10. | John R. Sadullo | Corporate Secretary | Filipino | 39 |

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

[10] Annual Stockholders' Meeting.

(**b**) **Term of Office.** - The term of office of the Directors and Executive Officers is one (1) year from their election as such and until their successors shall have been elected and qualified.

**(c) Independent Directors.** - Under its Revised Code of Corporate Governance submitted with the SEC on January 13, 2010, the Corporation is required to have at least two (2) Independent Directors (as defined under the Revised Code of Corporate Governance) or such number of Independent Directors as shall constitute at least twenty percent (20%) of the members of the Board of Directors of the Corporation, whichever is lesser. The two (2) nominees for Independent Directors were nominated on March 8, 2010 by a stockholder of the Corporation, Mr. Antonio C. Olizon and selected by the Nomelec in accordance with the guidelines in the Revised Code of Corporate Governance, the Revised Code of Corporate Governance (SEC Memorandum Circular No. 6, Series of 2009) and the Guidelines on the Nomination and Election of Independent Directors (SRC Rule 38). DMCI Holdings, Inc. is the majority stockholder of the Corporation. The nominated independent directors are neither stockholders nor directors of DMCI Holdings, Inc.

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

| | |
|---|---|
| David M. Consunji | ▪ Chairman, DMCI Holdings, Inc. |
| Cesar A. Buenaventura | ▪ Vice-Chairman, DMCI Holdings, Inc.<br>▪ PetroEnergy Resources Corporation<br>▪ iPeople, Inc. |
| Isidro A. Consunji | ▪ President & CEO, DMCI Holdings, Inc.<br>▪ Chairman, Universal Rightfield Property Holdings, Inc.<br>▪ Director, Crown Equities, Inc. |
| Jorge A. Consunji | ▪ Director, DMCI Holdings, Inc. |
| Victor A. Consunji | ▪ Director, DMCI Holdings, Inc. |
| Herbert M. Consunji | ▪ Director, DMCI Holdings, Inc. |
| Ma. Cristina C. Gotianun | ▪ Director, DMCI Holdings, Inc. |
| Ma. Edwina C. Laperal | ▪ Director, DMCI Holdings, Inc. |
| Victor C. Macalincag | ▪ Independent Director, Crown Equities, Inc.<br>▪ Director, Republic Glass Holdings, Inc. |

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

**(f) Legal Proceedings**. -

(1) None of the directors and officers was involved in the past five (5) years in any bankruptcy proceeding. Neither have they been convicted by final judgment in any criminal proceeding, nor been subject to any order, judgment or decree of competent jurisdiction, permanently enjoining, barring, suspending, or otherwise limiting their involvement in any type of business, securities, commodities or banking activities, nor found in an action by any court or administrative body to have violated a securities or commodities law.

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

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

The case was re-raffled to RTC-QC Branch 85 (the "Court"). On January 10, 2003 filed their Motion for Reconsideration, which was granted on August 18, 2003. Accordingly a Motion to Withdraw Information was filed in Court. Complainants' sought reconsideration of the resolution withdrawing the information, but was denied by the City Prosecutor. By reason of the denial, Complainants' filed a Petition for Review with the Department of Justice (DOJ) on August 26, 2005.

Meanwhile, the Court granted the withdrawal of information on June 6, 2005. Complainants a Motion for Reconsideration and Urgent Motion for Inhibition, but were both denied by the Court in its Omnibus Order dated November 29, 2005. Thereafter, on February 22, 2007, the Court ordered that the Notice of Appeal filed by the Complainants be stricken out from the records and declaring the Omnibus Order final and executory. The Petition for Review filed by the Complainants with the DOJ is pending to date.

(b) A consolidated case arose out of the same events in the above-mentioned case is likewise pending before the DOJ docketed as *"Rodolfo V. Cruz, et. al. vs. Isidro A. Consunji, et. al., I.S. Nos. 03-57411-I, 03-57412-I, 03-57413-I, 03-57414-I, 03-57415-I, 03-57446-I and 03-57447-I, Department of Justice, National Prosecution Service."*

In its 1st Indorsement dated December 9, 2003, the City Prosecutor for Mandaluyong City, acting on a motion for inhibition filed by complainants, through counsel, recommended that further proceedings be conducted by the Department of Justice. In an order dated February 3, 2004, the Department of Justice designated State Prosecutor Geronimo Sy to conduct the preliminary investigation of this case. The last pleading filed is a notice of change of address dated June 27, 2008 filed by complainants' counsel.

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

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

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

***The Caloocan Case***:

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

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

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

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

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

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

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

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

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

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

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

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

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

*3.1 CTA Case No. 7717 (For P11,847,055.07).* – On October 15, 2009, the CTA rendered a Decision granting the Corporation's petition for refund in the amount of P11,847,055.07, representing the final VAT erroneously withheld by NPC on sales of coal for the month of December 2005. The CIR moved for reconsideration. The CIR's Motion for Reconsideration was denied on March 3, 2010.

3.2. *CTA Case No. 7867(For P15,292,054.93)* . – In its resolution dated October 22, 2009 and October 26, 2009, the CTA admitted the admissibility of all the documentary evidence of the Corporation. On November 26, 2009, the CIR presented its witness and verbally offered its documentary evidence. The parties will be required to submit their respective memoranda after the CTA resolves the CIR's offer of documentary evidence. Thereafter, the case shall be deemed submitted for decision.

3.3. *CTA Case Nos. 7727 & 7783 (ForP86,108,626.19)* . – The Corporation has already submitted its Formal Offer of Evidence and as of date, the case is already for BIR's presentation of evidence.

3.4. *CTA Case Nos. 7822 & 7849(ForP77,253,245.39).* - The Corporation has already submitted its Formal Offer of Evidence and as of date, the case is already for BIR's presentation of evidence.

(4) **Business Tax Case**. On February 26, 2007, SMC filed a complaint (*SMC vs. Municipality of Calaca*, RTC, Br. 137, Makati City, Civil Case No. 07-180) to seek the reversal and cancellation of the tax assessment by the Municipality of Calaca for unpaid business tax for the CY 2003, 2004 and 2005 in the amount of P66,685,189.00. The basis of the claim is that since coal is being delivered to the port of Calaca and that the Corporation is doing business there as shown by the existence of an office; therefore, the situs of taxation is in Calaca. The Corporation maintains that it is not maintaining an office in the Municipality of Calaca, despite delivery to NPC-Calaca, hence the proper situs of taxation is not in Calaca but in its principal office. The case is pending Judicial Dispute Resolution (JDR) with the court.

(5) **Real Property Tax Case**. On February 19, 2008, the Municipality of Caluya Antique filed a case against the Corporation (*Municipality of Caluya, Antique vs. SMC,* Civil Case No. C-051, RTC-Culasi, Branch 13) for enforcement of the compromise agreement against the Corporation submitted to the RTC on November 17, 2003 involving the balance of P82,979,702.24 in real property taxes for lots located in Semirara Island. The Corporation maintains that the Motion for Execution has no legal basis and premature due to a clause in the compromise agreement requiring the parties first determines the correctness of the tax assessments which shall be subject to the verification of the parties. This has not been complied. The case is pending to date.

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

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

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

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

| Name and Principal Position | Years | Salary | Bonus | Other Annual Compensation |
|---|---|---|---|---|

| | | | | |
|---|---|---|---|---|
| Isidro A. Consunji<br>Vice-Chairman & CEO | | | | |
| Victor A. Consunji<br>President and COO | | | | |
| Nestor D. Dadivas<br>Chief Finance Officer | | | | |
| Jaime B. Garcia<br>VP-Procurement & Logistics | | | | |
| George G. San Pedro<br>VP & Resident Manager | | | | |
| | 2008 | 10,431,980.00 | - | 2,862,802.19 |
| | 2009 | 10,431,980.00 | 28,600,000.00 | 3,402,802.19 |
| | 2010 | 10,431,980.00* | 31,354,413.00 | 6,265,604.38 * |
| | **Total** | **P 31,295,940.00** | **59,954,413.00** | **P12,531,208.76** |
| All other Directors and Officers as a group | 2008 | 5,423,600.83 | - | 1,434,766.57 |
| | 2009 | 5,350,280.00 | 2,400,000.00 | 3,674,766.57 |
| | 2010 | 5,350,280.00* | 4,411,768.00 | 3,674,766.57 * |
| | **Total** | **P 16,124,160.83** | **6,811,768.00** | **P8,784,299.71** |

**Approximate amounts*

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

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

**(c) Stock Warrants or Options.** - There are no outstanding warrants, options, or right to repurchase any securities held by the directors or executive officers of the Corporation.

**Item 7. Independent Public Accountant**

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

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

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

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

## C. ISSUANCE AND EXCHANGE OF SECURITIES

Not applicable for annual stockholders' meeting.

## D. OTHER MATTERS

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

(a) **Approval of the Minutes of the Previous Meeting of Stockholders**. - Below is the summary of items and/or resolutions approved at the Annual Stockholders' Meeting last May 4, 2009:
   (1) Approval of the Previous Minutes of the Stockholders' Meeting held on May 6, 2008;
   (2) Ratification of the Acts of the Board for the year 2008;
   (3) Approval of director's per diem;
   (4) Additional amendments to the Corporation's Amended By-Laws;
   (5) Appointment of the SGV & Co., as the Internal Auditor of the Corporation for the year 2008.

(b) **Ratification of the Acts of the Board of Directors and Officers for the Preceding Year until the Date of the Annual Stockholders Meeting.** - Resolutions, contracts, and acts of the board of directors and management for ratification refer to those passed or undertaken by them during the year and for the day to day operations of the Corporation as contained or reflected in the attached annual report and financial statements. The summary of acts and resolutions of the Board of Directors for the year 2009 is set forth in Schedule 3.

(c) **Ratification of Corporate Suretyship, Shareholder's Support and Pledge of Corporation's 67% shares held in SEM-Calaca Power Corporation.** – SEM-Calaca Power Corporation ("SCPC") a wholly-owned subsidiary of the Corporation acquired the Batangas Coal-Fired Thermal Power Plant (BCFTPP) via assignment agreement with DMCI Holdings Incorporated. On 2 December 2009, SCPC paid the Power Sector Assets & Liabilities Management Corporation ("PSALM") the amount of USD 140,400,000.00, which is equivalent the 40% down-payment of the said power plant's purchase price and the amount of USD 5,244,668.99 representing the value of the undelivered Purchase Orders in accordance with the Memorandum of Agreement between SCPC and PSALM dated December 2, 2009 which were credited as advance payment by PSALM to the purchase price. Consequently, possession and operation of the BCFTPP was turned-over to SCPC on the same date. On 5 March 2010, SCPC completed the payment of its deferred loan balance to PSALM in relation to acquisition of the BCFTPP amounting to USD 203,674,039.74 inclusive of accrued interest from turn-over date equivalent to USD 4,428,569.74

By April 30, 2010, or earlier, SCPC will secure a loan in the amount of PhP9,600,000,000.00 in accordance with the terms set forth in the Project Debt Facility dated February 17, 2010, or any of its amendments. The loan proceeds shall be used for the purpose of refinancing the short- and medium-term loans and portions of shareholders' advances extended to SCPC for BCFTPP's 40% acquisition cost down payment and prepayments made thereafter to PSALM, finance the initial balance of the Project Debt Facility's Debt Service Reserve Account, and finance SCPC's permanent working capital requirements. Under the terms of the loan, SCPC is required to secure from its parent company, the Corporation, the following security to guarantee repayment:

(i) Corporate Suretyship, the terms of which shall be suspended if SCPC meets the minimum contracted power capacity, as stated in the Project Debt Facility, for its BCFTPP and revived, if SCPC is unable to meet said capacity within the term of the loan;

(ii) Pledge of 67% of the Corporations shares in SCPC.

(iii) Shareholder's Support that will fund the BCFTPP rehabilitation cost overruns an amount in excess of USD 60 Million or its Peso equivalent.

**(d) Election of Directors. -** Election of the eleven (11) directors of the Corporation to serve for one (1) year and until their successors are duly elected and qualified.

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

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

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

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

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

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

**(c) Ratification of the Corporation's Corporate Suretyship, Shareholder's Support and the Pledge of 67% of the Corporation's shares held in SEM-Calaca Power Corporation ("SCPC") to guarantee SCPC's loan obligations in accordance with SCPC's Project Debt Facility Agreement dated February 17, 2010 executed between SCPC and DBO Capital Investment Corporation and amended on March 18 and 22, 2010.**

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

**(d) Election of Directors**

(1) Vote Required. The eleven (11) directors receiving the highest number of votes shall be declared elected.
(2) Cumulative voting applies. Under this method of voting, a stockholder entitled to vote shall have the right to vote in person or by proxy the number of shares of stock standing

in his own name on the stock books of the Corporation as of the Record Date and said stockholder may vote such number of shares for as many persons as there are directors to be elected or he may cumulate said shares and give one candidate as many votes as the number of directors to be elected multiplied by the number of his shares shall equal, or he may distribute them on the same principle among as many candidates as he shall see fit. The votes shall be counted by a show of hands or upon motion duly made and seconded, by secret ballot.

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

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

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

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

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

**(a) Market Information**. - The Corporation's shares of stock are traded in the Philippine Stock Exchange. The highs, lows and close of trading during the past three (3) years are as follows:

| | High | Low | Close |
|---|---|---|---|
| **20072006** | | | |
| Jan-Mar | 27.50 | 14.75 | 27.50 |
| Apr-Jun | 29.50 | 25.00 | 29.00 |
| Jul-Sep | 43.00 | 25.00 | 34.50 |
| Oct-Dec | 49.50 | 34.50 | 44.00 |
| **2008** | | | |
| Jan-Mar | 60.00 | 40.00 | 52.00 |
| Apr-Jun | 62.00 | 46.00 | 62.00 |
| July-Sep | 64.00 | 43.00 | 45.00 |
| Oct-Dec | 43.50 | 29.50 | 29.50 |
| **2009** | | | |
| Jan-Mar | 35.50 | 22.25 | 33.50 |
| Apr-Jun | 42.50 | 21.00 | 35.50 |
| Jul-Sep | 43.00 | 31.50 | 39.00 |
| Oct-Dec | 55.00 | 37.50 | 55.00 |
| **2010** | | | |
| Jan-Mar[11] | 60.50 | 47.00 | 60.00 |

**(b) Shareholder and Dividend Information**. - The number of shareholders of record as of March 23, 2010 was 627. Capital stock issued and outstanding as of March 15, 2010 was 277,572,800.

[11] As of March 15, 2010

As of December 31, 2009, there are no restrictions that would limit the ability of the Corporation to declare and pay dividends to the common stockholders. On March 30, 2009, the Corporation declared cash dividend at P6.00 per share.

The top 20 stockholders as of March 15, 2010 based on issued and outstanding shares are as follows:

| No. | Name of Stockholders | No. of Shares | Percentage[12] |
|---|---|---|---|
| 1. | DMCI Holdings, Incorporated | 163,432,385 | 58.88% |
| 2. | PCD Nominee Corp. (NF) | 79,025,362 | 28.47% |
| 3. | Dacon Corporation | 16,030,085 | 5.78% |
| 4. | National Development Corporation | 11,364,658 | 4.09% |
| 5. | PCD Nominee Corp. | 6,541,431 | 2.36% |
| 6. | Privatization and Management Office | 769,450 | 0.28% |
| 7. | DFC Holdings, Inc. | 285,000 | 0.10% |
| 8. | Garcia, Jaime B. | 40,030 | 0.01% |
| 9. | Teng, Ching Bun | 15,000 | 0.01% |
| 10. | Amatong, Isagani S. | 13,900 | 0.01% |
| 11. | Signey III, Victor DJ. | 5,600 | 0.00% |
| 12. | Yap, Raymond A. | 5,000 | 0.00% |
| 13. | Marana, Miguel De Castro | 3,430 | 0.00% |
| 14. | Amatong, Adrian Michael A. | 2,700 | 0.00% |
| 15. | Ranillo, Anna Michelle A. | 2,700 | 0.00% |
| 16. | Amatong, Antoinette Marie | 2,700 | 0.00% |
| 17. | Marana Jr., Cenon Bienvenido | 2,700 | 0.00% |
| 18. | Arica, Joseph Santos | 2,000 | 0.00% |
| 19. | Marana, Miguel DC | 1,200 | 0.00% |
| 20. | Garcia, Exequiel | 1,020 | 0.00% |

## PART II
## PROXY FORM
## SEMIRARA MINING CORPORATION

**Item 1. Identification.** This proxy is being solicited by the **MANAGEMENT OF SEMIRARA MINING CORPORATION** (the **"Corporation"**). The Chairman of the Board of Directors or, in his absence, the Vice-Chairman or President of the Corporation will vote the proxies at the Annual Stockholders' Meeting to be held on **May 3, 2010, 10:00 o'clock in the morning at the Fairways Room, Manila Golf & Country Club, Harvard Road, Forbes Park, Makati City 1220, Philippines**.

**Item 2. Instructions.**

(a) The proxy must be duly accomplished by the stockholder of record as of Record Date, or his duly authorized agent. In case of a stockholder that is a corporation or a partnership, the proxy must be accomplished by the officer or agent that is duly authorized to do so by virtue of an appropriate corporate or partnership resolution.

(b) Duly accomplished proxies must be delivered to the Corporate Secretary of the Corporation not later than April 27, 2010 at the following address: **SEMIRARA MINING CORPORATION, 2nd Floor DMCI Plaza Building, 2281 Don Chino Roces Avenue, Makati City**.

[12] Based on Corporation's outstanding shares as records with its Stock and Transfer Agent

(c) In case of a corporate stockholder, the proxy must be accompanied by a corporate secretary's certificate quoting the board resolution authorizing the relevant corporate officer to execute the proxy for the corporate stockholder.
(d) In case of shares of stock owned jointly by two or more persons, the consent of all co-owners must be necessary for the execution of the proxy. For persons owning shares in an "and/or" capacity, any one of them may execute the proxy.
(e) Validation of proxies will be done by the Special Committee of Inspectors designated by the Board on April 27, 2010 at 4:00 o'clock in the afternoon at the 2nd Floor, DMCI Plaza Building, 2281 Don Chino Roces Avenue, Makati City, Philippines. Any dispute which may arise pertaining to the validation shall be resolved by the Securities and Exchange Commission upon formal complaint filed by the aggrieved party.
(f) Unless otherwise indicated by the stockholder, a stockholder shall be deemed to have designated the Chairman of the Board of Directors, or in his absence, the President of the Corporation, as his proxy for the annual stockholders meeting to be held on May 3, 2010.
(g) If the number of shares of stock is left in blank, the proxy shall be deemed to have been issued for all of the stockholder's shares of stock in the Corporation as of Record Date.
(h) The manner in which this proxy shall be accomplished, as well as the validation hereof shall be governed by the provisions of SRC Rule 20 (11) (b).
(i) The stockholder executing the proxy shall indicate the manner by which he wishes the proxy to vote on the matters in (1), (2), (3), (4) and (5) below by checking the appropriate box. **WHERE THE BOXES (OR ANY OF THEM) ARE UNCHECKED, THE STOCKHOLDER EXECUTING THE PROXY IS DEEMED TO HAVE AUTHORIZED THE PROXY TO VOTE IN FAVOR OF THE ITEMS SPECIFIED HEREUNDER.**

**The Undersigned hereby appoints:**

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

(b) ______________________________

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

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

☐ For ☐ Against ☐ Abstain

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

☐ For ☐ Against ☐ Abstain

3. Ratification of the Corporation's Corporate Suretyship, Shareholder's Support and the Pledge of 67% of the Corporation's shares held in SEM-Calaca Power Corporation ("SCPC") to guarantee SCPC's loan obligations in accordance with SCPC's Project Debt Facility Agreement dated February 17, 2010 between SCPC and BDO Capital & Investment Corporation and amended on March 18 and 22, 2010.

☐ For ☐ Against ☐ Abstain

4. Election of Directors

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

☐ **WITHHOLD AUTHORITY TO VOTE FOR ALL NOMINEES LISTED BELOW.**

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

**Nominees:**

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

**Nominated as Independent Directors*

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

☐ For ☐ Against ☐ Abstain

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

**Item 4. Persons Making the Solicitation.** – The solicitation is made by the Management of the Corporation. No director of the Corporation has informed the Corporation in writing that he intends to oppose an action intended to be taken up by the Management of the Corporation at the annual meeting. Solicitation of proxies shall be made through the use of mail or personal delivery. The Corporation will shoulder the cost of solicitation involving reproduction and mailing of this proxy in an estimated amount of ₱75,000.00, more or less.

**Item 5. Interest of Certain Persons in Matters to be Acted Upon.** – No director, officer, nominee for director, or associate of any of the foregoing, has any substantial interest, direct or indirect, by security holdings or otherwise, on the matter to acted upon at the annual stockholders' meeting to be held on May 3, 2010.

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

Number of Shares Held : __________________________

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

1. **NOTICE OF THE ANNUAL STOCKHOLDERS' MEETING CONTAINING THE AGENDA THEREOF;**
2. **THE CORPORATION'S ANNUAL REPORT INCLUDING MANAGEMENT DISCUSSION AND ANALYSIS AND INFORMATION ON INDEPENDENT ACCOUNTANT AND OTHER RELATED MATTERS.**
3. **AUDITED FINANCIAL STATEMENTS ENDING DECEMBER 31, 2009 AND 2008 INCLUDING THE STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS.**
4. **TWO (2) PROXY INSTRUMENTS.**

## PART III
## SIGNATURE

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

**SEMIRARA MINING CORPORATION**
ISSUER

By:

**JOHN R. SADULLO**
Corporate Secretary

Makati City, Philippines March 23, 2010.

## SCHEDULE 1

The following is a disclosure of the beneficial owners of the shares held by the DMCI Holdings, Inc. in the Corporation as of March 15, 2010:

| | | | | |
|---|---|---|---|---|
| 1. | Dacon Corporation | 1,367,756,488 | Common | 51.51% |
| 2. | PCD Nominee Corporation (F) | 821,152,702 | Common | 30.92% |
| 3. | PCD Nominee Corporation (NF)[13] | 838,200 | Common | 00.03% |

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

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

| | | |
|---|---|---|
| Inglebrook Holdings, Inc. | 343,330 shares | 12.00% |
| Eastheights Holdings, Inc. | 343,330 shares[14] | 12.00% |

**SCHEDULE 2**
**List of Candidates**

In accordance with the Guidelines for Nomination of Directors, Manual of Corporate Governance and SRC Rule 38, the Nomination Committee has selected the following upon nomination for election by DMCI Holdings, Inc. to the Board of Directors of the forthcoming Stockholders' Meeting:

**Directors:**

1. **David M. Consunji,** 88, Filipino, is the Chairman of the Board of the Corporation. He is a graduate of B.S. Civil Engineering at the University of the Philippines. He is currently the Chairman of the Board of D.M. Consunji, Inc., Dacon Corporation and DMCI Holdings, Inc. He is also a director of Atlantic Gulf & Pacific Co., Inc., and Semirara Cement Corporation. He was the former Secretary of the Department of Public Works, Transportation and Communications from August 23, 1971 to 1975, President of the Philippine Contractors Association, President of International Federation of Asian & Western Pacific Contractors' Association, President of Philippine Institute of Civil Engineers, Vice-President of the Confederation of International Contractors' Association. He also served as the Chairman of the Contractors Association, the Philippine Domestic Construction Board, the Philippine Overseas Construction Board, and the U.P Engineering Research and Development Foundation, Inc.

2. **Isidro A. Consunji,** 61, Filipino, is the Vice-Chairman, Chief Executive Officer, and the Chairman of the Nomination and Election Committee of the Corporation. He is a graduate of B.S. Civil Engineering at the University of the Philippines. He is currently the Chairman and CEO of DMCI Mining Corporation, Vice-Chairman of DMCI Masbate Power Corporation and DMCI Concepcion Power Corporation. He is a Director of Dacon Corporation, M&S Company Inc., DMC-Urban Property Developers, Inc., Crown Equities, Inc., Beta Electric Corporation, Semirara Cement Corporation, Universal Rightfield Property Holdings, Inc., and Maynilad Water Services. He is also the President of DMCI Holdings, Inc. He was the former President of the Philippine Constructors Association and Philippine Chamber of Coal Mines, Inc.

3. **Victor A. Consunji,** 59, Filipino, is the President and Chief Operating Officer of the Corporation. He is a graduate of A.B. Political Science at the Ateneo de Davao. He is currently the Chairman, President and CEO of SEM-Calaca Power Corporation and Semirara Training Center, Inc.; Chairman and CEO of DMCI Power Corporation; and Chairman of DMCI Concepcion Power Corporation and Divine Word School of Semirara Island, Inc. He is also a Director of D.M. Consunji, Inc., M&S Company, Inc., Dacon Corporation, Sodaco Agricultural Corporation, DMC Urban Property Developers, Inc., Ecoland Properties, Inc., and DMCI Mining Corporation. He is also the President of Sirawai Plywood & Lumber and DMCI Masbate Power Corporation.

[14] Other beneficial owners of Dacon Corporation with the same number of shares are Gulfshore Inc., Valemount Corporation, Chrismon Investment Inc., Jagjit Holdings, Inc., La Lumiere Holdings, Inc., and Rice Creek Holdings, Inc.

4. **Jorge A. Consunji,** 57, Filipino, is a Director of the Corporation. He is a graduate of B.S. Industrial Management Engineering at the De La Salle University. He is currently the Chairman of DMCI Masbate Power Corporation, and Director of DMCI Holdings, Inc., Dacon Corporation, DMCI Project Developers, Inc., SEM-Calaca Power Corporation, Cotabato Timberland Co., Inc., M&S Company, Inc., Sodaco Agricultural Corporation, DMCI Mining Corporation, DMCI Power Corporation, DMCI Concepcion Power Corporation, Eco-Process & Equipment Phils. Inc., and Maynilad Water Services, Inc. He is also the President & COO of D.M. Consunji, Inc. and Royal Star Aviation, Inc.; and Vice-President of Divine Word School of Semirara Island, Inc. He was the former Chairman of the Board of Contech Panel Mfg., Inc., and of Wire Rope Corp. of the Philippines. He was the former President of ACEL and Former First Vice-President of Phil. Constructors Association. He is a member of Baguio Country Club, Manila Golf Club, Metropolitan Club, Inc., and Wack Wack Golf & Country Club.

5. **Cesar A. Buenaventura,** 80, Filipino, is a Director of the Corporation. He is a graduate of B.S. Civil Engineering at the University of the Philippines. He finished his M.S. Civil Engineering as Fulbright Scholar at the Lehigh University, Pennsylvania. He is currently the President of Atlantic Gulf & Pacific Company of Manila (AG&P) and Vice-Chairman of DMCI Holdings, Inc. He is a director of Montecito Properties, Inc., Pilipinas Shell Petroleum Corporation, Philippine American Life Insurance Company, PetroEnergy Resources Corporation, iPeople, Inc., Paysetter Holdings Limited and Paysetter International, Inc., and Semirara Cement Corporation. He is the founding Chairman of Pilipinas Shell Foundation, Inc.; President of the Benigno S. Aquino Foundation; and Member, Board of Trustees, Asian Institute of Management. He was the Chief Executive Officer of Shell Group of Companies in 1975 and appointed member of the Monetary Board of the central Bank of the Philippines. He was also a member of the Board of Directors of the Philippine International Convention Center in 1981, Regents of the University of the Philippines and a Senior Adviser of Jardine Davies. He was a director of the Philippine National Bank, Asian Bank, AB Capital Investment Corporation, Ayala Corporation, Benguet Corporation, First Philippine Holdings Corporation, Ma. Cristina Chemical Industries and Philippine Airlines, Inc.

6. **Herbert M. Consunji**, 57 years old, Filipino, is a Director of the Corporation. He earned his degree of Bachelor of Science in Commerce Major in Accounting in 1975 at De La Salle University. In the past five years, he has held and currently holds the following positions: (a) Chairman of Subic Water & Sewerage Corporation, (b) Director & Vice President & Chief Financial Officer of DMCI Holdings, Inc., (d) Director of DMCI Project Developers, Inc., (e) Director & Chief Operating Officer of Maynilad Water Services, Inc., (f) Director of DMCI Power Corporation, (g) Director of DMCI Mining Corporation and (h) Director and Treasurer of SEM-Calaca Power Corporation. He is also President of Village Parks, Inc. and Partner, H.F. Consunji & Associates.

7. **Victor C. Macalincag**, 74, Filipino, is an Independent Director and the Chairman of the Audit Committee of the Corporation. He is a holder of a Bachelor of Business Administration (BBA) degree from the University of the East and a Certified Public Accountant (CPA). He completed his academic requirements for a Masteral Degree in Economics and is a fellow of the Economic Development Institute of the World Bank. He is presently the Chairman of AZ Development Managers, Inc. He is an Independent Director of Crown Equities, Inc. and Merchants' Bank. He is a consultant of First Metro Securities Brokerage Corporation. He is a Director of Finman General Insurance Corp., Universal LRT-7 and Republic Glass Holdings, Inc. He was an Independent Director of Merchants' Bank. He was formerly the Undersecretary of Finance from 1986 to 1991, Deputy Minister of Finance from 1981 to 1986, Treasurer of the Philippines from 1983 to 1987, President of Trade & Investment

Development Corporation of the Philippines (TIDCORP) from 1991 to 2001. He was also a director of the Home Guarantee Corporation from 1979 to 2001, the Philippine Overseas Construction Board from 1991 to 2001, the Philippine Long Distance Telephone Company from 1988 to 1995, the National Power Corporation from 1978 to 1986 and the Regent of Manila Hotel from 1984 to 1986. He was also a director of Philippine Aerotransport, Inc., Paper Industries Corporation of the Philippines, Lumang Bayan Realty Corporation and Manila Midtown Development Corporation.

8. **George G. San Pedro**, 70, Filipino, is a Director, Vice-President for Operation and Resident Manager of the Corporation. He is a graduate of B.S. Civil Engineering at the University of the Philippines. He used to work for D.M. Consunji, Inc., Dacon Wood Based Companies, DMC-CERI, and CONBROS Shipping Corporation. Currently, he is the President of Divine Word School of Semirara Island, Inc. and Vice-President of Semirara Training Center, Inc.

9. **Federico E. Puno,** 63, Filipino, is an Independent Director of the Corporation. He is a graduate of B.S. Civil Engineering at the University of the Philippines. He took up his M.S. Industrial Administration at the Camegie Mellon University, Pittsburgh, U.S.A. He is President and Chief Executive Officer of TeaM Energy Corporation. He was the President/CEO of San Roque Power Corporation. He was also the Director of Forum Pacific, Inc., Independent Director of Republic Glass Holdings, Corp. and Director of Pampanga Sugar Dev. Corp. He was a Director of the Manila Electric Company. He was the President of Anchor Steel Industries; President of National Power Corporation; President of Asahi Glass Corp.; President of Republic Glass Holdings, Corp.; Head of the Chief Financial and Management Services of the Ministry of Energy; Assistant Treasurer of the Bureau of Treasury and (Ministry of Finance); Vice-President-Finance of the Phil. National Oil Company; and Vice-President-Finance/Senior Vice-President-Finance and Administration of the National Power Corp.

10. **Ma. Cristina C. Gotianun,** 55, Filipino, is a Director and the Chairman of the Remuneration and Compensation Committee of the Corporation. She is a graduate of B.S. Business Economics at the University of the Philippines and majored in Spanish at the Instituto de Cultura Hispanica in Madrid, Spain. She is currently a Director and Corporate Secretary of Dacon Corporation and Vice-President for Finance & Administration/CFO of D.M. Consunji, Inc. She is the Finance Director of DMC-Project Developers, Inc., and Director of SEM-Calaca Power Corporation, DMCI Power Corporation, DMCI Masbate Power Corporation and DMCI Concepcion Power Corporation. She is also the Treasurer & CFO of DMCI Power Corporation, Treasurer of DMCI Masbate Power Corporation, DMCI Concepcion Power Corporation, and Assistant Treasurer of DMCI Holdings, Inc.

11. **Ma. Edwina C. Laperal**, 48, Filipino, is a Director of the Corporation. She is a graduate of B.S. Architecture at the University of the Philippines. She also took her Master's Degree in Business Administration in the same University. She is currently the Director and Treasurer of DMCI Holdings, Inc., and DMCI Project Developers, Inc.; Treasurer of Dacon Corporation and DMC Urban Property Developers, Inc.; and D.M. Consunji, Inc.

**Executive Officers:**

| | | |
|---|---|---|
| David M. Consunji* | - | Chairman |
| Isidro A. Consunji* | - | Vice-Chairman/CEO |
| Victor A. Consunji* | - | President/COO |
| George G. San Pedro* | - | VP-Operations/Resident Manager |
| Nestor D. Dadivas | - | Chief Finance Officer |

| | | |
|---|---|---|
| Junalina S. Tabor | - | OIC-CFO |
| Ma. Cristina C. Gotianun* | - | VP-Administration/Compliance Officer |
| George B. Baquiran | - | VP-Special Projects |
| Jaime B. Garcia | - | VP-Procurement & Logistics |
| John R. Sadullo | - | Corporate Secretary |

* *Member of the Board*

1. **George B. Baquiran**, 65, Filipino, is the Vice-President for Special Projects and has held said position for the past five years. He is a graduate of B.S. Geology and also a holder of a Masters Degree in Geology at the University of the Philippines. He has held the position of Vice-President held the position of Vice-President for Energy Exploration from June 1979 to January 1982; AVP, Exploration from April 1979 to June 1979; Manager, Exploration from February 1977 to March 1979 in Vulcan Industries and Mining Corporation. He is the Project Director of DMCI Concepcion Power Corporation.

2. **Nestor D. Dadivas,** 59, Filipino, is the Chief Finance Officer. He is a graduate of B.S. in Commerce at the University of San Agustin, Iloilo City, summa cum laude, major in Accounting, Banking and Finance and Business, and is a Certified Public Accountant. He is also a holder of a Master's Degree in Business Management at the Asian Institute of Management, major in Finance. He is currently a Director DMCI Power Corporation, DMCI Masbate Power Corporation, SEM-Calaca Power Corporation, and DMCI Concepcion Power Corporation. He is also the President of DMCI Power Corporation. He was the Vice-President for Finance of Phelps Dodge Philippines, Inc. and a member of its Executive Committee, and Senior Vice-President for Atlas Fertilizer Corp. He was Head of Corporate Planning for the Elizalde and Company in 1976.

3. **Jaime B. Garcia**, 53 years old, Filipino, is the Vice-President for Procurement and Logistics. He is a graduate of B.S. Management and Industrial Engineering at Mapua Institute of Technology. He took also his Masters in Business Administration at De La Salle University in 1994 and Masters in Business Economics at the University of Asia & the Pacific in 1998. He is currently holding the position of Director of Royal Star Aviation, Inc., and Semirara Cement Corporation, Senior Manager-Purchasing of M&S Company, Inc., and DMC Construction Equipment Resources, Inc. He is an Industrial Engineer by profession.

4. **Junalina S. Tabor**, 46 years old, Filipino, is the OIC-Chief Finance Officer. She is a graduate of Bachelor in Science in Commerce, major in Accounting at Saint Joseph College and is a Certified Public Accountant. She took her Masters in Public Administration at the University of the Philippines in 1993. Prior to joining the Corporation in 1997, she was the State Auditor I, II, & III of the Commission on Audit from 1993 to 1997, respectively.

5. **John R. Sadullo**, 39, Filipino, is the Corporate Secretary. He is a graduate of A.B. major in Political Science at the University of Santo Tomas. He is a holder of a Bachelor of Laws Degree at the San Beda College of Law. He took the bar exam in 1996 and was admitted in 1997. He currently holds the position of Legal Counsel and Corporate Secretary of the Company; and Corporate Secretary of the following corporations: (a) DMCI Masbate Power Corporation; (b) DMCI Concepcion Power Corporation; (c) SEM-Calaca Power Corporation; (d) Semirara Cement Corporation and (e) Divine Word School of Semirara Island, Inc. He is also the Assistant Corporate Secretary of Semirara Training Center, Inc. and previously the Corporate Secretary of DMCI Mining Corporation.

**SCHEDULE 3**
**2009 Summary of Board Acts and Resolutions**

1. Special Meeting held on March 12, 2009:
   a. Approval of Annual Audited Financial Statements of the Corporation for the period ended December 31, 2008, subject to adjustments on the Corporation's investments.
   b. Setting May 4, 2009, Monday, as the scheduled date for the 2009 Annual Stockholders' Meeting to be held at McKinley Room A&B, Manila Polo Club, Inc., McKinley Road, Forbes Park, Makati City, 10:00 o'clock in the morning.; setting March 26, 2009, as the record date for purposes of determining the stockholders entitled to notice of, and to vote at the Annual Stockholders' Meeting scheduled above or any adjournment, or postponement thereof; and Setting April 23, 2009 at 4:00 p.m. as the date and time when proxies shall be validated by the committee designated by the Board.
   c. Designating the Corporation's Special Committee of Inspectors on Proxy Validation.
   d. Approval of amendment to Article 10 of the Corporation's Articles of Incorporation, as amended, which shall read, as follows:

      > "TENTH: That no stockholder shall have the right to subscribe to or purchase, any <u>issuance, re-issuance and disposition of shares of stock of any kind</u>, unless the Board of Directors of the Corporation shall specifically grant the right to subscribe or purchase to the then existing stockholders."

   e. Approval of the Corporate Governance policies: (i)Corporation's Succession Plan Policy; (ii) Peer Evaluation Process; and (iii) CEO Performance Evaluation Form.
   f. Approval of the purchase from DMCI Homes two (2) condominium units in Alta Vista De Boracay in the Province of Aklan to be utilized by the Corporation to house its transient visitors and guests.
   g. Approval of the amount of Three Hundred Thousand Pesos (Php300,000.00) as bonus of each member of the Board of Directors of the Corporation for the year 2009; Thirty Thousand Pesos (Php30,000.00), as reimbursable allowance, subject to presentation of official receipts, which receipts may be submitted to the Corporation on a monthly, quarterly or annual basis at their convenience; the amount of Twenty Thousand Pesos (Php20,000.00), as monthly per diem; provided, however, that the Board Committee members shall continue to be entitled to Php20,000.00 per diem for each Committee meeting held for the year notwithstanding the foregoing.
   h. Approval of additional subscription from the unissued capital stock of DMCI Power Corporation covering 25,000,000 shares at P1.00 par value.
   i. Approval of P3.8 million and P4.5 million as the Corporation's Sales Budget and ROM Production Budget for the year 2009, respectively.
   j. Authority to open bank accounts and availments of other products and services with Security Bank Corporation.
   k. Designating the Corporation's representatives to represent in the case: National Workers & Allied Workers Union vs. Semirara Mining Corporation, NLRC Case No. 02-01388-07, NLRC-Quezon City.
   l. Authority to extend assistance to public schools pursuant to RA 8525, otherwise known as "An Act Establishing the Adopt-A-School Program and Providing Incentives Therefore and for Other Purposes."
   m. Authority to sell motor vehicles that are no longer needed in the Corporation's operation subject to appropriate clearance from DOE, if applicable.

2. Special Meeting held on March 30, 2009:
    a. Approval of cash dividend declaration at P6.00/share payable on May 15, 2009 to stockholders of record as of April 20, 2009.
    b. Authority to avail credit facilities with BDO Rental, Inc.
    c. Authority to apply for BDO Makro Credit Cards.
    d. Authority to sign pleading and Verification and Certification on Non-Forum Shopping in connection with the case: National Workers & Allied Workers Union vs. Semirara Mining Corporation, NLRC Case No. 02-01388-07, NLRC-Quezon City.
    e. Authority to file administrative case against Bienvenido L. Lipayon.
    f. Authority to apply for Forest Land Use Agreement with CENRO-DENR, Region IV.

3. Regular Meeting held on August 6, 2009:
    a. Approval of Quarterly Report for the period ending June 30, 2009.
    b. Authority to apply for Permit to Operate Port Facility in Iloilo City.
    c. Authority to file civil case against Jebsen & Jessen Communications, Inc.
    d. Authority to file appeal in connection with the case "HGL Development Corp. vs. DENR, et. al.," Civil Case No. C-20675, RTC-Caloocan Branch 121.

4. Special Meeting held on September 18, 2009:
    a. Authority to execute Listing Agreement with the Philippine Stock Exchange.
    b. Authority to avail loan facilities and opening of bank account with JPMorgan Chase Bank, N.A.
    c. Authority to avail loan and credit facilities with Bank of the Philippine Island.

5. Special Meeting held on October 16, 2009:
    a. Authority to avail credit facilities/loan application with China Banking Corporation.
    b. Authority to avail credit facilities/loan application with BPI Leasing Corporation/BPI Rental Corporation.

6. Regular Meeting held on November 10, 2009:
    a. Approval of Quarterly Report for the period ending September 30, 2009.
    b. Approval of increase to Director's Reimbursable Allowance from P30,000.00 to P40,000.00 monthly effective January 2010; and release of director's bonus for 2009 equivalent to .45% of the Corporation's net income after tax provided the amount of P375,000.00 be released in December 2009 and the balance after the approval of the 2009 Audited Financial Statements.
    c. Authority to file civil case against Social Security System with the Regional Trial Court, Batangas City, Branch 3, in Civil Case No. 7441.
    d. Authority to apply an ECLink Facility with Banco De Oro Unibank, Inc.
    e. Approval of additional signatory for the availments of credit facilities/loan application wit BPI Leasing Corporation/BPI Rental Corporation, amending for the purpose board resolution dated September 18, 2009.
    f. Authority to lease real properties in Semirara Island, Caluya, Antique.

7. Special Meeting held on December 1, 2009:
    a. Authority to invest in the 600MW Batangas Coal-Fired Thermal Power Plant located in the Municipality of Calaca, Batangas through its wholly-owned subsidiary, SEM-Calaca Power Corporation.
    b. Authority to make advances in favor of SEM-Calaca Power Corporation the amount of US$150,790,000.00 payable to Power Sector Assets and Liabilities Management Corporation to meet its financial obligations under the Asset Purchase Agreement and Land Lease Agreement.

c. Ratification and confirmation on the execution of Deferred Payment Sale and Purchase Agreement with Marubeni Corporation covering the purchase of equipment with contract amount limit of not exceeding US$35,000,000.00.

8. Special Meeting held on January 12, 2010:
   a. Authority to issue for subscription to 92,524,266 common shares (the "Offer Shares") with a par value of Php 1.00 per share out of the existing authorized capital stock, to be offered by way of a stock rights offering (the "Rights Offering") in favor of all stockholders as of a record date to be fixed by the President, provided, that such 'Record Date' shall not be less than fifteen (15) trading days from approval of the Corporation's listing application by the Board of Directors of the Philippine Stock Exchange under the following terms and conditions:

| | |
|---|---|
| Entitlement to Stock Rights | Each stockholder as of record date shall have the right to subscribe to one (1) Offer Share for every three (3) SCC common shares held as of record date. |
| Exercise Price and Payment Terms | The exercise price shall be fixed by the Corporation's President provided that the Exercise Price shall not be less than the par value of One Peso (P 1.00) per share. Payment of the exercise price shall be in such manner as the Corporation's President shall determine. |
| Offer Period | To be fixed by the Corporation's President provided that the Offer Period shall commence not later than thirty (30) calendar days from the 'Record Date'. |

   Further approved is that BDO Capital and Investment Corporation, be, as it is hereby, appointed, as underwriter of the Rights Offering, and in connection therewith, the Corporation's President, be, as he hereby is, authorized to sign, execute and deliver the underwriting agreement and other related contracts and documents, and the Board of Directors of the Corporation hereby ratifies any such underwriting agreement and other related contracts and documents signed, executed and delivered by the Corporation's President.

   The commitment and undertaking by certain shareholders of the Corporation, namely, DMCI Holdings, Inc., Dacon Corporation and DFC Holdings, Inc., to purchase any common shares that remain unsubscribed from the rights offering, be, as it is hereby, accepted.

   The Board of Directors of the Corporation authorize, as it hereby authorizes, the registration of the Offer Shares under the Securities Regulation Code or the filing of an application for confirmation by the Securities and Exchange Commission (SEC) that the Rights Offering is a transaction exempt from the registration requirement under the Securities Regulation Code, and its listing with the Philippine Stock Exchange (PSE), and that the President, Secretary, or other proper officers of the Corporation, be, hereby empowered, in the name and on behalf of the Corporation, to sign, execute and deliver such documents, instruments or papers as may be required by the SEC and PSE.

   b. Approval of the Corporation's Revised Code of Corporate Governance in compliance with the Securities and Exchange Commission (SEC) Memorandum Circular No. 6, Series of 2009, otherwise known as the Revised Code of Corporate Governance.

c. Approval of the sale of motor vehicles and the authority of Mr. Jaime B. Garcia as the Corporation's authorized representative for the purpose;
d. Approval of the publication of the Corporation's projected financial statements for 2010 at the official website of the Philippine Stock Exchange, Inc.; and
e. Approval to purchase materials for sports and recreational facility from Millenium Sports Universal Company and to authorize Victor A. Consunji as the Corporation's representative for the purpose.

9. Regular Meeting held on March 9, 2010:
    a. Approval of the Corporation's Audited Financial Statements for the year ended December 31, 2009;
    b. Setting the date, time, venue and the Record Date for the Annual Stockholders' Meeting; designating for the purpose a Special Committee of Inspectors on Proxy Validation;
    c. Approval of the waiver of the requirements under Sec. 73, BP 68 ("The Corporation Code of the Philippines") for the reported lost stock certificates of DMCI Holdings, Inc. and the authority to issue new stock certificates in lieu thereof; and
    d. Ratification and/or confirmation of the execution of agreement with SEM-Calaca Power Corporation, as the new operator pursuant to the Asset Purchase Agreement (executed between SEM-Calaca Power Corporation and Power Sector Assets and Liabilities Management Corporation), amending certain provisions of the Coal Supply Agreement previously executed between the Corporation and the National Power Corporation, and designating Victor A. Consunji as the Corporation's representative for the purpose.
    e. Ratification of the Corporation's Corporate Suretyship and Shareholder's Support and the Pledge of 67% of the Corporation's shares held in SEM-Calaca Power Corporation ("SCPC") as security to guarantee SEM-Calaca Power Corporation's loan obligations in accordance with the Project Debt Facility Agreement dated February 17, 2010 executed by SCPC and BDO Capital & Investment Corporation.

10. Special Meeting held on March 23, 2010:
    a. Approval and conformity to the changes to the Project Debt Facility Agreement dated February 17, 2010 between SEM-Calaca Power Corporaton ("SCPC") and BDO Capital & Investment Corporation as contained in the amendments thereto dated March 18, 2010 and March 22, 2010, specifically the purpose of the loan to SEM-Calaca Power Corporation ("SCPC").

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

SEMIRARA MINING CORPORATION

# STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **SEMIRARA MINING CORPORATION** is responsible for all information and representations contained in the financial statements for the years ended December 31, 2009 and 2008. The financial statements have been prepared in conformity with the generally accepted accounting principles in the Philippines and reflected amounts are based on the best estimates and informed judgment of the management with an appropriate consideration to materiality.

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

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

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

Singed under oath by the following:

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

**VICTOR A. CONSUNJI**
President

**JUNALINA S. TABOR**
OIC-Chief Finance Officer
For: **NESTOR D. DADIVAS**
Chief Finance Officer

**SUBSCRIBED AND SWORN**, to before me on MAR 18 2010 day of March 2010, at Makati City, Metro Manila, affiants exhibited to me:

| Name | Passport/CTC No. | Expiry Date/Place Issued |
|---|---|---|
| David M. Consunji | OO0648666 | January 30, 2010/Manila |
| Victor A. Consunji | XX0792809 | March 25, 2013/Manila |
| Junalina S. Tabor | XX3473564 | April 14, 2014 /Manila |

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

Doc. No. 281 ;
Page No. 58 ;
Book No. XLV ;
Series of 2010.

MARIO D. ESPIRITU, JR.
Commission No. M-230
Notary Public for City of Makati
Until December 31, 2011
4th Floor MMP Bldg.
2283 Pasong Tamo Ext, Makati City
PTR No. 10238505 01-04-10 Trece Martires City
IBP No. 741794 01-04-10 Cavite Chapter
Roll No.39509

**SEMIRARA MINING CORPORATION**
**ANNUAL REPORT TO STOCKHOLDERS**
**Annual Stockholders Meeting to be held on May 3, 2010**

## PART I- BUSINESS AND GENERAL INFORMATION

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

Competition is insignificant in so far as domestic coal mine is concerned. The Corporation remains the largest coal producer in the Philippines, contributing 1.515 million metric tons (MT) or 98.4% of total domestic coal production in 2001 while the nominal balance is shared by small-scale mines in Cebu, Bataan Island, and other areas. Nonetheless, domestic coal demand is still anchored heavily on imported coal. In 2002, importation reached 5.930 million MT, representing 79.4% of aggregate supply, much higher than the 1.539 million MT (or 20.6% of aggregate supply) contributed by domestic coal producers. China brought in the bulk of coal in the country, accounting for 49.84% of the total, followed by Indonesia (36.86%), Australia (9.26%) and Vietnam (4.04%). In 2004, domestic producers supplied 27% of the total demand of 9.5 Million MTs increasing further to 32% of the 9.7 Million MTs market in 2005. However, in 2006 domestic producers supplied only 25% of the total demand of 9.5 Million MT's because of higher imported volume due to demand of higher quality coal which came from other countries. Semirara supplied 22% of the country's total coal consumption for 2006. The competitiveness of domestic coal producers is threatened by the more superior quality of imported coal as well as the government's policy on liberalization. This is however compensated by the Department of Energy's policy to promote indigenous energy resources and lower freight costs of local coal vis-à-vis imports. The Corporation remains to be competitive while it continues to exert efforts to improve the quality of its coal and keep production costs low. The tariff rates of sub-bituminous and other coal now stands at the rate of 3%.

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

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

Historically, approximately 98% of the Corporation's revenue streams are from the NPC Calaca Plants. NPC's consumption of Semirara Coal has steadily increased since the Corporation worked on improving the quality of its coal. Note that the Corporation started washing 25% of its production in mid 1999. Resultantly, its market has widened, to include other power plants, the cement industry and other small industrial plants and in 2007, Semirara coal was tested by the export market. In 2007, NPC's share in volume and value of the Corporation's sales went down to 38% and 45%, respectively from 63% and 68% in 2006. In 2008, NPC share in volume and value further dropped to 24% and 40% due to steady increase in total volume sold resulting from increase in domestic sales to other power plants and industries and export sales as well. In 2007, sale to domestic customers (outside NPC) accounted for 39% and 37% respectively in terms of volume and value, and rose to 46% in volume and decreased by 27% in value in 2008. Likewise, in 2007, export sales' share in volume and value registered at 22% and 18%, respectively and went up to 30% and 22%, in 2008.

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

The Corporation under its Coal Operating Contract is obligated to pay royalties to the Department of Energy (DOE) – 3% royalty based on FOB sales and b) compensation for entry and use of private lands under the provisions of PD 972, as amended by PD 1174, to land owners– P0.50/MT for untitled land and P 1.00/MT for titled land. On November 12, 2009, DOE and the Corporation executed Second Amendment to Coal Operating Contract No. 5. The second amendment amends the coordinates of the contract area to include a land area of 3,000 and 4,200 hectares, more or less situated in Caluya Island and Sibay Island, Antique.

The average number of personnel of the Corporation is 2,043 and 1,649 for the years 2009 and 2008 respectively, inclusive of employees based at the Corporation's head office in Manila. Out of the 2,043 employees for 2009, 226 are employed by Semirara while the rest is employed by DMC Construction Equipment Resources, Inc., is an affiliate of Dacon Corporation.

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

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

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

The Corporation's has established an Environmental Monitoring Fund for MMT, which has an initial amount of P600,000, determined by the work and financial plan of the Monitoring Team. Also, an Environmental Guarantee Fund was established with a cash component of 1.5 Million. This enables the continued mining operations of the Corporation.

Taking an extra mile, the Company endeavored to enhance its business processes, such that in 2007, works for ISO certification started. Finally, in 2008, the Company had successfully obtained ISO certification on Integrated Management System covering three (3) standards as follows: Quality

Management System (ISO 9001:2000), Environmental Management System (ISO 14001:2004), and Occupational Health and Safety Management System (OSHAS 18001:2007).

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

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

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

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

   **The Caloocan Case**:

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

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

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

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

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

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

**<u>The Culasi Case:</u>**

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

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

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

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

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

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

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

   *2.1 CTA Case No. 7717 (For P11,847,055.07).* – On October 15, 2009, the CTA rendered a Decision granting the Corporation's petition for refund in the amount of P11,847,055.07, representing the final VAT erroneously withheld by NPC on sales of coal for the month of December 2005. The CIR moved for reconsideration. The CIR's Motion for Reconsideration was denied on March 3, 2010.

   2.2. *CTA Case No. 7867(For P15,292,054.93) .* – In its resolution dated October 22, 2009 and October 26, 2009, the CTA admitted the admissibility of all the documentary evidence of the Corporation. On November 26, 2009, the CIR presented its witness and verbally offered its documentary evidence. The parties will be required to submit their respective memoranda after the CTA resolves the CIR's offer of documentary evidence. Thereafter, the case shall be deemed submitted for decision.

   2.3. *CTA Case Nos. 7727 & 7783 (ForP86,108,626.19) .* – The Corporation has already submitted its Formal Offer of Evidence and as of date, the case is already for BIR's presentation of evidence.

   2.4. *CTA Case Nos. 7822 & 7849(ForP77,253,245.39).* - The Corporation has already submitted its Formal Offer of Evidence and as of date, the case is already for BIR's presentation of evidence.

3. **Business Tax Case**. On February 26, 2007, SMC filed a complaint (SMC vs. Municipality of Calaca, RTC, Br. 137, Makati City, Civil Case No. 07-180.) to seek the reversal and cancellation of the tax assessment by the Municipality of Calaca for unpaid business tax for the CY 2003, 2004 and 2005 in the amount of P66,685,189.00. The basis of the claim is that since coal is delivered to the port of Calaca and Corporation is doing business there as shown by the existence of an office, the situs of taxation is in Calaca. The Corporation maintains that it is not maintaining an office in the Municipality of Calaca, despite delivery to NPC-Calaca, the proper situs of taxation is not in Calaca but in its principal office. The case is pending Judicial Dispute Resolution (JDR) with the court.

4. **Real Property Tax Case**. On February 19, 2008, the Municipality of Caluya Antique filed a case against the Corporation (Municipality of Caluya, Antique vs. SMC (Civil Case No. C-051, RTC-Culasi, Branch 13) for enforcement of the compromise agreement against Corporation submitted to the RTC on November 17, 2003 involving the balance of P82,979,702.24 in real property taxes for lots located in Semirara Island. The Corporation maintains that the Motion for Execution has no legal basis and is premature due to a clause in the compromise agreement requiring that the parties first determine the correctness of the tax assessments which shall be subject to the verification of the parties. This has not been done. The case is now pending with the Court.

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

## PART II – SECURITIES OF THE REGISTRANT

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

(1) **Market Information. -**

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

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

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

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

| | High | Low | Close |
|---|---|---|---|
| **2007** | | | |
| Jan-Mar | 27.50 | 14.75 | 27.50 |
| Apr-Jun | 29.50 | 25.00 | 29.00 |
| Jul-Sep | 43.00 | 25.00 | 34.50 |
| Oct-Dec | 49.50 | 34.50 | 44.00 |
| **2008** | | | |
| Jan-Mar | 60.00 | 40.00 | 52.00 |
| Apr-Jun | 62.00 | 46.00 | 62.00 |
| July-Sep | 64.00 | 43.00 | 45.00 |
| Oct-Dec | 43.50 | 29.50 | 29.50 |
| **2009** | | | |
| Jan-Mar | 35.50 | 22.25 | 33.50 |
| Apr-Jun | 42.50 | 21.00 | 35.50 |
| July-Sep | 43.00 | 31.50 | 39.00 |
| Oct-Dec | 55.00 | 37.50 | 55.00 |
| **2010** | | | |
| Jan-Mar[1] | 60.50 | 47.00 | 60.00 |

(2) **Holders. -** As of March 15, 2010 Semirara Mining Corporation has the following issued shares: Common shares - 296,875,000[2]

[1] As of March 15, 2010.
[2] 19,302,200 are treasury shares.

| Title Of Class | Name | Number Of Shares Held | % of Total |
|---|---|---|---|
| Common | DMCI Holdings, Inc. | 163,432,385 | 58.88 |
| Common | PCD Nominee Corp. (NF) | 79,025,362 | 28.47 |
| Common | Dacon Corporation | 16,030,085 | 5.78 |
| Common | Others | 19,084,968 | 6.88 |

Names of Top Twenty (20) Stockholders as of March 15, 2010 (Common Stockholders):

| No. | Name of Stockholders | No. of Shares | Percentage[3] |
|---|---|---|---|
| 1. | DMCI Holdings, Incorporated | 163,432,385 | 58.88% |
| 2. | PCD Nominee Corp. (NF) | 79,025,362 | 28.47% |
| 3. | Dacon Corporation | 16,030,085 | 5.78% |
| 4. | National Development Corporation | 11,364,658 | 4.09% |
| 5. | PCD Nominee Corp. | 6,541,431 | 2.36% |
| 6. | Privatization and Management Office | 769,450 | 0.28% |
| 7. | DFC Holdings, Inc. | 285,000 | 0.10% |
| 8. | Garcia, Jaime B. | 40,030 | 0.01% |
| 9. | Teng, Ching Bun | 15,000 | 0.01% |
| 10. | Amatong, Isagani S. | 13,900 | 0.01% |
| 11. | Signey III, Victor DJ. | 5,600 | 0.00% |
| 12. | Yap, Raymond A. | 5,000 | 0.00% |
| 13. | Marana, Miguel De Castro | 3,430 | 0.00% |
| 14. | Amatong, Adrian Michael A. | 2,700 | 0.00% |
| 15. | Ranillo, Anna Michelle A. | 2,700 | 0.00% |
| 16. | Amatong, Antoinette Marie | 2,700 | 0.00% |
| 17. | Marana Jr., Cenon Bienvenido | 2,700 | 0.00% |
| 18. | Arica, Joseph Santos | 2,000 | 0.00% |
| 19. | Marana, Miguel DC | 1,200 | 0.00% |
| 20. | Garcia, Exequiel | 1,020 | 0.00% |

(i) The table sets forth the record or beneficial owners of more than 5% of the outstanding Common Shares of the Corporation, which are entitled to vote and the amount of such record or beneficial ownership as of March 15, 2010:

| Title Of Class | Name | Number Of Shares Held | % of Total |
|---|---|---|---|
| Common | DMCI Holdings, Inc. | 163,432,385 | 58.88 |
| Common | PCD Nominee Corp. (NF) | 79,025,362 | 28.47 |
| Common | Dacon Corporation | 16,030,085 | 5.78 |

(ii) each director and nominee

| Office | Names |
|---|---|
| Chairman | David M. Consunji |
| Vice-Chairman/CEO | Isidro A. Consunji |
| President/COO | Victor A. Consunji |
| Vice-President/Director | George G. San Pedro |
| Independent Director | Federico E. Puno |

[3] Based on Corporation's outstanding shares as records with its Stock and Transfer Agent.

| | |
|---|---|
| Independent Director | Victor C. Macalincag |
| Director | Jorge A. Consunji |
| Director | Cesar A. Buenaventura |
| Director | Herbert M. Consunji |
| Director | Ma. Cristina C. Gotianun |
| Director | Ma. Edwina C. Laperal |

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

| Title of class | Name of beneficial owner | Amount and nature of beneficial ownership | Citizenship | % |
|---|---|---|---|---|
| Common | David M. Consunji | 10 | Filipino | 0.00% |
| Common | Isidro A. Consunji | 74,010[4] | Filipino | 0.03% |
| Common | Cesar A. Buenaventura | 5,010[5] | Filipino | 0.00% |
| Common | Victor A. Consunji | 590,910[6] | Filipino | 0.21% |
| Common | Jorge A. Consunji | 10 | Filipino | 0.00% |
| Common | Herbert M. Consunji | 10 | Filipino | 0.00% |
| Common | Victor C. Macalincag | 250,010[7] | Filipino | 0.09% |
| Common | George G. San Pedro | 25,030[8] | Filipino | 0.01% |
| Common | Federico E. Puno | 50,010[9] | Filipino | 0.02% |
| Common | Ma. Cristina C. Gotianun | 90,346[10] | Filipino | 0.03% |
| Common | Ma. Edwina C. Laperal | 101 | Filipino | 0.00% |
| Common | Jaime B. Garcia | 40,030 | Filipino | 0.01% |
| Aggregate Ownership of all directors and officers as a group | | 1,125,487[11] | Filipino | 0.40% |

(3) **Dividends**. - Last March 30, 2009, the Board of Directors declared cash dividends of P6.00 per share payable on May 15, 2009 to stockholders as of record date, April 20, 2009.

(4) **Recent Sales of Unregistered or Exempt Securities**. - No unregistered or exempt securities were sold in 2009, 2008 and 2007.

## PART III-FINANCIAL INFORMATION

### A. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS *(YEARS 2006-2009)*

[4] 10,000 shares are indirect beneficial ownership (held by a corporation of which such person is a controlling stockholder). Said shares are with PCD Nominee Corporation.
[5] 5,000 shares are with PCD Nominee Corporation.
[6] 590,900 shares are indirect beneficial ownership (held by a corporation of which such person is a controlling stockholder). Said shares are with PCD Nominee Corporation.
[7] 250,000 shares are with PCD Nominee Corporation.
[8] 25,000 shares are with PCD Nominee Corporation.
[9] 50,000 shares are with PCD Nominee Corporation.
[10] 90,247 shares are indirect beneficial ownership (held by a corporation of which such person is a controlling stockholder). Said shares are with PCD Nominee Corporation.
[11] 781,147 shares are indirect beneficial ownership (Messrs. Isidro A. Consunji, Victor A. Consunji and Ma. Cristina C. Gotianun).

**Full Years 2008-2009**

## I. PRODUCTION AND OPERATIONS

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

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

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

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

Last year, exploration drilling at the eastern side of the Panian Mine yielded promising results with the discovery of significant additional volumes of coal. This year, more exploratory and confirmatory drilling activities were done beyond the ultimate limit of the pit. The Department of Environment and Natural Resources approved the amendment of the company's Environmental Compliance Certificate increasing its annual coal production to 8 million metric (MT). Another significant development was the approval by the Department of Energy on the extension of the Coal Operating Contract until 2027. This confluence of events further encouraged the Company to enhance its exploration pursuits in Semirara Island to develop more mineable areas.

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

## II. MARKET

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

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

The slight 5% drop in local sales at 2,202,332 MTs from 2,320,502 MTs in 2008 was sufficiently compensated by export sales which more than doubled, reflecting a growth of 128% at 2,261,695 MTs from 992,749 MTs in 2008. Market share of export and local sales during the year was 51% and 49%, respectively. In 2008, export sales represented 30% of total sales, while local sales comprised 70% of market.

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

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

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

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

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

## III. FINANCE

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

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

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

Under an Amendment, Accession and Assignment Agreement dated 2 December 2009 among PSALM, DMCI-HI and SEM-Calaca (a wholly-owned subsidiary of the Company), DMCI-HI, with PSALM's consent, assigned its rights and obligations under the Asset Purchase Agreement (APA) and Land Lease Agreement (LLA) to SEM-Calaca. Under an

Assignment Agreement dated 1 December 2009, DMCI-HI and SEM-Calaca agreed to an assignment cost of PHP35,396,242.70 for the APA and LLA. On 2 December 2009, SEM-Calaca paid PSALM PHP6,617,332,800 representing the Peso equivalent of the 40% down payment for the purchase price and USD10,390,000 as Rentals and the amount of the Purchase Orders. SEM-Calaca also paid PHP4,293,301.75 as pro-rated premium for insurance on the Power Plant, corresponding to the period from December 2 to 31, 2009. Likewise, SEM-Calaca submitted to PSALM closing deliveries including two stand-by letters of credit representing the DP Security and the performance security on the LLA. Subsequent to the execution of the Amendment, Accession and Assignment Agreement, the control, possession, obligation to operate the Power Plant and the rights to its revenues were transferred to SEM-Calaca.

The 60% balance of the purchase price will be paid to PSALM via 14 equal semi-annual payments beginning 2 June 2010 with an interest rate of 12% per annum, compounded semi-annually. Under the APA, upon prior written notice to PSALM, and on the condition that SEM-Calaca is not in breach of any of its substantial obligations to PSALM under the APA and LLA, SEM-Calaca may prepay any portion of the Deferred Payment any time. Subsequently, SEM-Calaca has fully settled the 40% balance of the bid cost on 5 March 2010 which was funded by a combination of internally generated cash and bridge loans availed from several banks.

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

**B. Sales and Profitability**

High coal prices combined with healthy sales volume resulted to a historical high level of Coal Revenues at PHP11.50 billion, posting a 35% growth from 2008 Coal Revenues of PHP8.49 billion. Meanwhile, with the acquisition of the Power Plant in December, the consolidated earnings for 2009 amounted to PHP11.94 billion. Energy Sales from 2 December until 31 December 2009 was accounted atPHP443.39 million.

Meanwhile, although the Company incurred higher fixed costs and shipping costs in 2009 as a result of intensified mining operations, mine rehabilitation and inflation, economies of scale brought down Cost of Coal Sold per MT by 2% from PHP1,964.21 in 2008 to P1,917.98 this year. Non-Cash Cost is at 12% and 17% of total Cost of Coal Sold in 2009 and 2008, respectively. The decline was due to full depreciation of major equipment while a portion of new equipment purchases were subjected to sale and leaseback. Total Cost of Coal Sold, inclusive of Shipping, Hauling, and Shiploading costs amounted to PHP9.00 billion and PHP6.94 billion in 2009 and 2008, respectively. The recorded cost of Energy Sales of PHP348.39 million from the power business brought total Cost of Sales in 2009 to PHP9.27 billion.

Gross Profit recorded an impressive growth of 73% from PHP1.55 billion last year to PHP2.67 billion this year. This is a result of higher income generation in the coal business, plus additional income on the new investment in the Power Plant.

The Company recorded a 58% increase in Operating Expenses from PHP458.93 million in 2008 to PHP723.24 million in the current year. Government share, which is a function of Net Coal Revenues accounted for 63% of the total expense which is now beyond the minimum of

3% to gross revenue. The balance is comprised of General and Administrative Expenses, including Philippine Stock Exchange listing fees, business permits, filing fees, Makati payroll and other employee benefits. In addition, the power business incurred Operating Expenses amounting to PHP120.69 million, resulting to a consolidated Operating Expenses of PHP843.93 million in 2009.

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

Conversely, almost all of the recorded consolidated Finance Income of PHP52.75 million was generated by the Company, posting an income of PHP52.74 million. Since the Company used more cash in its purchase of equipment and acquisition of the Power Plant, less cash was available for placements and other investments. Hence, the current year's Finance Income dropped by 32% compared to 2008 level of PHP77.23 million.

Meanwhile, the Company recorded a significant amount of Foreign Exchange Losses at PHP152.25 million, 84% more than last year's losses of PHP82.78 million. This is due to higher Foreign Exchange rate at settlement date mostly from indent orders of parts and equipment against contract date. On the other hand, the power business recognized Foreign Exchange Gains totaling to PHP199.95 million mainly coming from unrealized forex gain resulting from the fluctuation of the PHP against the USD from PHP47.2 / USD1 at the time the asset was acquired to PHP46.2 / USD1 as at yearend which correspondingly brought down the peso equivalent of the liability to PSALM on the 60% balance of the purchase price.

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

On the contrary, the Company recorded Other Income of PHP91.76 million this year, 69% more than 2008 level of PHP54.44 million. This is mainly comprised of gains on equipment sale and recoveries from insurance claims. Additional PHP504.35 million was generated by the Power Plant, thus consolidated Other Income totaled to PHP92.27 million.

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

The Company posted a Net Income After Tax of PHP1.76 billion from PHP796.40 million last year. Adding the Power Plant's Net Income generation of PHP50.66 million, total consolidated Net Income After Tax was PHP1.81 billion, more than double at 127% increase from last year's level. Consolidated Earnings per Share correspondingly increased from PHP2.87 in 2008 to PHP6.52 this year.

**C. Financial Condition, Solvency and Liquidity**

While the Company generated healthy cash levels during the year with increased income generation from coal sales, most of the accumulated cash was used to finance its acquisition of the Power plant before the year ended. In addition, purchases of mining equipment amounting to PHP3.00 billion, debt repayment of PHP1.47 billion, and payment of cash dividends of PHP1.67 billion also used up substantial cash during the year. As a result, the Company's Cash and Cash Equivalents declined by 54% from PHP1.01 billion in 2008 to PHP464.94 billion this year. Meanwhile, the Power Plant posted an ending cash balance of PHP16.98 million, thus consolidated Cash and Cash Equivalents closed at PHP481.92 million.

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

Meanwhile, with more coal inventory at the stockpile as at the end of the period, cost of coal inventory correspondingly went up by 63% at PHP1.47 billion from 2008 level of PHP896.73 million. Also, spare parts and supplies went up by 8% from PHP486.49 million in 2008 to PHP527.64 million this year. This is explained by the increased number of mining equipment units which required more spare parts and materials. The Company's Net Inventories reflected a 44% increase from PHP1.38 billion in 2008 to PHP1.99 billion as at the close of the current year. The Power Plant also booked total Inventories amounting to PHP1.01 billion. This is mainly comprised of spare parts and supplies. Consolidated Inventories is sizeable at PHP3.09 billion, representing 58% of Total Current Assets.

The 59% increase in the Company's Other Current Assets from PHP323.73 million in 2008 to PHP515.62 million this year is mainly due to the recording of prepaid income tax amounting to PHP149.44 million and increase in advances to suppliers by PHP85.34 million. Meanwhile, withholding taxes mainly comprised the Power Plant's Other Current Assets of PHP19.34 million. Consolidated Other Current Assets represented 10% of Total Current Assets at PHP534.96 million.

Given the movements of the foregoing accounts, the Company's Total Current Assets dropped by 12% at PHP3.94 billion from PHP4.50 billion in 2008. However, with the Power Plant's Total Current Assets of PHP1.42 billion, consolidated amount of PHP5.36 billion posted a 19% increase from last year's level.

On the other hand, the Company's Total Non-Current Assets grew by 515% at PHP9.92 billion from 2008 level of PHP1.61 billion. This is mainly caused by the surge in Total Investments from PHP223.23 million to PHP7.40 billion this year as a result of the acquisition of the Power Plant. Furthermore, Net Property, Plant and Equipment (PPE) doubled from PHP1.11 billion in 2008 to PHP2.21 billion this year with the purchase of new mining equipment for capacity expansion. Finally, Other Non-Current Assets also posted a 10% increase from PHP283.75 million to PHP310.72 million this year after booking of additional security deposits covering its operating lease transactions. Meanwhile, the Company recorded additional PHP8.59 billion representing the ending balance of Non-Current Assets account of the Power Plant. This mainly consists of the value of the acquired Assets lodged in PPE. As a result, consolidated Total Non-Current Assets amounted to PHP18.52 billion.

Total consolidated Assets closed at PHP23.88 billion, PHP10.02 billion of which accounted for the Power Plant's Total Assets. The Company's Total Assets in 2008 stood at P6.11 billion.

With the expansion of its business and investments, the Company's Total Liabilities correspondingly rose by 125% at PHP4.07 billion from PHP1.81 billion in 2008. Furthermore, consolidated Total Liabilities closed at P14.03 billion.

The Company's Total Current Liabilities of PHP3.53 billion increased by 116% from PHP1.64 billion in 2008. The bulk of this year's Current Liabilities is comprised of Trade and Other Payables amounting to PHP2.55 billion, or representing 72% of Total Current Liabilities. Trade and Other Payables accounted for Trade Payables, Payables to Related Parties, Accrued Expenses, and Payable to the Department of Energy and other government units. Availment of additional credit facilities increased Current Portion of Long Term Debt by 151% from 2008 level of PHP389.23 million to PHP977.90 million. Meanwhile, relative to its investment in the Power Plant, the Company recorded another PHP3.01 billion Current Liabilities, resulting to a consolidated Total Current Liabilities of PHP5.56 billion.

Similarly, the Company's Non-Current Liabilities totaled to PHP537.98 million, 200% more than 2008 level of PHP173.89 million. Bulk of this is Long-Term Debt – net of current portion amounting to PHP474.36 million or 88% of Total Non-Current Liabilities. This account increased with the booking of loan amounting to USD10M to finance equipment purchase. Consolidated Total Non-Current Liabilities surged to PHP8.47 billion as the Power Plant recognized its liability to PSALM representing 60% of the purchase price which will be amortized in 7 years.

Total Equity of the Company was beefed up with the recording of Deposit for Future Subscription amounting to PHP5.40 billion, representing deposits made by DMCI-HI and Dacon Corporation for subscription of additional shares of stocks for the stock rights offering planned by the Company to strengthen its equity base to match its sizeable investment in the Power Plant. After dividend payout amounting to PHP1.65 billion and recording of additional Retained Earnings from the Company's Income for the year amounting to PHP1.76 billion and the Power Plant's Net Income generation of PHP50.66 million, consolidated Equity, net of Cost of Shares Held in Treasury, closed at PHP9.84 billion, 129% more than Total Equity in 2008 of PHP4.30 billion.

In the current year, the Company's Current Ratio closed at 1.12:1, while consolidated Current Ratio stood at 0.96:1. Current Ratio was healthier in 2008 at 2.75:1. The deterioration in this ratio is mainly due to the availment of more short-term debts to bridge finance the investment in the Power Plant and use of internally generated cash to fund the acquisition of the power assets from PSALM.

Meanwhile, prior to consolidation, the Company maintained last year's Debt-to-Equity ratio of 0.42:1. However, consolidated balance sheets reflected a Debt-to-Equity ratio 1.43:1.

**D. Performance Indicators**

1. **<u>Average Selling Price</u>** – After successfully introducing Semirara coal to a more diverse market, it has since enjoyed a fair price for its product. High coal prices towards the end of 2008 spilled over in the first half of 2009. As a result, the Company's composite

average FOB price remained strong during the year. Notably, the Company's coal price already started picking up to become at par with the global market.

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

**Full Years 2007-2008**

**I. PRODUCTION AND OPERATIONS**

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

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

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

Rainy season at the island is unusually long this year. Moreover, the downpours were likewise extraordinarily heavy and started as early as second quarter of 2008, recording an average rainfall of 279 millimeters compared to same period last year's rainfall of 145 millimeters. Rainy season extended up to

November in the current year. For the 8-month period starting April, the highest recorded rainfall was at 697 millimeters and lowest at 156 millimeters. Incessant heavy rains resulted to a partial caving in of a portion of the pit and disrupted coal production in the second half of the year. This event prompted the Company to declare a force majeure on 2 July 2008 which lasted until almost the end of the year. The force majeure was only lifted on 2 December 2008 when the rainy season finally ended.

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

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

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

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

**II. MARKET**

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

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

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

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

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

**III. FINANCE**

**A. Sales and Profitability**

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

Spike in oil prices, coupled with depreciation of the peso from 2007 level, resulted to cost push inflation in 2008. As a consequence, per metric ton fuel and lube, materials and supplies, and ship loading costs registered a 74%, 89%, and 62% increase, respectively. Maintenance costs incurred for industrial facilities and campsite facilities also contributed to the increase in cost per metric ton since these are charged to production cost. These greatly contributed to the 44% increase in Cost of Coal Sold/MT at P2,095.71 this period from P1,453.04 last year. Applied to the volumes sold, Cost of Sales reflected a 34% increase at P6.94 billion from P5.19 billion in 2007. Non-Cash component dropped to 17% since most of the new equipment purchased were covered by operating leases, and are therefore not carried in the books of the Company as depreciable assets.

Gross profit is 22% higher at P1.55 billion this year compared to P1.27 billion last year. Higher Cost of Sales/MT explains the decrease in Gross Profit margin from 20% in 2007 to 18% this period.

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

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

Net Income Before Tax increased by 8% at P1.03 billion from P960.77 million in 2007. On the other hand, Provision for Current Income Tax fell by 13% at P290.50 million from P333.67 million. After provision for Net Deferred Tax liability of P53.48 million, Net Current Tax provision is at P237.02 million. In September 2008, the Company successfully registered with the Board of Investments as expanding producer of coal, as included in the Investments Priorities Plan of 2007, and in accordance with the provisions of the Omnibus Investments Code of 1997. One of the incentives of a BOI-registered enterprise is an Income Tax Holiday (ITH) for the registered activity. In the case of the Company, registered activity is the expanded capacity with base figure of 2.71 million MTs. Sales volume beyond this base figure is entitled to an ITH for six years from date of registration.

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

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

In 2008, the Company launched a capacity expansion program to meet the demands from the newly developed export markets. Mining equipment amounting to P1.68 billion were ordered and paid using internally-generated cash. Most of the new arrivals were later subjected to sale and leaseback transactions, covered by operating leases. Due to timing difference, not all purchased assets during the year were covered by sale and leaseback arrangements as at the end of the year. Moreover, cash dividends declared and paid during the year amounted to P1.11 billion, 233% higher than dividends of P333.09 million paid last year. These translated to a 39% drop in Cash and Cash Equivalents which closed at P1.01 billion from P1.65 billion beginning balance.

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

The improvement in weather conditions in December signaled the end of the force majeure situation. Operations took advantage of the good weather to ramp up production. As a result, Coal Inventory, which ran at low levels throughout the year, closed at a more normal level at 463,802 MTs as at the end of the year. This is 12% higher than beginning inventory of 413,747 MTs. The increase in volume, compounded by higher Cost of Coal Inventory, brought Ending Coal Inventory at P896.73 million, 57% higher than beginning balance of P570.81 million. On the other hand, Materials and Parts Inventory dropped by 45% from P881.86 million beginning balance to P486.49 million as at the end of the year due to higher utilization of materials and parts for operation and for the rehabilitation and maintenance program of industrial and campsite facilities which the company started to implement. As a result, Total Inventories maintained at almost the same level at P1.38 billion, from beginning balance of P1.45 billion because the decrease in parts and materials inventory was offset by the increase in coal inventory cost.

Other Current Assets recorded a 10% increase from beginning balance of P205.99 million to P226.11 billion. The increase is mainly due to the accounting of prepaid rent and insurance of equipment.

The resulting Net Current Assets slightly dropped, but stayed at almost the same level at P4.50 billion as at the end of the period from P4.56 billion beginning balance.

Non-Current Assets decreased by a more significant percentage at 20% from P2.00 billion as at the start of the year to P1.61 billion ending balance. This is mainly caused by the 42% slump in Property, Plant and Equipment which closed at P1.11 billion from P1.90 billion beginning level after booking depreciation cost of old mining equipment and other facilities. Although more mining equipment were purchased in 2008, most of these equipment were not carried in the books of the Company since these are covered by sale and leaseback arrangements with a local leasing company. On the other hand, Investments and Advances rose by 176% from P80.87 million spent in 2007 to P223.23 million ending balance. Additional investments were made to DMCI Mining Corporation (DMCI-MC) and DMCI Power Corporation (DMCI-PC) during the year. Total investments to these companies amounted to P225 million, P100 million to DMCI-MC representing 100 million common shares par value of P1.00, and P125 million to DMCI-PC representing 125 million common shares at par value of P1.00. As at the end of the period, the Company accounted for 50% share in equity losses of these start-up companies amounting to P1.77 million.

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

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

The 74% jump in Trade and Other Payables from P682.43 million to P1.19 billion, which included non-interest bearing liabilities to foreign suppliers for open account purchases of equipment and equipment parts and supplies that are normally settled on 30 to 60-day credit terms, largely explains the increase in Current Liabilities.

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

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

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

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

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

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

**C. Performance Indicators**

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

**Full Years 2006-2007**

**I. PRODUCTION**

Market conditions shaped the pace of operations in 2007. Increased demand from domestic buyers and the breakthrough in the export market drove operations in the current year to maximize coal production. As a result, waste material to coal ratio or strip ratio has gone down to the standard level of 7.82:1 in 2007 from 14.13:1 in 2006.

The high strip ratio in 2006 resulted to advance overburden stripping exposing a million metric tons of coal thereby allowing increased coal production despite lower strip ratio in 2007. Consequently, Total Materials moved in 2007 is 17% lower at 32,054,237 bank cubic meters (bcm) than Total Materials movement in 2006 of 38,423,124 bcm. On the other hand, Run-of-mine (ROM) coal posted a 45% increase from 2,587,569 metric tons (MTs) in 2006 to a historical high of 3,754,774 MTs this year. Net of waste after washing, the resulting Total Product Coal (TPC) likewise recorded a historical high of 3,462,534 MTs in 2007, posting a growth of 53% from 2,269,959 MTs in the previous year.

Meanwhile, increased coal production necessitated a corresponding improvement in logistic support to maintain efficiency in product handling. The successful diversification to export markets required the upgrading of pier facilities to accommodate 50,000-tonne vessels. Currently, dredging activities at the pier are ongoing to enable these huge vessels to dock for safe berthing and to load coal faster using the conveyor and ship loader line. As a result, export vessels and smaller barges for local deliveries can now be loaded simultaneously, as the new barge loading facility with a rated capacity of 750 MTs/hr which was set up last year is now fully operational to load the smaller vessels.

To complement waste material movement, a second line of in-pit crusher and conveyor system was set up and became fully operational during the first quarter of the year. The increased in capacity is effective in offsetting the negative impact of the continuous increase in oil price, as use of trucks for hauling materials was minimized.

As a consequence of a healthier market demand, current year ended with coal inventory lower by 30% at 423,934 MTs as compared to 2006 end inventory of 606,030.

The increasing coal demand also incited management to plan another expansion program to be able to serve its expanding markets. Towards the end of the current year, the Company negotiated to purchase two units 16 cubic meter excavators, 16 units 100-tonner dumptrucks, and other support mining equipment for delivery in 2008.

Meanwhile, to complement the expanding operations of the Company, management is taking serious efforts to improve the quality in delivering services to customers and other stakeholders. To achieve this, it is currently applying and processing ISO certifications 9001 and 14001 for Quality Management System and Environmental Management System, respectively. Likewise, it also seeks to get Occupational Health and Safety Management System (OSHAS) 18001 certification.

## II. MARKET

Learning from the costly experience of dependence in local markets, management intensified its efforts to break through the barriers and penetrate the export markets. Demand for Semirara coal dramatically plummeted in 2006 when natural gas-fired plants were given dispatch priorities. This event made management realize that to sustain growth targets, the Company needed to diversify overseas. Due to quality limitations of Semirara coal vis-à-vis the requirements of existing Philippine coal plants, which were mostly designed to burn higher-quality coal, the onshore demand growth potential for the product is unfavorably limited. Hence, the regional shortage of thermal coal provided the Company a timely window to introduce its coal to the vast export market. After months of marketing and negotiating with potential end-users and traders, the Company made its maiden shipment containing 28,836 MTs of coal to South China in February. The initial shipment was found acceptable in terms of quality. The ensuing months further strengthened the Semirara brand when deliveries to more plants in China, India and Hong Kong were likewise successful. As a result, the Company was overwhelmed with export orders in its maiden year in the international market, that toward the end of the year, some export contract proposals had to be politely declined. With the increasing demand for Semirara coal, the Company was able to successfully negotiate for better prices for subsequent shipments.

On the local front, the shortage of coal in the region also augured well for the Company as more plants decided to try using Semirara coal. As a result, total local sales posted a 34% increase from 2006 sales volume of 2.076 million MTs to 2.776 million in the current year. With export sales amounting to 798.8 thousand MTs, total sales volume in 2007 registered at 3.575 million MTs, or 72% higher than 2006 volume.

Notably, despite recording a 5% growth over the previous year's volume of 1.3 million MTs, 2007 sales to the National Power Corporation (NPC) of 1.365 million MTs reflected a decrease in market share from 63% in 2006 to 38% this year. Added to improving volumes from other power plants, augmented by two new markets, namely Asia Pacific Energy Corp. and Steag State Power Energy, Inc., total sales to power plants reached a record high of 1.867 million MTs in 2007, which posted a 25% growth from the sales to this industry in 2006 of 1.496 million MTs.

Demand from the cement industry also recovered in 2007, with sales volume showing a 42% improvement at 754.9 thousand MTs from the previous year's sales of 531.3 thousand MTs.

Similarly, sales to industrial users also skyrocketed by 214% from last year's volume of 48.9 thousand MTs to 153.7 thousand MTs, as more small industrial plants were converting from bunker or diesel – fired to coal plants.

Meanwhile, exports accounted for 22% of sales in 2007. Of the 798.8 thousand MTs exported, 46% went to China, 44% to India, and the remaining 10% to Hong Kong.

On the downside, the steep devaluation of the dollar, which is the currency used to trade coal in the international market, impacted negatively to the Composite Selling Price of Semirara coal. FOB price averaged at P1,784/MT in 2007, which is 19% less than 2006 selling price of 2,212/MT.

Looking forward, however, the continuous upsurge in global demand for coal spells well for Semirara coal, in terms of sales volume and prices. Currently, demand and coal prices are continuously inching upward.

## III. FINANCE

### A. Sales and Profitability

Robust market demand translated to higher Coal Revenues in the current year registering a historic level of P6.38 billion, and recording a 39% growth from 2006 Coal Revenues of P4.59 billion. Meanwhile, another P90.7 million was generated from coal handling activities at the Calaca coal yard this year, posting a slight 6% decrease from 2006 Coal Handling Revenues of P96.34 million. Reduced dependence on the NPC - Calaca plants also translated to decreased Coal Handling Revenues, which is a function of Coal deliveries to Calaca, to 1% from 2% share in the Revenue pie last year.

Economies of scale from increased production resulted to lower Cost of Coal Sold/MT to P1,453.04 which showed a 17% decrease from 2006 unit cost of P1,754.82. However, with more volumes sold this year, total Cost of Sales escalated by 40% from P3.71 billion in 2006 to P5.19 billion in the current period. Non-Cash component of Cost of Sales remained at 32%, as a result of the accelerated depreciation policy of the Company.

The resulting Gross Profit showed a 31% improvement at P1.27 billion from P974.53 million in 2006. However, as a consequence of lower Composite Average Selling Price/MT, Gross Profit margin dipped slightly to 20% from 21% in the previous period.

Operating Expenses showed a significant growth of 144% from P133.12 million in 2006 to P324.38 million in the current year. Although government share was maintained to the minimum of 3% of Coal Sales, because of higher Revenues, the absolute amount posted a 38% growth to P191.29 million from P138.27 million in 2006. Meanwhile, General and Administrative Expenses in 2006 recorded a negative figure as a result of the reversal of the Provision of Real Property Taxes amounting to P71.53 million, in accordance with Presidential Decree (PD) 972 exempting the Company from all taxes except income tax. Hence, this mainly contributed to the substantial difference in Operating Expenses between the two comparative periods. General and Administrative Expenses amounting to P133.09 million in the current period consisted of Salaries and Wages of Makati personnel (with noted increase due to formalization of top executive positions which are now properly charged to this account), Office Expenses, Professional Fees, Transportation and Travel Expenses, Representation Costs, and Taxes and Licenses. The cost of transportation and travel as well as representation and other expenses likewise posted an increase in relation to marketing and selling transactions.

On the other hand, Finance Cost recorded a 34% reduction due to lower interest rates applied to decreasing balance on interest-bearing loans which totaled to P1.69 billion as at the end of 2006 to P1.13 billion at yearend 2007. Finance Cost registered at P140.25 million this year compared to the P213.04 million incurred last year.

Meanwhile, Finance Revenue is 26% lower during the current year at P40.30 million from P54.53 million in 2006. This is explained by the lower beginning Cash balance this year used for investments. Cash only started to build up during the second half of the year when export sales stepped up and excess cash were placed in short-term investments

The continued depreciation of the US Dollar against the Peso afforded the Company to continue to book Foreign Exchange Gains amounting to P102.96 million in 2007 from P49.03: USD1 at beginning of the year to P41.28: USD1 at end of the year. This amount is 14% lower than Foreign Exchange Gains of P119.96 million earned in 2006 as dollar-denominated liabilities declined with the regular principal amortization.

Other Income also recorded a significant drop by 91% from P107.61 million in 2006 to P9.42 in the current year as recoveries from insurance claims were lower in 2007 at P4.25 million as compared to 2006 level of P70.21 million. Moreover, more equipment were disposed last year enabling the Company to record more Gains from Sale of Property and Equipment in the previous period.

The resulting Net Income Before Tax showed a modest growth of 6% from P910.47 million in 2006 to P960.77 million in the current period. Provision for Income Tax in the current year correspondingly increased by 6% at P327.97 million from P309.23 in 2006. Net Income After Tax also posted a slight increase of 5% from P601.24 million in 2006 to P633 million this year.

Earnings per Share is 6% higher at P2.28 in 2007 from P2.161 in the previous year.

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

The shipment of more export sales towards the end of the year significantly boosted yearend cash. Export deliveries were covered by sight Letters of Credits. Hence payment collections were done right after the shipment of coal, unlike for local deliveries wherein collection period ranges between 45 to 60 days. Moreover, the Company recouped its Temporary Investments made in 2006 amounting to P300 million in the current period. The resulting 2007 Cash end of P1.65 billion reflected a 223% increase from end 2006 Cash level of P510.44 million.

Meanwhile, net Receivables almost doubled to P1.12 billion from P566.88 million mainly as a consequence of the corresponding surge in Trade Receivables with the increased sales in 2007. Of the amount, 96% were Trade Receivables for both local and export sales. Sales Volume in December reached a historic high of 465,392 MTs, thus explaining the huge accounting of Receivables.

The increase in demand also resulted to decrease in Inventories in 2007. Cost of Coal Inventory went down by 44% from P1.02 billion as at yearend 2006 to P570.81 million at the close of the fiscal year 2007. On the other hand, Cost of Materials and Parts Inventory slightly rose by 7% from P823.38 in 2006 to P881.86 in the current year, apart from increase requirements for rehabilitation activities, importation in transit intended for projects as of end of the year recorded at P104 million. The reduced coal ending inventory contributed to the Total Inventories declined by 21% from P1.84 billion in 2006 to P1.45 billion this year.

Other Current Assets account is mainly comprised of the 5% Input Value Added Tax (VAT) withheld by NPC which amounted to P199.76 million as of end of the current year and P175.34 million last year.

However, the Company is reclaiming the amount in accordance with its VAT-exempt status. On 7 March 2007, the Company obtained a ruling from the Bureau of Internal Revenue which reiterated that the sale of coal remains exempt from VAT. While the refund is being processed, this account temporarily boosted Other Current Assets to P187.98 million and P215.24 million in 2006 and 2007, respectively.

Total Current Assets aggregated to P4.43 billion as at the end of 2007, reflecting a 30% growth from 2006 yearend level of P3.41 billion.

On the other hand, Non-Current Assets dropped by 36% from P3.11 billion in 2006 to P1.99 billion in the current period. This is mainly caused by the decrease in net book value of Property, Plant and Equipment by 37% due to depreciation, with very minimal capital expenditures incurred during the year. As mentioned earlier, the Company employs an accelerated depreciation policy. Conversely, towards the end of 2007, the Company made P80.87 million advances for equity interest in power and nickel mining businesses. Meanwhile, Marginal Deposits on equipment and parts purchases amounting to P5.64 million booked in 2006 were wiped out with the arrival of these materials and subsequent reclassification to proper accounts.

The huge decline in Non-Current Assets offset the growth in Current Assets resulting to a slight 1% drop in Total Assets from P6.51 billion in 2006 to P6.42 billion as at the end of the current year.

Similarly, Total Liabilities plunged by a more significant percentage of 18% from P2.20 billion in the previous year to P1.81 billion in 2007. Current Liabilities recorded a minor dip of 1% when increase in Trade and Other Payables from P320.46 million in 2006 to P546.60 million this period due to booking of more Trade Payables on parts under consignment, booked payables to various project contractors and high provision for the last quarter government share offset the reduction of Current Portion of Long-Term Debt.

Non-Current Liabilities on the other hand, recorded a more hefty slump by 43% from P850.66 million last year to P482.05 in the current year. This is mainly attributed to the continuous amortization of loans, which consequently resulted to a decrease in Non-Current portion of Long-Term debt by 44% from P713.06 million to P397.58 million as at the end of 2007. The funding of Pension Liability which caused the reduction of the account from P52.67 million in 2006 to P4.66 million in the current year likewise contributed to the decrease in Non-Current Liabilities.

The improvement in Current Assets, augmented by the decrease in Current Liabilities, resulted to a remarkable increase in Current Ratio by 32% from 2.53:1 in 2006 to 3.34:1 in the current year.

Meanwhile, despite the declaration of Cash Dividends amounting to P333.09 million, similar to the amount of dividends declared in 2006, Stockholders' Equity further strengthened with the recognition of Net Income of P633 million in the current year. The positive bottom line boosted Retained Earnings by 10% from P2.97 billion in 2006 to P3.27 billion as at the end of 2007. Furthermore, Total Stockholders' Equity also posted an increase at P4.61 billion from P4.31 billion at yearend 2006, or a growth by 7%. As a consequence, the Company's Debt-to-Equity ratio further strengthened from 0.51:1 to 0.39:1, showing a 23% improvement.

**C. Performance Indicators**

1. **Average Selling Price** – This performance indicator demonstrates the effect of movement in global coal prices on the pricing of Semirara coal. However, this year, the Company set out to penetrate the export market. With the inherent quality limitations of its coal, there was no guarantee that the venture will be fruitful. Hence, in order to provide motivation to new export markets to at least try burning Semirara coal, the Company sold trial shipments at almost break even price. With the success of the diversification strategy however, the Company was able to parallel the upward movement of global coal prices toward the end of the year. On the local front however, the depreciation of the Peso against the US dollar put a dent on the Composite Average Selling Price per MT.
2. **Debt to Equity Ratio** – As an effective gauge of the Company's financial strength, the continuous improvement of this figure boosts the confidence of financial institutions to offer more aggressive

financing packages and investors to put more money into the Company. A healthy solvency condition also afforded the Company to consider investment opportunities to further add to its value. Considering its core competencies, the Company is investing in a nickel mine. Also, as a forward integration strategy, it is putting in money to the power industry to augment and guarantee market for Semirara coal.

3. **Capital Expenditures** – After the completion of the capacity expansion program in 2006, Capital Expenditures in 2007 were minimal. However, with the increasing demand from the local markets and new export demands, the Company is planning another capacity expansion activity. Towards the end of the year, orders for one 16-cubic meter excavator and 12 units 100-tonner dump trucks were placed for delivery during the first half of 2008.
4. **Expanded Market** - 2007 is an exciting year for the Company. From a slow market in 2006, the scenario has completely turned around in the current year. Regional demand for coal has suddenly skyrocketed, thus giving Semirara an opportunity to penetrate the international market. This is a huge milestone for the Company since the event finally ended its over-dependence on local markets. Breaching the export market opens a vast and totally new avenue for growth for the Company. The Company has finally elevated its business to a new and higher platform, and it is gearing up for new challenges.
5. **Improved Coal Quality** – The new market opportunities of the Company brings forth more challenges to improve the quality of its products to achieve sustainable growth. More importantly, the Company must manage the stability of the quality parameters of its deliveries in order to successfully establish a brand. It is then imperative for management to invest in more quality-enhancing processes to achieve this. Currently, it is finalizing the specifications of a new washing plant to address the ash issue of the product.

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

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

1. External Audit Fees and Services

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

| In Millions Pesos with VAT | |
|---|---|
| 2009 | 2.4[12] |
| 2008 | 1.3 |
| **Total** | **3.7**[13] |

b. **Tax Fees**- There are no fees billed in each of the last fiscal years for professional services rendered by the SGV & Co. for tax accounting, compliance, advice, planning and any other form of tax services.

c. **All Other Fees**-There are no fees billed in each of the last two fiscal years for products and services provided by SGV & Co. other than services reported under item a. above.

[12] Includes Subsidiary's audit fee of P0.1 Million.
[13] Audit and audit-related fees only; no fees for other assurance and related services were paid.

2. There have been no changes in or disagreement with the Corporation and its Subsidiary's accountant on accounting and financial disclosures.

3. The Corporation's Audit Committee oversees the external audit function on behalf of the Board of Directors (Board). It recommends the appointment, reappointment or replacement of external auditor to the Board. It is charged with the evaluation of the audit work engagements, its scope, fees and terms for approval of the Board. The Audit Committee also reviews non-audit services and taxation advice, if any, by the external auditor. At the conclusion of the annual audit, it discusses with Management and the external auditor significant reporting issues. Lastly, the Audit Committee reviews external audit findings in respect of any significant deficiencies or weaknesses in controls and ensures that Management responds appropriately with timely corrective actions, including audit adjusting entries noted or proposed but passed as immaterial or otherwise.

## PART IV – DISCUSSION ON COMPLIANCE WITH LEADING PRACTICE ON CORPORATE GOVERNANCE

**CORPORATE GOVERNANCE**

The Company is committed to the principles and leading practices of good corporate governance that promote higher standards of accountability and transparency, provide effective oversight of the Company's business, and enhance shareholder value. It constantly reviews its corporate governance policies with the end in view of improving the same. To date, there has been no deviation from the company's Manual on Corporate Governance. The Company has substantially complied with the principles and leading practices of good governance. It subsequently amended its Manual on Corporate Governance to align with SEC's Revised Code of Corporate Governance.

**THE BOARD**

The Board of Directors (Board) is responsible for the overall corporate governance of the Company. It establishes key policies, provides strategic guidelines and ensures adequate control mechanisms are in place to manage and conduct the affairs of the Company. The Board's other mission is to maintain a sense of responsibility to the Company's customers, employees, suppliers and the communities in which it operates.

The full Board consists of eleven (11) Directors, including two (2) Independent Directors, with qualifications and such numbering in compliance with the Philippine regulatory requirement for publicly-listed companies.

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

**BOARD PERFORMANCE**

The Board had eight (8) meetings including its organizational meeting, and one (1) shareholders' meeting in 2009. Board meetings are open and candid with independent views given due consideration. The Independent Directors bring an objective mindset during Board deliberations.

**BOARD COMMITTEES**

The Board established three (3) Committees in aid of good governance to support its fiduciary functions and to achieve effective checks and balances. The Committees are guided by Board-approved Charters in the discharge of their roles and oversight responsibilities. The Board

Committees annually assess the effectiveness of their Charters, and recommend any proposed changes to the Board for approval. The Corporate Secretary, Good Governance Officer and Legal unit provide full support to the good governance committees.

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

| SEMIRARA MINING CORPORATION - BOARD OF DIRECTORS 2009 | | | | |
|---|---|---|---|---|
| | | Committee Membership | | |
| Directors | Board Membership | Nomination and Election Committee | Compensation and Remuneration Committee | Audit Committee |
| David M. Consunji | Chairman | | | |
| Isidro A. Consunji | Vice Chairman & CEO | Chairman | | |
| Victor A. Consunji | President & COO | | | Member |
| George G. San Pedro | Director & VP-Operations | | | |
| Ma. Cristina C. Gotianun | Director & VP-Administration | | Chairman | |
| Jorge A. Consunji | Director | | | |
| Herbert M. Consunji | Director | | Member | |
| Cesar A. Buenaventura | Director | | | |
| Ma. Edwina C. Laperal | Director | | | |
| Victor C. Macalincag | Independent Director | Member | Member | Chairman |
| Federico E. Puno | Independent Director | Member | | Member |

| BOARD OF DIRECTORS 2009 MEETING PERFORMANCE | | | | | |
|---|---|---|---|---|---|
| | Board Meetings, incl. Organiza-tional | Annual Stockholders' Meeting | Nomination and Election Committee | Compensation and Remuneration Committee | Audit Committee |
| David M. Consunji | 8/8 | 0/1 | | | |
| Isidro A. Consunji | 6/8 | 1/1 | 2/2 | | |
| Victor A. Consunji | 7/8 | 1/1 | | | 8/10 |
| George G. San Pedro | 4/8 | 1/1 | | | |
| Ma. Cristina C. Gotianun | 7/8 | 1/1 | | 1/1 | |
| Jorge A. Consunji | 8/8 | 1/1 | | | |
| Herbert M. Consunji | 6/8 | 1/1 | | 1/1 | |
| Cesar A. Buenaventura | 5/8 | 1/1 | | | |
| Ma. Edwina C. Laperal | 6/8 | 0/1 | | | |
| Victor C. Macalincag | 8/8 | 1/1 | 2/2 | 1/1 | 10/10 |
| Federico E. Puno | 7/8 | 0/1 | 2/2 | | 9/10 |

**Nomination and Election Committee**

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

In 2009, the Committee had two (2) meetings attended by all Members. It reviewed the qualifications of Board nominees for directorship ensuring they meet the requisite qualifications and endorsed the final list of nominees for election. It recommended, and the Board approved, an Executive Succession Plan Policy and Board performance evaluation system involving full board self-assessment and individual director peer evaluation. Consequently, it oversees the Board performance evaluation process and provides the results thereof to the Board, including private feedback to individual directors for affirmation and/or enhancement of performance.

The Committee Chairman has consistently attended the Annual Stockholders' Meetings in the past two years to give shareholders an opportunity to address the Committee.

**Compensation and Remuneration Committee**

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

In 2009, the Committee had one (1) meeting attended by all Members. It reviewed and discussed the overall Director and Executive remuneration and benefits framework, results of the Board's evaluation of the CEO's performance based on Board-approved financial and non-financial measures on key result areas, as well as provided private feedback of the evaluation results to the CEO. It also assisted and reviewed the compensation-related disclosures of Directors and Executives in the Company's annual and related reports to be in accordance with regulatory requirements and reporting standards.

The Committee Chairman has consistently attended the Annual Stockholders' Meetings of the Company's shareholders in the past two years.

**Audit Committee**

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

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

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

In 2009, the Committee had ten (10) meetings attended by all Members, except in May, August and September 2009 when meetings were held with a quorum of two Members. The Compliance Officer, Compliance Committee, and management officers of the finance, legal and internal audit units are regularly invited to Committee meetings to discuss updates in financial performance, regulatory developments and compliance matters.

The Committee also reviewed and discussed with Management the Company's budget, strategic risk management issues, investments in subsidiaries, conflict-of-interest, taxation, equity issues, industry developments, market and marketing issues. A summary of the Committee's significant activities during the year are discussed in a separate Audit Committee Report to the Board of Directors section.

The Internal Audit functionally reports directly and has unrestricted access to the Audit Committee. It provides Management and the Audit Committee with independent and objective assurance and advisory services of the Company's business processes, controls and risk management practices. It is guided by a Board-approved Internal Audit Charter and adopts a risk-based approach in accordance with International Auditing Standards.

The Committee Chairman has consistently attended the Annual Stockholders' Meetings of the Company's shareholders in the past two years.

**COMPLIANCE**

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

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

**SEC and PSE**

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

**Environment**

Environmental stewardship and social responsibility are core values of the Company. The Philippine coal industry is subject to stringent regulations of the Philippine government's Department of Environment and Natural Resources (DENR). The Company is compliant with all the conditionalities of its Environmental Compliance Certificate issued by the DENR relative to the development and opening of the Panian coal mine, and the closing and rehabilitation of its old mine. A Multi-Partite Monitoring Team (MMT) comprised of various government sector representatives and surrounding stakeholders, oversees the Company's compliance with the ECC conditions and all other applicable laws, rules and regulations. Consequently, the MMT issues a Compliance Monitoring and Verification Report on a quarterly basis.

**Safety**

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

**ENTERPRISE RISK MANAGEMENT**

The Board sets the tone and establishes the risk appetite level for the Company's Enterprise Risk Management (ERM) framework which provides reasonable assurance that risks are identified, assessed, managed, monitored and reported in a timely manner. It reviews and agrees on risk strategies for managing these risks.

The Audit Committee assists the Board in its risk management oversight that policies are followed, limits are respected and controls are put in place. The Internal Audit plays a significant role in the ERM through its continual monitoring and reporting of risk management practices. Functional unit heads as risk owners undertake a full assessment process to identify and quantify the risks inherent to and facing their respective business functions, assessing the adequacy of the prevention, monitoring and mitigation measures in addressing such risks. Results of the risk reviews are reported to the Audit Committee and thereafter to the Board.

In 2009, ERM initiatives involved enhancement and updating of control procedures, department policies, approval authorities and limits.

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

**GOOD GOVERNANCE PROGRAM**

The Company's good governance initiatives aim to foster a culture of compliance, performance, transparency and accountability within the organization and to enhance shareholder value.

**Board Performance Review**

The Company adopts best practices of good corporate governance for its Board performance evaluation processes which include scorecard measures, full Board self-assessment and peer director evaluation. The Board annually conducts a formal review of the CEO's performance based on key result areas and performance goals.

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

**Good Governance Guidelines for Board Directors**

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

**Code of Conduct**

Semirara Mining Corporation has adopted Codes of Conduct for Directors & Executive Officers, and Employees (Codes) to affirm the Company's standards of professional and ethical business conduct, workplace safety and environmental responsibilities. The Codes promote fair dealings with the Company's customers, service providers, suppliers, and other stakeholders. Directors, Officers and Employees are required to annually certify compliance with the Codes.

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

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

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

**Governance Training and Continuing Education**
The Board Directors, Officers and key Legal staff have participated in training on Corporate Governance and relevant governance topics. Directors are periodically provided reading materials on subjects relevant to their duties as part of their continuing education. They are encouraged to visit the Company's mine sites to gain a closer understanding of the current business operations and ongoing community projects.

In 2009, the Board Directors conducted a self-assessment of their skills and expertise, and identified training areas of interest which shall enhance their qualifications and effectiveness as Directors.

As part of its continuing advocacy for good corporate governance, the Company has participated in the Organization for Economic Co-operation and Development's 2009 Asian Roundtable on Corporate Governance and the Institute of Corporate Directors' initiatives of governance forums and working sessions.

**RECOGNITION**
The Company ranked among the Top 15 Publicly-Listed Companies in the 2008 "Corporate Governance Scorecard for Publicly-Listed Companies in the Philippines", a partnership project between the Institute of Corporate Directors, SEC, Philippine Stock Exchange and Ateneo Law School. The Scorecard project adopts the East Asian Template as part of a regional effort to improve corporate governance in East Asia. Likewise, the Company was among the Top 20 Philippine Listed Companies given due recognition in the same project in 2007. These achievements affirm the Company's significant and continuing progress in its overall corporate governance framework through the adoption of global best practices promoting higher standards of performance, transparency and accountability to all stakeholders.

The Company's coal mining activity is in its second year of certification as conforming to ISO 9001:2000, 14001:2004 and OHSAS 18001:2007 Standards on Quality Management System, Environmental Management System and Health and Safety Management System, respectively.

**SHAREHOLDER RIGHTS AND RELATIONS**
Semirara Mining Corporation promotes a good governance culture of transparency and equal respect of shareholders rights embodied in its Amended Manual on Corporate Governance. It maintains a share structure that gives all shares equal voting rights.

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

**WEBSITE**

The Company's organization structure, performance and significant corporate information, including disclosures may be viewed at the Company's website, www.semiraramining.com.

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

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

**SEMIRARA MINING CORPORATION**
2/F DMCI Plaza Building
2281 Don Chino Roces Avenue, Makati City
Philippines

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

# Semirara Mining Corporation and Subsidiary

Consolidated Financial Statements
December 31, 2009 and 2008
and Years Ended December 31, 2009, 2008 and 2007

and

Independent Auditors' Report

SyCip Gorres Velayo & Co.

# COVER SHEET

9 1 4 4 7

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  A N D  S
U B S I D I A R Y

(Group's Full Name)

2 2 8 1  D o n  C h i n o  R o c e s  A v e n u e ,  M a k a
t i  C i t y

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

| Ms. Junalina S. Tabor | 816-7301 |
|---|---|
| (Contact Person) | (Group Telephone Number) |

| 1 2 | 3 1 | A A F S | 0 3 | 0 9 |
|---|---|---|---|---|
| *Month* | *Day* | (Form Type) | *Month* | *Day* |
| (Fiscal Year) | | | (Annual Meeting) | |

(Secondary License Type, If Applicable)

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

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To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

S T A M P S

Remarks: Please use BLACK ink for scanning purposes.

## INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Semirara Mining Corporation
2281 Don Chino Roces Avenue
Makati City

We have audited the accompanying consolidated financial statements of Semirara Mining Corporation and Subsidiary, which comprise the consolidated statements of financial position as at December 31, 2009 and 2008, and, the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of three years in the period ended December 31, 2009, and a summary of significant accounting policies and other explanatory notes.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Philippine Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### Auditors' Responsibility

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

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

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

**Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Semirara Mining Corporation and Subsidiary as of December 31, 2009 and 2008, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2009 in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.

Jessie D. Cabaluna
Partner
CPA Certificate No. 36317
SEC Accreditation No. 0069-AR-2
Tax Identification No. 102-082-365
PTR No. 2087369, January 4, 2010, Makati City

March 9, 2010

**INDEPENDENT AUDITORS' REPORT**

The Stockholders and the Board of Directors
Semirara Mining Corporation

We have audited the accompanying consolidated financial statements of Semirara Mining Corporation and Subsidiary, which comprise the consolidated statements of financial position as at December 31, 2009 and 2008, and, the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of three years in the period ended December 31, 2009, and a summary of significant accounting policies and other explanatory notes.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Philippine Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

**Auditors' Responsibility**

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

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

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

**Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Semirara Mining Corporation and Subsidiary as of December 31, 2009 and 2008, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2009 in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.

Jessie D. Cabaluna
Partner
CPA Certificate No. 36317
SEC Accreditation No. 0069-AR-2
Tax Identification No. 102-082-365
PTR No. 2087369, January 4, 2010, Makati City

March 9, 2010

**INDEPENDENT AUDITORS' REPORT**
**ON SUPPLEMENTARY SCHEDULES**

The Stockholders and the Board of Directors
Semirara Mining Corporation and Subsidiary
2281 Don Chino Roces Avenue
Makati City

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of Semirara Mining Corporation and Subsidiary included in this Form 17-A and have issued our report thereon dated March 9, 2010. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the Index to Financial Statements and Supplementary Schedules are the responsibility of the Company's management. These schedules are presented for purposes of complying with the Securities Regulation Code Rules 68.1, and SEC Memorandum Circular No. 11, Series of 2008 and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state in all material respects, the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Jessie D. Cabaluna
Partner
CPA Certificate No. 36317
SEC Accreditation No. 0069-AR-2
Tax Identification No. 102-082-365
PTR No. 2087369, January 4, 2010, Makati City

March 9, 2010

## SEMIRARA MINING CORPORATION AND SUBSIDIARY

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

| | December 31 | |
|---|---|---|
| | **2009** | 2008 (Note 2) |
| **ASSETS** | | |
| **Current Assets** | | |
| Cash and cash equivalents (Notes 4, 27 and 28) | **₱481,920,935** | ₱1,012,409,162 |
| Receivables - net (Notes 3, 5, 16, 27 and 28) | **1,254,095,120** | 1,779,050,330 |
| Inventories - net (Notes 3, 6, 8 and 32) | **3,084,879,380** | 1,383,220,166 |
| Other current assets (Note 7) | **489,133,775** | 323,731,933 |
| Total Current Assets | **5,310,029,210** | 4,498,411,591 |
| **Noncurrent Assets** | | |
| Property, plant and equipment - net (Notes 3, 8, 18 ,22 and 32) | **17,818,687,301** | 1,106,064,258 |
| Investments and advances (Notes 3 and 9) | **244,432,588** | 223,231,759 |
| Other noncurrent assets - net (Notes 3, 10 and 28) | **454,762,349** | 283,749,310 |
| Total Noncurrent Assets | **18,517,882,238** | 1,613,045,327 |
| | **₱23,827,911,448** | ₱6,111,456,918 |

| | | |
|---|---|---|
| **LIABILITIES AND EQUITY** | | |
| **Current Liabilities** | | |
| Trade and other payables (Notes 11, 16, 27 and 28) | **₱2,857,535,375** | ₱1,189,370,180 |
| Current portion of long-term debt (Notes 12, 27, 28 and 32) | **2,658,981,352** | 389,233,320 |
| Income tax payable | – | 58,060,461 |
| Total Current Liabilities | **5,516,516,727** | 1,636,663,961 |
| **Noncurrent Liabilities** | | |
| Long-term debt - net of current portion (Notes 12, 28 and 32) | **8,364,484,229** | 137,065,242 |
| Deferred tax liabilities - net (Notes 3 and 23) | **72,056,929** | 14,125,154 |
| Provision for decommissioning and site rehabilitation (Notes 3 and 13) | **14,773,138** | 13,204,317 |
| Pension liability (Notes 3 and 17) | **12,935,734** | 9,498,998 |
| Total Noncurrent Liabilities | **8,464,250,030** | 173,893,711 |
| Total Liabilities | **13,980,766,757** | 1,810,557,672 |
| **Equity** (Note 14) | | |
| Capital stock | **296,875,000** | 296,875,000 |
| Additional paid-in capital | **1,576,796,271** | 1,576,796,271 |
| Deposit for future subscription | **5,402,125,985** | – |
| Retained earnings (Note 15) | | |
| Unappropriated | **2,400,238,695** | 2,256,119,235 |
| Appropriated | **700,000,000** | 700,000,000 |
| | **10,376,035,951** | 4,829,790,506 |
| Cost of shares held in treasury (Note 15) | **(528,891,260)** | (528,891,260) |
| Total Equity | **9,847,144,691** | 4,300,899,246 |
| | **₱23,827,911,448** | ₱6,111,456,918 |

*See accompanying Notes to Consolidated Financial Statements.*

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

| | Years Ended December 31 | | |
|---|---|---|---|
| | **2009** | 2008 (Note 2) | 2007 (Note 2) |
| **REVENUE** (Note 31) | | | |
| Coal | **₱11,500,192,811** | ₱8,490,045,380 | ₱6,466,700,620 |
| Power | **443,492,763** | – | – |
| | **11,943,685,574** | 8,490,045,380 | 6,466,700,620 |
| **COST OF SALES** (Notes 18 and 31) | | | |
| Coal (Note 16) | **8,921,965,253** | 6,943,585,844 | 5,193,989,609 |
| Power | **440,470,595** | – | – |
| | **9,362,435,848** | 6,943,585,844 | 5,193,989,609 |
| **GROSS PROFIT** | **2,581,249,726** | 1,546,459,536 | 1,272,711,011 |
| **OPERATING EXPENSES** (Notes 19 and 31) | **(749,582,032)** | (458,925,813) | (324,382,373) |
| **FINANCE INCOME** (Notes 21 and 31) | **52,752,896** | 77,234,983 | 40,301,348 |
| **FOREIGN EXCHANGE GAINS (LOSSES)** - net (Notes 27 and 31) | **47,703,017** | (82,781,003) | 102,964,270 |
| **FINANCE COSTS** (Notes 16, 20 and 31) | **(112,192,664)** | (101,240,084) | (140,251,461) |
| **EQUITY IN NET LOSSES OF ASSOCIATES** (Notes 9 and 31) | **(39,349,171)** | (1,768,241) | – |
| **OTHER INCOME** (Notes 22 and 31) | **92,268,468** | 54,442,772 | 9,423,888 |
| | **(708,399,486)** | (513,037,386) | (311,944,328) |
| **INCOME BEFORE INCOME TAX** | **1,872,850,240** | 1,033,422,150 | 960,766,683 |
| **PROVISION FOR (BENEFIT FROM) INCOME TAX** (Notes 23 and 31) | | | |
| Current | **5,362,577** | 290,501,414 | 333,672,822 |
| Deferred | **57,931,775** | (53,478,055) | (6,191,133) |
| | **63,294,352** | 237,023,359 | 327,481,689 |
| **NET INCOME** | **1,809,555,888** | 796,398,791 | 633,284,994 |
| **OTHER COMPREHENSIVE INCOME FOR THE PERIOD** | **–** | – | – |
| **COMPREHENSIVE INCOME FOR THE YEAR** | **₱1,809,555,888** | ₱796,398,791 | ₱633,284,994 |
| **Basic / Diluted Earnings per Share** (Note 24) | **₱6.52** | ₱2.87 | ₱2.28 |

*See accompanying Notes to Consolidated Financial Statements.*

## SEMIRARA MINING CORPORATION AND SUBSIDIARY
## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

| | Common Stock (Note 14) | Additional Paid-in Capital | Deposit for Future Subscription (Note 14) | Unappropriated Retained Earnings (Notes 2 and 15) | Appropriated Retained Earnings (Note 15) | Total | Cost of Shares Held in Treasury (Notes 14 and 15) | Grand Total |
|---|---|---|---|---|---|---|---|---|
| At January 1, 2009 | **₱296,875,000** | **₱1,576,796,271** | **₱–** | **₱2,256,119,235** | **₱700,000,000** | **₱4,829,790,506** | **(₱528,891,260)** | **₱4,300,899,246** |
| Deposit for future subscription | – | – | **5,402,125,985** | – | – | **5,402,125,985** | – | **5,402,125,985** |
| Net income for the period | – | – | – | **1,809,555,888** | – | **1,809,555,888** | – | **1,809,555,888** |
| Dividends | – | – | – | **(1,665,436,428)** | – | **(1,665,436,428)** | – | **(1,665,436,428)** |
| **At December 31, 2009** | **₱296,875,000** | **₱1,576,796,271** | **₱5,402,125,985** | **₱2,400,238,695** | **₱700,000,000** | **₱10,376,035,951** | **(₱528,891,260)** | **₱9,847,144,691** |
| At January 1, 2008 | ₱296,875,000 | ₱1,576,796,271 | ₱– | ₱2,270,011,644 | ₱1,000,000,000 | ₱5,143,682,915 | (₱528,891,260) | ₱4,614,791,655 |
| Net income for the period | – | – | – | 796,398,791 | – | 796,398,791 | – | 796,398,791 |
| Dividends | – | – | – | (1,110,291,200) | – | (1,110,291,200) | – | (1,110,291,200) |
| Reversal of appropriation | – | – | – | 800,000,000 | (800,000,000) | – | – | – |
| Additional appropriation | – | – | – | (500,000,000) | 500,000,000 | – | – | – |
| **At December 31, 2008** | ₱296,875,000 | ₱1,576,796,271 | ₱– | ₱2,256,119,235 | ₱700,000,000 | ₱4,829,790,506 | (₱528,891,260) | ₱4,300,899,246 |
| At January 1, 2007 | ₱296,875,000 | ₱1,576,796,271 | ₱– | ₱1,969,814,010 | ₱1,000,000,000 | ₱4,843,485,281 | (₱528,891,260) | ₱4,314,594,021 |
| Net income for the period | – | – | – | 633,284,994 | – | 633,284,994 | – | 633,284,994 |
| Dividends | – | – | – | (333,087,360) | – | (333,087,360) | – | (333,087,360) |
| **At December 30, 2007** | ₱296,875,000 | ₱1,576,796,271 | ₱– | ₱2,270,011,644 | ₱1,000,000,000 | ₱ 5,143,682,915 | (₱528,891,260) | ₱4,614,791,655 |

*See accompanying Notes to Consolidated Financial Statements.*

## SEMIRARA MINING CORPORATION AND SUBSIDIARY

## CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Years Ended December 31 | | |
|---|---|---|---|
| | **2009** | 2008 (Note 2) | 2007 (Note 2) |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Income before income tax | **₱1,872,850,240** | ₱1,033,422,150 | ₱960,766,683 |
| Adjustments for: | | | |
| Depreciation and amortization (Notes 8, 10 and 18) | **1,141,609,910** | 1,159,392,307 | 1,656,778,734 |
| Finance costs (Note 20) | **112,192,664** | 101,240,084 | 140,251,461 |
| Equity in net losses of associates (Note 9) | **39,349,171** | 1,768,241 | – |
| Pension expense (Note 17) | **3,745,508** | 4,839,774 | 8,861,276 |
| Donation of school campus (Note 30) | – | – | 18,164,254 |
| Gain on sale of equipment (Notes 8 and 22) | **(40,205,597)** | (44,713,500) | (5,173,911) |
| Finance income (Note 21) | **(52,752,896)** | (77,234,983) | (40,301,348) |
| Net unrealized foreign exchange losses (gains) | **(168,563,288)** | 71,788,836 | (41,555,757) |
| Operating income before changes in working capital | **2,908,225,712** | 2,250,502,909 | 2,697,791,392 |
| Changes in operating assets and liabilities: | | | |
| Decrease (increase) in: | | | |
| Receivables | **524,955,210** | (625,030,364) | (543,458,037) |
| Inventories | **(620,071,485)** | (7,161,948) | 263,719,356 |
| Other current assets | **(199,150,563)** | (21,002,963) | (27,266,378) |
| Increase in Trade and other payables | **1,561,774,355** | 415,558,669 | 188,104,222 |
| Cash generated from operations | **4,175,733,229** | 2,012,866,303 | 2,578,890,555 |
| Interest received | **86,501,617** | 78,114,701 | 34,820,344 |
| Interest paid | **(58,900,149)** | (88,561,504) | (116,098,795) |
| Income taxes paid | **(63,423,038)** | (272,607,496) | (324,074,439) |
| Net cash provided by operating activities | **4,139,911,659** | 1,734,812,004 | 2,173,537,665 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Additions to property, plant and equipment (Notes 8 and 30) | **(2,860,200,490)** | (1,704,529,706) | (214,754,775) |
| Acquisition of a business (Note 32) | **(6,957,172,798)** | – | – |
| Proceeds from sale of equipment | **745,980,367** | 1,532,458,450 | 5,380,800 |
| Decrease (increase) in other noncurrent assets (Note 10) | **(173,794,084)** | (273,475,426) | 5,684,483 |
| Additions to investments and advances | **(60,550,000)** | (144,128,793) | (80,871,207) |
| Proceeds from short-term cash investments | – | – | 300,000,000 |
| Contribution to the pension plan | – | – | (56,871,980) |
| Net cash used in investing activities | **(9,305,737,005)** | (589,675,475) | (41,432,679) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Availments of debt | **2,368,151,787** | 1,454,216,653 | 446,857,219 |
| Deposit for future subscription (Note 14) | **5,402,125,985** | – | – |
| Payment of dividends (Note 15) | **(1,665,436,428)** | (1,110,291,200) | (333,087,360) |
| Repayment of debt | **(1,469,504,225)** | (2,127,459,157) | (1,105,507,731) |
| Net cash provided by (used in) financing activities | **4,635,337,119** | (1,783,533,704) | (991,737,872) |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | **(530,488,227)** | (638,397,175) | 1,140,367,114 |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR** | **1,012,409,162** | 1,650,806,337 | 510,439,223 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** (Note 4) | **₱481,920,935** | ₱1,012,409,162 | ₱1,650,806,337 |

*See accompanying Notes to Consolidated Financial Statements.*

## SEMIRARA MINING CORPORATION AND SUBSIDIARY

## SUPPLEMENTARY SCHEDULE OF RETAINED EARNINGS
### FOR THE YEAR ENDED DECEMBER 31, 2009

| | | |
|---|---|---|
| Unappropriated Retained Earnings, as adjusted to available for dividend distribution, beginning | | ₱1,668,186,940 |
| Add: Net income actually earned/realized during the year | | |
| Net income during the year closed to Retained Earnings | 1,798,182,138 | |
| Less: Non-actual/unrealized income net of tax | | |
| Unrealized foreign exchange gain - net (except those attributable to Cash and cash equivalents) | (24,057,782) | |
| Accretion on Security Deposits | (19,664,993) | |
| Appraisal of Property, plant and equipment | (791,542,486) | |
| Add: Non-actual losses | | |
| Depreciation on revaluation increment (after tax) | 689,814,080 | |
| Accretion on Asset retirement obligation | 1,160,993 | |
| Amortization of Rent expense | 19,967,674 | |
| Provision for probable losses | 42,384,738 | |
| Unrecognized of deferred tax assets | 64,783,304 | |
| Accretion on Allowance for probable losses | (2,492,672) | |
| Provision of Allowance for doubtful accounts | 15,412,512 | |
| Provision of Allowance for inventory obsolescence | 34,636,501 | |
| Asset retirement obligation set up | 3,961,295 | |
| Net income actually earned during the period | | 1,832,545,302 |
| Add (less): | | |
| Dividend declarations during the period | | (1,665,436,428) |
| **Unappropriated Retained Earnings, available for dividend distribution, ending** | | **₱1,835,295,814** |

# SEMIRARA MINING CORPORATION AND SUBSIDIARY
# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 1. Corporate Information

Semirara Mining Corporation (the Parent Company) was incorporated on February 26, 1980. The Parent Company's registered and principal office address is at 2281 Don Chino Roces Avenue, Makati City, Philippines. The Parent Company is a majority-owned (56.46%) subsidiary of DMCI Holdings, Inc. (DMCI-HI), a publicly listed entity in the Philippines. Its ultimate parent company is Dacon Corporation.

The Parent Company's primary purpose is to search for, prospect, explore, dig and drill for mine, exploit, extract, produce, mill, purchase or otherwise, and generally deal in, ship coal, coke, and other coal products of all grades, kinds, forms, descriptions and combinations and in general the products and by-products which may be derived, produced, prepared, developed, compounded, made or manufactured there from within the purview of Presidential Decree No. 972, "*The Coal Development Act of 1976*", and any amendments thereto.

Its wholly owned subsidiary, Sem-Calaca Power Corporation ("SCPC" or "the Subsidiary") was incorporated on November 19, 2009, primarily to acquire, expand and maintain power generating plants, develop fuel for generation of electricity, and sell electricity to any person or entity through electricity markets, among others. SCPC's registered office is at 2nd Floor, DMCI Plaza Building, Pasong Tamo Extension, Makati City.

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

## 2. Summary of Significant Accounting Policies

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

Statement of Compliance
The consolidated financial statements of the Group have been prepared in compliance with Philippine Financial Reporting Standards (PFRS) as issued by the International Accounting Standards Board (IASB).

Basis of Consolidation
The consolidated financial statements comprise the financial statements of Semirara Mining Corporation and its wholly owned subsidiary, Sem-Calaca Power Corporation, as at December 31, 2009 and for the year then ended (see Note 1). The subsidiary is fully consolidated from the date of incorporation, being the date on which the Parent Company obtains control, and continues to be consolidated until the date that such control ceases. The results of subsidiaries acquired or disposed of during the year are included in the consolidated statements of comprehensive income from the date of acquisition or up to the date of the disposal, as appropriate.

The consolidated financial statements as of December 31, 2008 and for the years ended December 31, 2008 and 2007, as presented herein, were previously reported as the Balance sheet, Statement of income, Statement of changes in stockholders' equity and Statement of cashflow of Semirara Mining Corporation. For comparative purposes, these financial statements are titled "consolidated financial statements".

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

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

Changes in Accounting Policies

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those of the previous financial years except for the adoption of new and amended PFRS and Philippine Interpretations from International Financial Reporting Interpretation Committee (IFRIC) noted below.

*New Standards and Interpretations*

- Amendments to Philippine Accounting Standard (PAS) 1, *Presentation of Financial Statements*
- PAS 23, *Borrowing Costs* (Revised)
- PFRS 8, *Operating Segments*
- Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes*
- Philippine Interpretation IFRIC 16, *Hedges of a Net Investment in a Foreign Operation*
- Philippine Interpretation IFRIC 18, *Transfers of Assets from Customers*

*Amendments to Standards*

- Amendment to PFRS 7, *Financial Instruments: Disclosure*
- PAS 32 and PAS 1 Amendments, *Puttable Financial Instruments and Obligations Arising on Liquidation*
- PFRS 1 and PAS 27 Amendments, *Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*
- Amendment PFRS 2, *Vesting Conditions and Cancellations*
- PFRS 7 Amendment, *Improving Disclosures about Financial Instruments*
- Philippine Interpretation IFRIC 9 and PAS 39 Amendments, *Embedded Derivatives*

Improvements to PFRSs 2008 (and 2009)

- PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*
- PAS 1, *Presentation of Financial Statements*
- PAS 16, *Property, Plant and Equipment*
- PAS 19, *Employee Benefits*
- PAS 18, *Revenue*
- PAS 20, *Accounting for Government Grants and Disclosures of Government Assistance*
- PAS 23, *Borrowing Costs*
- PAS 27, *Consolidated and Separate Financial Statements*
- PAS 28, *Investments in Associates*
- PAS 29, *Financial Reporting in Hyperinflationary Economies*
- PAS 31, *Interests in Joint Ventures*
- PAS 36, *Impairment of Assets*
- PAS 38, *Intangible Assets*
- PAS 39, *Financial Instruments: Recognition and Measurement - Eligible Hedged Items*

- PAS 40, *Investment Properties*
- PAS 41, *Agriculture*

Standards or interpretations that have been adopted and that are deemed to have an impact on the consolidated financial statements or performance of the Group are described below

- Amendments to PAS 1, *Presentation of Financial Statements*
  The revised standard separates the owner and non-owner changes in equity. The consolidated statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented in a reconciliation of each component of equity. In addition, the Standard introduces the consolidated statement of comprehensive income: it presents all items of recognized income and expense, either in one single statement, or in two linked statements. The Group has elected to present a single statement.

- PAS 23, *Borrowing Costs* (Revised)
  The revised PAS 23 requires capitalization of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. The Group's previous policy was to expense borrowing costs as they were incurred. In accordance with the transitional provisions of the amended PAS 23, the Group has adopted the standard on a prospective basis. Therefore, borrowing costs will be capitalized on qualifying assets with a prevailing commencement date on or after January 1, 2009. In 2009, Equipment-in-transit and construction-in-progress account mostly contains purchased mining equipments that are still in transit, as such, no borrowing cost was capitalized.

- PFRS 8, *Operating Segments*
  This standard requires disclosure information about the Group's operating segments and replaces PAS 14, *Segment Reporting* which requires the determination of primary (business) and secondary (geographical) reporting segments of the Group. Disclosures required by PFRS 8 are presented in Note 31.

- Amendment to PFRS 7, *Financial Instruments: Disclosure*
  The amendments to PFRS 7, *Financial Instruments: Disclosures*, require additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by source of inputs using a three level fair value hierarchy, by class, for all financial instruments recognized at fair value. In addition, reconciliation between the beginning and ending balance for level 3 fair value measurements is now required, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and financial assets used for liquidity management. The liquidity risk disclosures are not significantly impacted by the amendments and are presented in Note 27.

- PFRS 1 and PAS 27 Amendments, *Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*
  The amendments to PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards*, allowed an entity to determine the 'cost' of investments in subsidiaries, jointly controlled entities or associates in its opening PFRS financial statements in accordance with PAS 27, *Consolidated and Separate Financial Statements*, or using a deemed cost method. The amendment to PAS 27 required all dividends from a subsidiary, jointly controlled entity or associate to be recognized in the income statement in the separate financial statement. The revision to PAS 27 was applied prospectively. The new requirement affects only the Parent Company's separate financial statement and does not have an impact on the consolidated

financial statements.

- PAS 18, *Revenue*
  The amendment adds guidance (which accompanies the standard) to determine whether an entity is acting as a principal or as an agent. The features to consider are whether the entity:

  - Has primary responsibility for providing the goods or service
  - Has inventory risk
  - Has discretion in establishing prices
  - Bears the credit risk

  The Group has assessed its revenue arrangements against these criteria and concluded that it is acting as principal in all arrangements. The revenue recognition policy has been updated accordingly.

Future Changes in Accounting Policies
The Group has not applied the following PFRS and Philippine Interpretations which are not yet effective as of December 31, 2009:

- Amendment to PFRS 3, *Business Combinations* (Revised) and to PAS 27, *Consolidated and Separate Financial Statements* (effective for annual periods beginning on or after July 1, 2009)
  PFRS 3 (Revised) introduces significant changes in the accounting for business combinations occurring after the effective date. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs and future reported results. The amendment to PAS 27 requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes by PFRS 3 (Revised) and PAS 27 (Amended) will affect future acquisitions or loss of control of subsidiaries and transactions with non-controlling interests. PFRS 3 (Revised) will be applied prospectively while PAS 27 (Amended) will be applied retrospectively with a few exceptions.

- Philippine Interpretation IFRIC 15, *Agreement for Construction of Real Estate* (effective for annual periods beginning on or after January 1, 2012)
  The Interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The Interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11, *Construction Contracts*, or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion. This Interpretation will have no impact on the consolidated financial statements because the Group does not conduct such activity.

- Philippine Interpretation IFRIC 17, *Distributions of Non-Cash Assets to Owners* (effective for annual periods beginning on or after July 1, 2009 with early application permitted)

This Interpretation provides guidance on how to account for non-cash distributions to owners. The Interpretation clarifies when to recognize a liability, how to measure it and the associated assets, and when to derecognize the asset and liability. The Group does not expect the Interpretation to have an impact on the consolidated financial statements as the Group has not made non-cash distributions to shareholders in the past.

*Amendments to Standards*

- PAS 39 Amendment - *Eligible Hedged Items* (effective for annual periods beginning on or after July 1, 2009)
  The amendment to PAS 39, Financial Instruments: Recognition and Measurement, clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. This also covers the designation of inflation as a hedged risk or portion in particular situations. The Group has concluded that the amendment will have no impact on the financial position or performance of the Group, as the Group has not entered into any such hedges.

- PFRS 2 Amendments - *Group Cash-settled Share-based Payment Transactions* (effective for annual periods beginning on or after January 1, 2010)
  The amendments to PFRS 2, *Share-based Payment,* clarify the scope and the accounting for group cash-settled share-based payment transactions. The Group has concluded that the amendment will have no impact on the financial position or performance of the Group as the Group has not entered into any such share-based payment transactions.

*Improvements to PFRS 2009*
The omnibus amendments to PFRS issued in 2009 were issued primarily with a view to removing inconsistencies and clarifying wording. The amendments are effective for annual periods financial years January 1, 2010 except otherwise stated. The Group has not yet adopted the following amendments and anticipates that these changes will have no material effect on the consolidated financial statements.

- PFRS 2, *Share-based Payment*: clarifies that the contribution of a business on formation of a joint venture and combinations under common control are not within the scope of PFRS 2 even though they are out of scope of PFRS 3, *Business Combinations* (Revised). The amendment is effective for financial years on or after July 1, 2009.

- PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*: clarifies that the disclosures required in respect of non-current assets and disposal groups classified as held for sale or discontinued operations are only those set out in PFRS 5. The disclosure requirements of other PFRSs only apply if specifically required for such non-current assets or discontinued operations.

- PFRS 8, *Operating Segment Information*: clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker.

- PAS 1, *Presentation of Financial Statements*: clarifies that the terms of a liability that could result, at anytime, in its settlement by the issuance of equity instruments at the option of the counterparty do not affect its classification.

- PAS 7, *Statement of Cash Flows*: explicitly states that only expenditure that results in a recognized asset can be classified as a cash flow from investing activities.

- PAS 17, *Leases*: removes the specific guidance on classifying land as a lease. Prior to the amendment, leases of land were classified as operating leases. The amendment now requires that leases of land are classified as either 'finance' or 'operating' in accordance with the general principles of PAS 17. The amendments will be applied retrospectively.

- PAS 36, *Impairment of Assets*: clarifies that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in PFRS 8 before aggregation for reporting purposes.

- PAS 38, *Intangible Assets*: The standard clarifies that if an intangible asset acquired in a business combination is identifiable only with another intangible asset, the acquirer may recognize the group of intangible assets as a single asset provided the individual assets have similar useful lives. Also clarifies that the valuation techniques presented for determining the fair value of intangible assets acquired in a business combination that are not traded in active markets are only examples and are not restrictive on the methods that can be used.

- PAS 39, *Financial Instruments: Recognition and Measurement*: clarifies the following:
  a) that a prepayment option is considered closely related to the host contract when the exercise price of a prepayment option reimburses the lender up to the approximate present value of lost interest for the remaining term of the host contract.
  b) that the scope exemption for contracts between an acquirer and a vendor in a business combination to buy or sell an acquiree at a future date applies only to binding forward contracts, and not derivative contracts where further actions by either party are still to be taken.
  c) that gains or losses on cash flow hedges of a forecast transaction that subsequently results in the recognition of a financial instrument or on cash flow hedges of recognized financial instruments should be reclassified in the period that the hedged forecast cash flows affect profit or loss.

- Philippine Interpretation IFRIC–9, *Reassessment of Embedded Derivatives*: clarifies that it does not apply to possible reassessment at the date of acquisition, to embedded derivatives in contracts acquired in a business combination between entities or businesses under common control or the formation of joint venture.

- Philippine Interpretation IFRIC–16, *Hedge of a Net Investment in a Foreign Operation*: states that, in a hedge of a net investment in a foreign operation, qualifying hedging instruments may be held by any entity or entities within the group, including the foreign operation itself, as long as the designation, documentation and effectiveness requirements of PAS 39 that relate to a net investment hedge are satisfied.

<u>Cash and Cash Equivalents</u>
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 and are free of any encumbrances.

<u>Financial Instruments</u>
Date of recognition
The Group recognizes a financial asset or a financial liability on the consolidated statement of financial position when it becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within the time frame

established by regulation or convention in the marketplace are recognized on the settlement date.

*Initial recognition of financial instruments*
All financial assets are initially recognized at fair value. Except for securities at fair value through profit or loss (FVPL), the initial measurement of financial assets includes transaction costs. The Group classifies its financial assets in the following categories: financial assets at FVPL, held-to-maturity (HTM) investments, available-for-sale (AFS) financial assets, and loans and receivables. The Group classifies its financial liabilities as financial liabilities at FVPL and other liabilities. The classification depends on the purpose for which the investments were acquired and whether these are quoted in an active market. Management determines the classification of its financial instruments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

As of December 31, 2009 and 2008, the Group's financial instruments are of the nature of loans and receivables, and other financial liabilities.

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

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

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

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

*Financial asset*
<u>Loans and Receivables</u>
Loans and receivables are financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. These are not entered into with the intention of immediate or short-term resale and are not designated as AFS or financial assets at FVPL. These are included in current assets if maturity is within 12 months from the reporting date otherwise;

these are classified as noncurrent assets. This accounting policy relates to the consolidated statement of financial position accounts “Cash and cash equivalents” and “Receivables”.

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

*Financial liabilities*
The Group financial liabilities consist of other financial liabilities at amortized cost.

<u>Other financial liabilities</u>
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.

<u>Impairment of Financial Assets</u>
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.

<u>Derecognition of Financial Assets and Liabilities</u>
*Financial Assets*
A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when:

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

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

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

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

Offsetting of Financial Instruments

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

Inventories

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

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

Mine Exploration, Evaluation and Development Costs

*Pre-license costs*

Pre-license costs are expensed in the period in which they are incurred.

*Exploration and evaluation costs*

Once the legal right to explore has been acquired, exploration and evaluation expenditure is charged to the profit or loss as incurred, unless the directors conclude that a future economic benefit is more likely than not to be realized. These costs include materials and fuel used, surveying costs, drilling costs and payments made to contractors.

In evaluating if expenditures meet the criteria to be capitalized, several different sources of information are utilized. The information that is used to determine the probability of future benefits depends on the extent of exploration and evaluation that has been performed. Exploration and evaluation expenditure incurred on licenses where a Joint Ore Reserves Committee (JORC) compliant resource has not yet been established is expensed as incurred until sufficient evaluation has occurred in order to establish a JORC compliant resource. Costs incurred during this phase are included as part of production cost.

Upon the establishment of a JORC compliant resource (at which point, the Group considers it probable that economic benefits will be realized), the Group capitalizes any further evaluation costs incurred for the particular license to exploration and evaluation assets up to the point when a JORC compliant reserve is established.

Once JORC compliant reserves are established and development is sanctioned, exploration and evaluation assets are tested for impairment and transferred to 'Mines under construction'. No amortization is charged during the exploration and evaluation phase.

*Mines under construction*

Upon transfer of 'Exploration and evaluation costs' into 'Mines under construction', all subsequent expenditure on the construction, installation or completion of infrastructure facilities is capitalized within 'Mines under construction.' Development expenditure is net of proceeds from all but the incidental sale of ore extracted during the development phase. After production starts, all assets included in ‘Mines under construction’ are transferred to ‘Mining equipment’.

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

Property, Plant and Equipment

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

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

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

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

Depreciation and amortization of assets commence once the assets are put into operational use.

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

| | Number of years |
|---|---:|
| Mining equipment | 2 to 13 years |
| Power plant and buildings | 10 to 21 years |
| Roads and bridges | 17 years |
| Other tools and equipment | 3 to 5 years |

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

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

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

Investments and Advances

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

An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture. Investments in associates are accounted for under the equity method of accounting.

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

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

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

Other intangible assets

Other intangible assets include computer software.

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

Internally generated intangible assets are not capitalized and expenditure is reflected in the 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 statement of comprehensive income when the asset is derecognized.

Input 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 net realizable value.

Business Combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the noncontrolling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed.

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

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit and loss. Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognized in accordance with IAS 39 either in profit or loss or as change to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity. Goodwill is initially measured at cost being the excess of the consideration transferred over the Group's net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in profit or loss.

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

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

Impairment of Non-financial Assets

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

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

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

<u>Revenue Recognition</u>
Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

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

*Sale of electricity*
Revenue from sale of electricity is derived from its primary function of providing and selling electricity to customers of its generated and purchased electricity. Revenue derived from the generation and/ or supply of electricity is recognized based on the actual delivery of electricity, net of adjustments, as agreed upon between parties.

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

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

<u>Borrowing Costs</u>
Borrowing costs directly relating to the acquisition, construction or production of a qualifying capital project under construction are capitalized and added to the project cost during construction until such time the assets are considered substantially ready for their intended use i.e., when they are capable of commercial production. Where funds are borrowed specifically to finance a project, the amount capitalized represents the actual borrowing costs incurred. Where surplus

funds are available for a short term out of money borrowed specifically to finance a project, the income generated from the temporary investment of such amounts is also capitalized and deducted from the total capitalized borrowing cost. Where the funds used to finance a project form part of general borrowings, the amount capitalized is calculated using a weighted average of rates applicable to relevant general borrowings of the Group during the period. All other borrowing costs are recognized in the profit or loss in the period in which they are incurred.

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

Pension Expense
The Group has a noncontributory defined benefit retirement plan.

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

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

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

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

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

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

financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

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

Provisions

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

*Provision for decommissioning and site rehabilitation*

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

Leases

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

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

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

*Group as a lessee*

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

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

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

Foreign Currency Translation

The Group's financial statements are presented in Philippine pesos, which is the functional and presentation currency. Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency closing rate at the reporting date. All differences are taken to the profit or loss.

Treasury Shares

Own equity instruments which are reacquired (treasury shares) are recognized at cost and deducted from equity. No gain or loss is recognized in the profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration is recognized in other capital reserves.

Earnings per Share (EPS)
Basic EPS is computed by dividing earnings applicable to common stock by the weighted average number of common shares outstanding after giving retroactive effect for any stock dividends, stock splits or reverse stock splits during the year. The Group has no outstanding dilutive potential common shares.

Segment Reporting
The Group's operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. Financial information on business segments is presented in Note 30.

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

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

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

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

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

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

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

ownership, the Group considered, among others, the significance of the lease term as compared with the estimated useful life of the related asset.

*Contingencies*
The Group is currently involved in various legal proceedings. The estimate of the probable costs for the resolution of these claims has been developed in consultation with outside counsel handling the Group's defense in these matters and is based upon an analysis of potential results. The Group currently does not believe that these proceedings will have a material adverse affect on its financial position. It is possible, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the strategies relating to these proceedings (see Note 26).

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

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

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

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

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

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

In 2009, there are reversals of provision amounting to ₱3.19 million. The reversal was recognized under the "Other income" account in the profit or loss. Receivables, net of allowance for impairment loss amounted to ₱1,254.10 million and ₱1,779.05 million as of December 31, 2009 and 2008, respectively (see Note 5).

*Estimating stock pile inventory quantities*
The Group estimates the stock pile inventory by conducting a topographic survey which is performed by in house surveyors. The survey is conducted on a monthly basis with a reconfirmatory survey at year end. The process of estimation involves a predefined formula which considers an acceptable margin of error of plus or minus 3%. Thus, an increase or decrease in the estimation threshold for any period would differ if the Group utilized different estimates and this would either increase or decrease the profit for the year. Coal pile inventory as of December 31, 2009 and 2008 amounted to ₱1,743.04 million and ₱896.73 million, respectively (see Note 6).

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

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

There were no additional provision made in 2009 and 2008. Spare parts and supplies of the Group, net of allowance for inventory write down of ₱53.29 million, amounted to ₱1,341.83 million and ₱486.49 million as of December 31, 2009 and 2008, respectively (see Note 6).

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

The discount rate applied in the calculation of the net present value of provision is 4.16% to 5.5% and 6.81% to 6.76% in 2009 and 2008, respectively. Rehabilitation expenditure is largely expected to take place from 2012 to 2027.

As of December 31, 2009 and 2008, the provision for decommissioning and site rehabilitation has a carrying value of ₱14.77 million and ₱13.20 million, respectively (see Note 13).

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

The net book value of the property, plant and equipment as of December 31, 2009 and 2008 amounted to ₱17,818.69 million and ₱1,106.06 million, respectively (see Note 8). The net book value of the software cost as of December 31, 2009 and 2008 amounted to ₱7.54 million and ₱5.37 million, respectively (see Note 10).

*Estimating impairment for nonfinancial assets*

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

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

An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit to which the asset belongs.

In determining the present value of estimated future cash flows expected to be generated from the continued use of the assets, the Group is required to make estimates and assumptions that can materially affect the consolidated financial statements. The nonfinancial assets of the Group include investments in associates, property, plant and equipment, and software cost.

The net book values of the investments in associates, property, plant and equipment, and software cost as of December 31, 2009 and 2008 follow:

| | **2009** | 2008 |
|---|---|---|
| Property, plant and equipment (Note 8) | **₱17,818,687,301** | ₱1,106,064,285 |
| Investments and advances (Note 9) | **244,432,588** | 223,231,759 |
| Software cost (Note 10) | **7,536,022** | 5,374,111 |
| | **₱18,066,966,348** | ₱1,334,670,155 |

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

In 2009, the Group has various deductible temporary differences from which no deferred tax assets have been recognized. Refer to Note 23 for the balances.

*Estimating pension and other employee benefits*
The determination of the obligation and cost of retirement and other employee benefits is dependent on the selection of certain assumptions used in calculating such amounts. Those assumptions include, among others, discount rates, expected returns on plan assets and salary increase rates and price for the retirement of pension (see Note 17). Actual results that differ from the Group's assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods. While the Group believes that the assumptions are reasonable and appropriate, significant differences

between actual experiences and assumptions may materially affect the cost of employee benefits and related obligations.

As of December 31, 2009 and 2008, the balances of the Group's defined benefit obligation and unrecognized actuarial gain follow (see Note 17):

| | **2009** | 2008 |
|---|---|---|
| Present value of defined benefit obligation | **₱46,346,745** | ₱39,107,208 |
| Unrecognized actuarial gains | **25,297,504** | 27,311,741 |

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

The accrued balance of unpaid vacation and sick leaves as of December 31, 2009 and 2008 amounted to ₱1.55 million and ₱1.40 million, respectively (see Note 11).

## 4. Cash and Cash Equivalents

This account consists of:

| | **2009** | 2008 |
|---|---|---|
| Cash on hand and in banks | **₱112,200,452** | ₱26,579,217 |
| Cash equivalents | **369,720,483** | 985,829,945 |
| | **₱481,920,935** | ₱1,012,409,162 |

Cash in banks earns interest at the respective bank deposit rates. Cash equivalents include short-term placements made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short-term placement rates.

## 5. Receivables

This account consists of:

| | **2009** | 2008 |
|---|---|---|
| Trade (Notes 27 and 28) | | |
| Local coal sales | **₱337,326,286** | ₱1,766,074,476 |
| Export coal sales | **414,815,233** | 7,344,063 |
| Electricity sales | **489,245,876** | – |
| Due from related parties (Notes 16, 27 and 28) | **9,067,242** | 6,607,698 |
| Others (Notes 27 and 28) | **27,352,040** | 25,926,943 |
| | **1,277,806,677** | 1,805,953,180 |
| Less allowance for impairment losses | **23,711,557** | 26,902,850 |
| | **₱1,254,095,120** | ₱1,779,050,330 |

<u>Trade</u>

*Coal sales*

Receivables from coal sales are noninterest-bearing and generally have 30 - 45 days' credit terms.

- Export sales - coal sold to international market which is priced in US Dollar.
- Local sales - coal sold to domestic market which is priced in Peso.

*Electricity sales*
Receivables from electricity sales are claims from power distribution companies for supply and distribution of contracted energy and are generally carried at original invoice amounts less discounts and rebates.

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

As at December 31, 2009 and 2008, trade receivables and other receivables with a nominal value of ₱23.71 million and ₱12.64 million were impaired and provided for. Movements in the allowance for impairment of receivables were as follows:

**2009**

| | **Local Coal Sales** | **Other Receivables** | **Total** |
|---|---|---|---|
| At January 1, 2009 | **₱17,018,649** | **₱9,884,201** | **₱26,902,850** |
| Reversals (Note 22) | **(3,191,293)** | **–** | **(3,191,293)** |
| Reclassifications | **(257,909)** | **257,909** | **–** |
| At December 31, 2009 | **₱13,569,447** | **₱10,142,110** | **₱23,711,557** |
| Individual impairment | **₱13,569,447** | **₱10,142,110** | **₱23,711,557** |

2008

| | **Local Coal Sales** | **Other Receivables** | **Total** |
|---|---|---|---|
| At January 1, 2008 | ₱12,056,502 | ₱14,846,348 | ₱26,902,850 |
| Reclassification | 4,962,147 | (4,962,147) | – |
| At December 31, 2008 | ₱17,018,649 | ₱9,884,201 | ₱26,902,850 |
| Individual impairment | ₱12,639,582 | ₱– | ₱12,639,582 |
| Collective impairment | 4,379,067 | 9,884,201 | 14,263,268 |
| | ₱17,018,649 | ₱9,884,201 | ₱26,902,850 |

## 6. Inventories

This account consists of:

| | **2009** | 2008 |
|---|---|---|
| Coal inventory at cost (Note 32) | **₱1,743,044,519** | ₱896,734,233 |
| Spare parts and supplies at NRV (Note 32) | **1,341,834,861** | 486,485,933 |
| | **₱3,084,879,380** | ₱1,383,220,166 |

The cost of spare parts and supplies amounted to ₱1,395.12 million and ₱539.77 million as of December 31, 2009 and 2008, respectively.

The cost of coal inventories recognized as expense in the profit or loss amounted to ₱8,921.97 million, ₱6,943.59 million and ₱5,193.99 million for the years ended December 31, 2009, 2008 and 2007, respectively (see Note 18).

## 7. Other Current Assets

This account consists of:

| | 2009 | 2008 |
|---|---|---|
| Advances to suppliers | **₱182,964,826** | ₱97,621,328 |
| Creditable withholding tax | **149,441,458** | – |
| 5% input value added tax (VAT) withheld | **117,455,626** | 190,500,982 |
| Prepaid rent | **27,719,442** | 19,967,673 |
| Prepaid insurance and others | **10,052,423** | 14,141,950 |
| Environmental guarantee fund | **1,500,000** | 1,500,000 |
| | **₱489,133,775** | ₱323,731,933 |

*Advances to suppliers*
The Advances to suppliers account represents payments made in advance for the acquisition of equipment, materials and supplies.

*5% input value added tax (VAT) withheld*
As a result of the enactment of Republic Act No. 9337 effective November 1, 2005 (see Note 23), NPC started withholding the required 5% input VAT on the VAT exempt coal sales of the Group. On March 7, 2007, the Group obtained a ruling from the Bureau of Internal Revenue which stated that the sale of coal remains exempt from VAT. In 2007, the Group filed a total claim for refund of ₱190.50 million from the BIR representing VAT erroneously withheld by NPC from December 2005 to March 2007, which eventually was elevated to the Court of Tax Appeals (CTA). On October 13, 2009, CTA granted the Parent Company's petition for a refund on erroneously withheld VAT initially on December 2005 sales amounting to ₱11.85 million. The Commissioner of Internal Revenue moved for reconsideration of the CTA's Decision. On November 21, 2009, the Parent Company filed its comment thereon. The motion for reconsideration remains pending to date. Management has estimated that the refund will be recovered after three (3) to five (5) years. Consequently, the claim for tax refund recognized at discounted amount ₱148.12 million. Interest income accretion amounted to ₱2.01 million for the year ended December 31, 2009 (see Note 21).

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

## 8. Property, Plant and Equipment

The rollforward analysis of this account follows:

**2009**

| | Mining Equipment | Power Plant and Buildings | Roads and Bridges | Equipment in Transit and Construction in Progress | Total |
|---|---|---|---|---|---|
| **At Cost** | | | | | |
| At January 1 | **₱8,927,359,286** | **₱1,449,535,036** | **₱279,062,950** | **₱209,605,721** | **₱10,865,562,993** |
| Acquisition of a business (Note 32) | – | **15,697,026,189** | – | – | **15,697,026,189** |
| Additions | **2,191,703,508** | **108,843,673** | – | **559,653,309** | **2,860,200,490** |
| Transfers | **154,665,201** | **43,408,474** | – | **(198,073,675)** | – |
| Disposals (Note 22) | **(998,267,572)** | – | – | – | **(998,267,572)** |
| At December 31 | **10,275,460,423** | **17,298,813,372** | **279,062,950** | **571,185,355** | **28,424,522,100** |
| **Accumulated Depreciation and Amortization** | | | | | |
| At January 1 | **8,458,905,294** | **1,021,788,873** | **278,804,568** | – | **9,759,498,735** |
| Depreciation and amortization (Note 18) | **804,854,479** | **316,734,991** | **258,382** | – | **1,121,847,852** |
| Disposals (Note 22) | **(275,511,788)** | – | – | – | **(275,511,788)** |
| At December 31 | **8,988,247,985** | **1,338,523,864** | **279,062,950** | – | **10,605,834,799** |
| **Net Book Value** | **₱1,287,212,438** | **₱15,960,289,508** | **₱–** | **₱571,185,355** | **₱17,818,687,301** |

2008

| | Mining Equipment | Power Plant and Buildings | Roads and Bridges | Equipment in Transit and Construction in Progress | Total |
|---|---|---|---|---|---|
| **At Cost** | | | | | |
| At January 1 | ₱8,930,642,580 | ₱1,425,618,757 | ₱279,062,950 | ₱207,937,003 | ₱10,843,261,290 |
| Additions | 1,551,863,209 | 23,916,279 | – | 128,750,218 | 1,704,529,706 |
| Transfers | 127,081,500 | – | – | (127,081,500) | – |
| Disposals (Note 22) | (1,682,228,003) | – | – | – | (1,682,228,003) |
| At December 31 | 8,927,359,286 | 1,449,535,036 | 279,062,950 | 209,605,721 | 10,865,562,993 |
| **Accumulated Depreciation and Amortization** | | | | | |
| At January 1 | 7,770,695,515 | 904,267,126 | 263,926,447 | – | 8,938,889,088 |
| Depreciation and amortization (Note 18) | 943,370,908 | 117,521,747 | 14,878,121 | – | 1,075,770,776 |
| Disposals (Note 22) | (255,161,129) | – | – | – | (255,161,129) |
| At December 31 | 8,458,905,294 | 1,021,788,873 | 278,804,568 | – | 9,759,498,735 |
| **Net Book Value** | ₱468,453,992 | ₱427,746,163 | ₱258,382 | ₱209,605,721 | ₱1,106,064,258 |

Equipment in transit and construction in progress account mostly contain purchased mining equipment in transit; as such no borrowing cost was capitalized in 2009.

Certain mining equipment has been pledged as collaterals to secure the indebtedness of the Group to a local bank (see Note 12).

## 9. Investments and Advances

This account consists of:

| | 2009 | 2008 |
|---|---|---|
| **Acquisition cost** | | |
| At beginning of year | **₱225,000,000** | ₱80,871,207 |
| Additions during the year | **25,000,000** | 144,128,793 |
| | **250,000,000** | 225,000,000 |
| **Accumulated equity in net earnings** | | |
| Balance at beginning of year | **(1,768,241)** | – |
| Equity in net losses during the year | **(39,349,171)** | (1,768,241) |
| Balance at ending of year | **(41,117,412)** | (1,768,241) |
| | **208,882,588** | 223,231,759 |
| **Advances for future subscription** | **35,550,000** | – |
| | **₱244,432,588** | ₱223,231,759 |

The Group's equity in the net assets of jointly controlled entities and the related percentages of ownership are shown below:

| | | Carrying Amounts | |
|---|---|---|---|
| | Ownership | 2009 | 2008 |
| DMCI Mining Corporation (DMCI-MC) | **50%** | **₱87,911,674** | ₱109,901,863 |
| DMCI Power Corporation (DMCI-PC) | **50%** | **156,520,914** | 113,329,896 |
| | | **₱244,432,588** | ₱223,231,759 |

On January 18, 2008, the Group entered into a Memorandum of Agreement (MOA) with DMCI-HI, for the following investments:

- DMCI-Mining Corporation (DMCI-MC), a corporation engaged in nickel mining and other base metals
- DMCI Power Corporation (DMCI-PC), a corporation engaged in power generation

The following table summarizes the significant financial information of the Group's associates:

| | 2009 | | 2008 | |
|---|---|---|---|---|
| | DMCI-PC | DMC-MC | DMCI-PC | DMC-MC |
| **Assets** | | | | |
| Current assets | **₱8,901,235** | **₱225,086,326** | ₱62,174,370 | ₱218,236,826 |
| Noncurrent assets | **541,008,336** | **21,771,995** | 156,062,456 | 346,504,106 |
| | **549,909,571** | **246,858,321** | 218,236,826 | 564,740,932 |
| **Liabilities** | | | | |
| Current liabilities | **(272,417,744)** | **(71,034,972)** | (6,003,986) | (123,317,484) |
| | **(₱277,491,827)** | **₱175,823,349** | ₱212,232,840 | ₱564,740,932 |
| **Net income (losses )** | **(₱34,717,965)** | **(₱43,980,377)** | (₱23,340,208) | ₱19,803,726 |

*DMCI-MC*
In March 2007, DMCI-MC entered into a Memorandum of Agreement (MOA) with Fil-Asian Strategic Resources and Properties Corporation (Fil-Asian) wherein Fil-Asian appointed the DMCI-MC to exclusively undertake mining operations in the municipalities of Sta. Cruz and Candelaria, Province of Zambales. The profits of the mining operations will be split equally

between the parties. The annual work program shall aim to accomplish five (5) million tons of ore in five (5) years. This agreement shall terminate upon the Group's extraction of five (5) million tons of laterite from the property, or the expiration of five (5) years from the date of the execution of this agreement, whichever comes first.

At the end of second quarter of 2009, DMCI-MC implemented a complete suspension of operations of its nickel and ore mining activities in Sta. Cruz, Zambales.

On October 7, 2009, Benguet Corp. has signed a mining contractorship and off-take agreement with DMCI-MC covering a portion of Benguet's 1,406-hectare Sta. Cruz nickel project located in Sta. Cruz, Zambales. The agreement allows DMCI-MC to explore, develop, mine and sell up to 200,000 metric tons of two percent high grade nickel ore for a period of three (3) years. All cost and related expenses for the exploration, development and mining of the above mentioned areas shall be for the sole account of DMCI-MC. All profits accruing from this Agreement, after deducting the costs and expenses connected with the production of the product, and over and above payment of all taxes and royalty, shall be divided equally between them.

*DMCI-PC*
On March 12, 2009, the BOD authorized the Parent Company to make an additional subscription to the unissued capital stock of DMCI-PC equivalent to 25.00 million shares at ₱1.00 par value or a total subscription price of ₱25.00 million payable in cash.

## 10. **Other Noncurrent Assets**

This account consists of:

| | **2009** | 2008 |
|---|---:|---:|
| Prepayment - security (Notes 27, 28 and 29) | **₱291,613,296** | ₱251,086,303 |
| Prepaid rent - noncurrent | **144,043,387** | 11,130,778 |
| Software cost - net | **7,536,022** | 5,374,111 |
| Others | **11,569,644** | 16,158,118 |
| | **₱454,762,349** | ₱283,749,310 |

Prepayment - security represents payments to and held by the lessor as security for the faithful and timely performance by the Group of all its obligations and compliance with all provisions of the equipment rental agreement (see Note 29). These prepayments shall be returned by the lessor to the Group after deducting any unpaid rental, and/or any other amounts due to the lessor for any damage or expense incurred to put the vehicle in good working condition.

As of December 31, 2009 and 2008, security deposits with a nominal amount of ₱89.86 million and ₱282.37 million, respectively, were recorded at amortized cost amounting to ₱81.28 million and ₱248.10 million, respectively. Interest income recognized on accretion of deposits amounted to ₱20.62 million and ₱2.99 million for the year ended December 31, 2009 and 2008, respectively, (see Note 21). The unamortized discount amounted to ₱19.24 million and ₱31.28 million as of December 31, 2009 and 2008, respectively.

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

Movements in software cost account follow:

| | **2009** | 2008 |
|---|---|---|
| **At Cost** | | |
| At January 1 | **₱10,102,737** | ₱4,609,747 |
| Additions | **6,009,831** | 5,492,990 |
| At December 31 | **16,112,568** | 10,102,737 |
| **Accumulated Amortization** | | |
| At January 1 | **4,728,626** | 2,879,265 |
| Amortization (Note 18) | **3,847,920** | 1,849,361 |
| At December 31 | **8,576,546** | 4,728,626 |
| **Net Book Value** | **₱7,536,022** | ₱5,374,111 |

## 11. Trade and Other Payables

This account consists of:

| | **2009** | 2008 |
|---|---|---|
| Trade | **₱1,683,028,961** | ₱984,870,898 |
| Due to related parties (Note 16) | **609,143,593** | 45,761,873 |
| Accrued expenses and other payables | **348,845,948** | 106,003,284 |
| Payable to DOE and local government units (Note 25) | **216,516,873** | 52,734,125 |
| | **₱2,857,535,375** | ₱1,189,370,180 |

Trade payables include liabilities amounting to ₱56.79 million (US$1.23 million) and ₱203.63 million (US$4.28 million) as of December 31, 2009 and 2008, respectively, to various foreign suppliers for open account purchases of equipment and equipment parts and supplies. Trade payables are noninterest-bearing and are normally settled on 30 to 60-day credit terms.

Details of the accrued expenses and other payables account follow:

| | **2009** | 2008 |
|---|---|---|
| Rental | **₱125,776,177** | ₱– |
| Interest | **115,735,925** | 64,012,231 |
| Withholding taxes | **27,978,187** | 23,020,711 |
| Salaries and wages | **9,320,216** | 3,134,031 |
| Professional fees | **7,401,786** | 1,261,786 |
| Others | **61,883,030** | 13,367,667 |
| | **₱348,095,321** | ₱106,003,284 |

Accrued interest arising from the acquisition of the Power Plant from PSALM amounted to ₱78.76 million as of December 31, 2009 (see Note 32).

## 12. **Long-term Debt**

This account consists of:

| | **2009** | 2008 |
|---|---|---|
| PSALM (Note 32) | **₱9,571,202,577** | ₱– |
| Bank loans | **1,400,812,833** | 515,017,314 |
| Deferred purchase payment | **474,363,625** | – |
| Acceptances and trust receipts payable | **51,450,171** | 11,281,248 |
| | **11,446,379,035** | 526,298,562 |
| Less current portion of: | | |
| PSALM | **1,681,081,972** | – |
| Bank loans | **926,449,209** | 377,952,072 |
| Acceptances and trust receipts payable | **51,450,171** | 11,281,248 |
| | **2,658,981,352** | 389,233,320 |
| | **₱8,787,397,683** | ₱137,065,242 |

Details of the bank loans follow:

| **Loan Type** | **Date of Availment** | **Outstanding Balance 2009** | **Outstanding Balance 2008** | **Maturity** | **Interest Rate** | **Payment Terms** | **Covenants/Collaterals** |
|---|---|---|---|---|---|---|---|
| | | (In Millions) | | | | | |
| **Local bank loans** | | | | | | | |
| Loan 1 | September 30, 2005 | ₱– | ₱57.32 | October 5, 2009 | 9% fixed p.a. | Payable in 48 equal monthly installments commencing on November 5, 2005 | Secured by collaterals on mining equipment (Note 8) |
| Other loans | Various in 2008 | **793.19** | 102.50 | Various dates in 2010 | 5.5-8.0% fixed p.a. | Various | None |
| **Foreign bank loans** | | | | | | | |
| Loan 1 | December 14, 2005 | **72.20** | 148.53 | November 30, 2010 | Based on SIBOR plus 1.95% p.a. | Repriceable and payable in 16 equal quarterly installments to commence 2 months after the draw down dates | Unconditional and irrevocable guarantee issued by Komatsu Asia and Pacific Pte Ltd. and other covenants |
| Other loans | Various availments in 2004 and 2005 | **61.06** | 206.67 | Various maturities in 2009 and 2010 | Based on 6-month USD LIBOR plus 1.5% p.a. | Payable in 10 equal consecutive semi-annual installments, the first of which was due and payable 6 months after the starting point | Unconditional and irrevocable guarantee issued by DMCI-HI (Note 17) |
| | | **₱1,400.81** | ₱515.020 | | | | |

The other covenants in loan 1 under the foreign bank loans require the Group to seek prior written notice to the lender in respect of any financial indebtedness for loans or credit extended by the Group to an affiliate and directors and officers in excess of US$3.00 million andUS$1.00 million, respectively, or their equivalent in other currencies.

## 13. Provision for Decommissioning and Site Rehabilitation

The rollforward analysis of this account follows:

| | **2009** | 2008 |
|---|---|---|
| At January 1 | **₱13,204,317** | ₱12,205,198 |
| Addition | **407,828** | – |
| Accretion of interest | **1,160,993** | 999,119 |
| At December 31 | **₱14,773,138** | ₱13,204,317 |

## 14. Capital Stock

The details of the Group's capital stock follow:

| | |
|---|---|
| Common stock - ₱1 par value | |
| Authorized - 1,000,000,000 shares | ₱1,000,000,000 |
| Issued and outstanding - 296,875,000 shares | 296,875,000 |

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

The number of shares held in treasury is 19,302,200 amounting to ₱528.89 million for the years then ended December 31, 2009, 2008 and 2007. No acquisitions were made as of December 31, 2009, 2008 and 2007.

Deposit for Future Subscription
On December 1, 2009, DMCI HI and Dacon Corporation advanced a deposit for future subscription of ₱4,500.00 million and ₱902.13 million, respectively.

## 15. Retained Earnings

Cash Dividends
On March 30, 2009, the BOD authorized the Parent Company to declare and distribute cash dividends of ₱6.00 per share or ₱1,665.44 million to stockholders of record as of April 30, 2009. The said cash dividends were paid on May 15, 2009.

On February 18, 2008, the BOD approved and declared cash dividends of ₱4.00 per share or ₱1,110.29 million to stockholders of record as of March 3, 2008. The said cash dividends were paid on March 27, 2008.

On March 26, 2007, the BOD approved and declared cash dividends of ₱1.20 per share or ₱333.09 million to stockholders of record as of April 12, 2007. The said cash dividends were paid on April 30, 2007.

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

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

Retained earnings are restricted for the payment of dividends to the extent of the cost of the common shares held in treasury amounting to ₱528.90 million as of December 31, 2009.

## 16. Related Party Transactions

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

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

a. In November 2006, the Group placed a short-term cash investment in DMCI-HI for a period of 180 days amounting to ₱300.00 million which bears interest at a rate of 11% per annum. Interest income earned in 2007 amounted to ₱8.05 million. On March 22, 2007, the short-term cash investment was terminated;

b. Continuing Indemnity Agreement dated September 3, 1998 with DMCI-HI and certain related parties whereby the Group, in consideration for guarantees extended by DMCI-HI and related parties in the form of Real Estate Mortgage (REM), standby letters of credit and other credit lines or facilities to secure the Group's indebtedness to various banks and creditors, agreed to indemnify and hold DMCI-HI and related parties free from and against any and all claims, liabilities, demands, actions, costs, expenses and consequences of whatever nature which may arise or result from said corporate guarantees. The Group further agreed to pay a fixed interest rate per annum on all sums or monies paid by DMCI-HI and related parties by reason of or in connection with the said corporate guarantees, letters of credit, credit facilities or REM; real properties of this affiliate were already freed from lien effective at the time when these old equipment loan were fully paid. The loans contracted in 2005 and 2006 were still guaranteed by DMCI-HI. Guarantee fees incurred amounted to ₱2.62 million, ₱7.91 million and ₱8.07 million for the years ended December 31, 2009, 2008 and 2007, respectively. These are included under finance costs in the profit or loss (see Note 20);

c. DMC-Construction Equipment Resources, Inc. (DMC-CERI), an affiliate, has transactions with the Parent Company for services rendered relating to the Parent Company's coal operations. These included services for the confirmatory drilling for coal reserve evaluation of identified potential areas, exploratory drilling of other minerals within Semirara Island, dewatering well drilling along cut-off wall of Panian mine and fresh water well drilling for industrial and domestic supply under an agreement. Expenses incurred for said services amounted to ₱166.22 million, ₱117.72 million and ₱113.14 million for the years ended December 31, 2009, 2008, and 2007, respectively. These are included under Cost of sales - Outside services (see Note 18);

DMC-CERI also provides to the Parent Company marine vessels for use in the delivery of coal to its various customers. The coal freight billing is on a per metric ton basis plus demurrage charges when delay will be incurred in the loading and unloading of coal cargoes. Expenses (at gross amount) incurred for these services amounted to ₱500.75 million, ₱246.94 million and ₱241.25 million for the years ended December 31, 2009, 2008 and 2007, respectively, and are included under Cost of sales - Shipping, hauling and shiploading costs (see Note 18). The reported expense of the Group is net of freight payment by NPC (billing is C&F);

Land lease rental with DMC-CERI amounting to ₱13.44 million was accrued during the year.

d. M&S Company, Inc. rent out various equipments used in the Parent Company's operations. Also, M&S Company supplies the rough lumber used by the Parent Company in its various projects and the seedlings to be planted on the areas surrounding the pit, in compliance with the agreement between the Parent Company and DENR. Rough lumbers purchased amounted to ₱39.01 million, ₱50.99 million and ₱8.38 million for years then ended December 31, 2009, 2008, and 2007, respectively. The related rental expense amounted to ₱91.49 million for the years then ended December 31, 2009, 2008 and 2007. This is included under other expenses of the production cost for the period.

e. D.M. Consunji, Inc. (DMCI) had transactions with the Parent Company representing equipment rental and other transactions such as transfer of equipment, hauling and retrofitting services. The related expenses amounted to ₱69.01 million, ₱17.21 million and ₱5.65 million for the periods ended December 31, 2009, 2008 and 2007, respectively. Equipment rentals amounted to ₱89.35 million, ₱11.83 million, and ₱3.19 million for the period ended December 31, 2009, 2008, and 2007. These are included under contracted services of the production cost for the period.

f. DMC Urban Property Developers, Inc. (UPDI) had transactions with the Parent Company representing long-term lease on office space and other transactions rendered to the Parent Company necessary for the coal operations. Office rental expense amounted to ₱7.78 million, ₱1.84 million and ₱5.00 million in 2009, 2008 and 2007, respectively

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

The following table summarizes the total amount of transactions due to or from related parties as of December 31, 2009 and 2008:

| | **2009** | 2008 |
|---|---|---|
| Due from related parties (see Note 5) | | |
| Under common control | **₱ 9,043,545** | ₱6,584,001 |
| Others | **23,697** | 23,697 |
| | **9,067,242** | 6,607,698 |
| Due to related parties (see Note 11) | | |
| Stockholders | **85,231,045** | – |
| Under common control | **162,389,000** | 44,349,830 |
| Others | **361,523,548** | 1,412,043 |
| | **609,143,593** | 45,761,873 |
| | **(₱600,076,351)** | (₱39,154,175) |

The Group has not recorded any impairment losses on its receivables relating to amounts owned by related companies. This assessment is undertaken each financial year.

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

| | **2009** | 2008 | 2007 |
|---|---|---|---|
| Short-term employee benefits | **₱19,519,829** | ₱15,009,863 | ₱13,188,401 |
| Post employment benefits | **1,268,462** | 1,456,793 | 1,604,192 |
| | **₱16,278,325** | ₱16,466,656 | ₱14,792,593 |

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

## 17. **Pension Plan**

The Group has a funded, noncontributory defined benefit plan covering substantially all of its employees.

The following table summarizes the components of pension expense in the profit or loss:

| | **2009** | 2008 | 2007 |
|---|---|---|---|
| Current service cost | **₱3,876,679** | ₱4,536,956 | ₱4,202,052 |
| Interest cost on benefit obligation | **3,734,738** | 2,212,513 | 4,659,224 |
| Benefits paid | **1,654,197** | – | – |
| Expected return on plan asset | **(3,415,197)** | – | – |
| Actuarial gain recognized | **(1,663,057)** | (1,909,695) | – |
| | **₱3,745,508** | ₱4,839,774 | ₱8,861,276 |

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

| | **2009** | 2008 |
|---|---|---|
| Present value of defined benefit obligation | **₱41,732,318** | ₱39,107,208 |
| Fair value of plan assets | **28,423,387** | 56,919,951 |
| Excess of present value of defined benefits over fair value of plan assets | **13,308,931** | (17,812,743) |
| Unrecognized actuarial gain | **377,427** | 27,311,741 |
| | **₱13,686,358** | ₱9,498,998 |

Movements in the present value of defined benefit obligation follow:

| | **2009** | 2008 |
|---|---|---|
| Balance at the beginning of the period | **₱39,107,208** | ₱27,760,518 |
| Current service cost | **3,876,679** | 4,536,956 |
| Interest cost on benefit obligation | **3,734,738** | 2,212,513 |
| Actuarial loss (gain) | **(1,571,110)** | 4,597,221 |
| Benefits paid | **(3,415,197)** | – |
| At December 31 | **₱41,732,318** | ₱39,107,208 |

Movements in the fair value of plan assets follow:

| | **2009** | 2008 |
|---|---|---|
| Balance at beginning of the period | **₱56,919,951** | ₱55,374,465 |
| Expected return on plan assets | **3,415,197** | – |
| Actuarial gain from plan assets | **(31,911,761)** | 1,545,486 |
| Balance at end of year | **₱28,423,387** | ₱56,919,951 |

The Group’s plan assets consist mainly of cash.

The rollforward of unrecognized actuarial gain (loss) follows:

| | **2009** | 2008 | 2007 |
|---|---|---|---|
| At beginning of period | **₱27,311,741** | ₱32,273,171 | (₱4,709,675) |
| Additional actuarial gain (loss) from plan obligations | **6,640,504** | (4,597,221) | 36,982,846 |
| Actuarial gain from plan assets | **(31,911,761)** | 1,545,486 | – |
| Actuarial gain recognized | **(1,663,057)** | (1,909,695) | – |
| At end of the period | **₱377,427** | ₱27,311,741 | ₱32,273,171 |

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

The assumptions used to determine pension benefits of the Group for the years ended December 31, 2009, 2008 and 2007 follow:

| | **2009** | 2008 | 2007 |
|---|---|---|---|
| Discount rate | **10.75%** | 9.55% | 7.97% |
| Salary increase rate | **3.00%** | 3.00% | 10.00% |
| Expected rate of return on plan assets | **6.00%** | 6.00% | 2.00% |

The amounts for the current and previous two periods follow:

| | **2009** | 2008 | 2007 |
|---|---|---|---|
| Present value of defined benefit obligation | **₱46,346,745** | ₱39,107,208 | ₱27,760,518 |
| Fair value of plan assets | **58,708,515** | 56,919,951 | 55,374,465 |
| Unfunded obligation | **(12,361,770)** | (17,812,743) | (27,613,947) |
| Experience adjustments on plan liabilities | **(6,640,504)** | (12,320,619) | (37,166,703) |
| Experience adjustments on plan assets | **(31,911,761)** | 1,545,486 | – |

As of December 31, 2009, the Group does not expect to contribution into the pension fund.

## 18. Cost of Sales and Services

Cost of coal sales consists of

| | **2009** | 2008 | 2007 |
|---|---|---|---|
| Materials and supplies (Note 16) | **₱2,469,067,063** | ₱2,289,843,994 | ₱1,304,615,144 |
| Outside services (Note 16) | **2,290,521,563** | 688,021,318 | 345,638,871 |
| Fuel and lubricants | **1,895,994,109** | 1,870,250,075 | 1,161,726,775 |
| Depreciation and amortization (Notes 8 and 10) | **1,037,072,834** | 1,154,232,140 | 1,651,861,176 |
| Shipping, hauling and shiploading costs (Note 16) | **525,769,005** | 380,577,351 | 253,282,342 |
| Direct labor | **366,772,235** | 264,843,502 | 244,503,934 |
| Production overhead | **336,768,444** | 295,817,464 | 232,361,367 |
| | **₱8,921,965,253** | ₱6,943,585,844 | ₱5,193,989,609 |

Cost of energy sales in 2009 consists of:

| | |
|---|---|
| Coal | **₱172,809,840** |
| Spot purchases | **154,852,467** |
| Depreciation and amortization (Notes 8 and 10) | **96,100,920** |
| Bunker | **7,169,892** |
| Coal handling expense | **3,387,368** |
| Diesel | **2,620,572** |
| Chemicals | **1,974,459** |
| Market fees | **1,265,307** |
| Lube | **289,770** |
| | **₱440,470,595** |

## 19. Operating Expenses

This account consists of:

| | 2009 | 2008 | 2007 |
|---|---|---|---|
| Government share (Note 26) | **₱450,151,548** | ₱253,381,663 | ₱191,290,056 |
| Personnel costs (Notes 17 and 18) | **140,485,645** | 87,214,869 | 67,852,077 |
| Provision for probable loss (Note 7) | **42,384,738** | – | – |
| Professional fees | **28,373,909** | 15,511,658 | 15,187,397 |
| Transportation and travel | **17,871,246** | 12,134,020 | 10,260,915 |
| Entertainment, amusement and recreation | **9,251,477** | 7,628,340 | 7,018,849 |
| Depreciation | **8,436,156** | 6,442,988 | 4,024,593 |
| Taxes and licenses | **2,729,342** | 3,568,231 | 1,017,989 |
| Office expenses and others | **49,897,971** | 73,044,044 | 27,730,497 |
| | **₱749,582,032** | ₱458,925,813 | ₱324,382,373 |

## 20. Finance Costs

The finance costs are incurred from the following financial liabilities:

| | 2009 | 2008 | 2007 |
|---|---|---|---|
| Interest on: | | | |
| Bank loans | **₱111,031671** | ₱70,134,901 | ₱124,272,283 |
| Acceptances and letters of credits, other short-term borrowings and accretion of interest on ARO (Note 13) | **1,160,993** | 31,105,183 | 15,274,663 |
| Purchase contracts | **–** | – | 704,515 |
| | **₱112,192,664** | ₱101,240,084 | ₱140,251,461 |

## 21. Finance Income

Finance income is derived from following sources:

| | **2009** | 2008 | 2007 |
|---|---|---|---|
| Interest on: | | | |
| Short term placements and temporary investments (Note 16) | **₱28,604,294** | ₱69,348,852 | ₱39,098,278 |
| Cash in banks | **1,514,481** | 4,892,729 | 1,203,070 |
| Accretion on security deposits (Note 10) | **20,623,718** | 2,993,402 | – |
| Accretion on input vat claim (Note 7) | **2,010,403** | – | – |
| | **₱52,752,896** | ₱77,234,983 | ₱40,301,348 |

## 22. Other Income

This account consists of:

| | **2009** | 2008 | 2007 |
|---|---|---|---|
| Gain on sale of equipment | **₱40,205,597** | ₱44,713,500 | ₱5,173,911 |
| Recoveries from insurance claims | **18,173,051** | 9,729,272 | 4,249,977 |
| Miscellaneous (Note 5) | **33,889,823** | – | – |
| | **₱92,268,471** | ₱54,442,772 | ₱9,423,888 |

## 23. Income Taxes

The reconciliation of the provision for income tax computed at the statutory income tax rate to the provision for income tax shown in the profit or loss follows:

| | **2009** | 2008 | 2007 |
|---|---|---|---|
| Statutory income tax rate | **30.00%** | 35.00% | 35.00% |
| Adjustments for: | | | |
| Unrecognized deferred tax assets | **3.81** | – | – |
| Additional deductible expense from adopt-a-school program | – | (0.25) | (0.38) |
| Interest income already subjected to final tax at a lower rate - net of nondeductible interest expense | **(0.03)** | (0.19) | (0.56) |
| Tax-exempt income | **(31.06)** | (11.46) | – |
| Change in tax rate | – | (0.22) | – |
| Effective income tax rate | **3.38%** | 22.94% | 34.06% |

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

| | **2009** | 2008 |
|---|---|---|
| Deferred tax assets on: | | |
| Accrual of expenses | **₱23,626,528** | ₱5,645,154 |
| Pension costs | – | 15,742,603 |
| Allowance for inventory write down | – | 15,986,077 |
| Unamortized discount on security deposits | – | 9,383,914 |
| Allowance for impairment losses | – | 8,070,855 |
| Provision for decommissioning and site rehabilitation | – | 3,961,295 |
| | **23,626,528** | 58,789,898 |
| Deferred tax liabilities on: | | |
| Incremental cost of property, plant and equipment | **25,353,248** | 46,951,572 |
| Net unrealized foreign exchange gains | **66,990,976** | 16,633,945 |
| Unamortized prepaid rent | **3,339,233** | 9,329,535 |
| | **95,683,457** | 72,915,052 |
| Net deferred tax liabilities | **(₱72,056,929)** | (₱14,125,154) |

In 2009, the Group has the following deductible temporary differences that are available for offset against future taxable income or tax payable for which deferred tax assets has not been recognized:

| | |
|---|---|
| Provision for probable loss | **₱59,191,517** |
| Allowance for inventory write down | **53,286,925** |
| Pension costs | **51,065,292** |
| Preoperating expenses | **25,326,938** |
| Allowance for doubtful accounts | **23,711,556** |
| Provision for decommissioning and site rehabilitation | **14,365,311** |
| Unamortized discount on security deposits | **10,655,997** |
| | **₱237,603,536** |

The Republic Act (R.A.) No. 9337 that was enacted into law in 2005 amended various provisions in the existing 1997 National Internal Revenue Code. Among the reforms introduced by the said R.A. was the reduction of the income tax rate from 35% to 30% beginning January 1, 2009.

Board of Investments (BOI) Incentives

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

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

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

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

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

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

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

## 24. Basic / Diluted Earnings Per Share

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

| | **2009** | 2008 | 2007 |
|---|---|---|---|
| Net income | **₱1,809,555,888** | ₱796,398,791 | ₱633,284,994 |
| Divided by the weighted average number of common shares outstanding | **277,572,800** | 277,572,800 | 277,572,800 |
| Basic / diluted earnings per share | **₱ 6.52** | ₱2.87 | ₱2.28 |

For the years ended December 31, 2009, 2008 and 2007, there were no outstanding dilutive potential common shares.

## 25. Coal Operating Contract with DOE

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

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

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

In return for the mining rights granted to the Parent Company, the Government is entitled to receive annual royalty payments consisting of the balance of the gross income after deducting operating expenses, operator's fee and special allowance. The Parent Company's provision for DOE's share (including accrued interest computed at 14% per annum on outstanding balance) under this contract and to the different local government units in the province of Antique, under the provisions of the Local Government Code of 1991, amounted to ₱450.15 million, ₱253.38 million and ₱191.29 million in 2009, 2008 and 2007, respectively. The liabilities, amounting to ₱216.52 million and ₱52.73 million are included under the "Trade and other payables" account in the statement of financial position (see Note 11).

The DOE, through the Energy Resources Development Bureau, approved the exclusion o3f coal produced and used solely by the Parent Company to feed its power plant in determining the amount due to DOE.

## 26. Contingencies and Commitments

*Electricity Sales Contracts*
The APA included a number of electricity sales contracts to electric cooperative located in close proximity to the plant. These sales agreements are full-requirement supply in nature. The pricing is tied to the NPC cost of electricity tariff which is allowed to be modified for the changes in foreign exchange and fuel cost. This tariff rate commonly referred to us as NPC time of use (TOU) rate. Also included in PSCs is Manila Electric Company (Meralco), largest distribution utility in Manila. This agreement also tied to NPC TOU rate but the monthly volumes are prescribed. In addition, the Subsidiary also acquired a bilateral contract with industrial customer. This agreement is tied to a basic rate which is then adjusted for changes in fuel cost, foreign exchange and inflation. In total, the capacity of these sales agreements covers a total of approximately 365MW of non-coincidental peak summer demand.

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

## 27. Financial Risk Management Objectives and Policies

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

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

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

*Interest Rate Risk*

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

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

**2009**

| | Interest | Within 1 year | 1-2 years | 2-3 years | 3-4 years | More than 4 years | Carrying Value |
|---|---|---|---|---|---|---|---|
| | | | | (In Thousands) | | | |
| **Cash equivalents** | | | | | | | |
| Interest Rates | 5.25% to 6.5% | **₱369,720** | **₱–** | **₱–** | **₱–** | **₱–** | **₱369,720** |
| **PSALM** | 11% fixed rate | **₱1,681,081** | **₱1,315,020** | **₱1,315,020** | **₱1,315,020** | **₱3,945,060** | **₱9,571,201** |
| **Local bank loans** | | | | | | | |
| Various bank loans | 5.5-8.0% fixed p.a. | **793,191** | – | – | – | – | **793,191** |
| **Foreign bank loans at floating rate** | | | | | | | |
| $6.64 million loan (USD) | 3 month SIBOR plus 1.95% p.a. | **72,202** | – | – | – | – | **72,202** |
| $15.14 million loan (USD) | 6 month USD LIBOR plus 1.5% p.a . | **61,055** | – | – | – | – | **61,055** |
| **Deferred purchase payments** | | | | | | | |
| Deferred purchase payment | 4%annum over rate180 days BBA Libor | – | **474,364** | – | – | – | **474,364** |
| **Acceptance and trust receipts** | | | | | | | |
| Various letters of credit | 8-11% interest rate | **51,450** | – | – | – | – | **51,450** |
| | | **₱2,658,979** | **₱1,789,384** | **₱1,315,020** | **₱1,315,020** | **₱3,945,060** | **₱11,023,463** |

2008

| | Interest | Within1 year | 1-2 years | 2-3 years | 3-4 years | More than 4 years | Carrying Value |
|---|---|---|---|---|---|---|---|
| | | (In Thousands) | | | | | |
| **Cash equivalents** | | | | | | | |
| Interest Rates | 5.25% to 6.5% | ₱1,012,409 | ₱– | ₱– | ₱– | ₱– | ₱1,012,409 |
| **Long-term debts** | | | | | | | |
| **Local bank loans at fixed rate** | | | | | | | |
| **Loan1** | | | | | | | |
| Local bank loan | 9% fixed p.a | ₱57,315 | ₱– | ₱– | ₱– | ₱– | ₱57,315 |
| **Other loans** | | | | | | | |
| Various local bank loans 8% interest rate | 5.5-8.0% fixed p.a | 102,497 | – | – | – | – | 102,497 |
| **Foreign bank loans at floating rate** | | | | | | | |
| Loan 1 | | | | | | | |
| $6.64 million loan (USD) 3 month SIBOR | Based on 1.95% p.a SIBOR plus. | 74,265 | 74,265 | – | – | – | 148,530 |
| **Other loans** | | | | | | | |
| $15.14 million loan (USD) plus 1.5% per annum | Based on 6-month USD 1.5% p.a LIBOR plus. | 143,875 | 62,800 | – | – | – | 206,675 |
| **Acceptance and trsut receipts** | | | | | | | |
| Various letters of credit 8-11% interest rate | | 11,281 | – | – | – | – | 11,281 |
| | | ₱389,233 | ₱137,065 | ₱– | ₱– | ₱– | ₱526,298 |

The following table demonstrates the sensitivity of the Group's profit before tax and equity to a reasonably possible change in interest rates on December 31, 2009 and 2008, with all variables held constant, through the impact on floating rate borrowings.

| Basis points (in hundred thousands) | Effect on profit before tax | | | |
|---|---|---|---|---|
| | **2009** | | 2008 | |
| | **In Peso** | **In USD** | In Peso | In USD |
| +100 | **(₱6,076)** | **(131.52)** | (₱3,555) | (74.80) |
| -100 | **6,076** | **131.52** | 3,555 | 74.80 |

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

*Liquidity Risk*

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

The tables below summarize the maturity profile of the Group's financial assets and liabilities as of December 31, 2009 and 2008 based on undiscounted contractual payments.

**2009**

| | Within 1 year | 1-2 years | 2-3 years | 3-4 years | Total |
|---|---|---|---|---|---|
| **Assets:** | | | | | |
| **Cash and cash equivalents** | **₱481,920,935** | **₱–** | **₱–** | **₱–** | **₱481,920,935** |
| **Receivables** | | | | | |
| Trade | | | | | |
| Local coal sales | **337,326,286** | – | – | – | **337,326,286** |
| Export coal sales | **414,815,233** | – | – | – | **414,815,233** |
| Electricity | **489,245,876** | | | | **489,245,876** |
| Due from related parties | **9,067,242** | – | – | – | **9,067,242** |
| Others | **11,569,645** | – | – | – | **11,569,645** |
| **Prepayment - security** | **270,751,295** | **20,862,001** | – | – | **291,613,296** |
| | **₱2,014,696,512** | **₱20,862,001** | **₱–** | **₱–** | **₱2,035,558,513** |
| **Liabilities**: | | | | | |
| **Trade and other payables** | | | | | |
| Trade | **₱1,683,028,961** | **₱–** | **₱–** | **₱–** | **₱1,683,028,961** |
| Due to related parties (Note 16) | **609,143,593** | – | – | – | **609,143,593** |
| Accrued expenses and other payables | **320,867,761** | – | – | – | **320,867,761** |
| Long-term debt | | | | | |
| **Fixed Rate** | | | | | |
| $361,481,091 purchase acquisition 11 interest rate | **1,759,837,065** | **1,315,020,101** | **1,315,020,101** | **5,260,080,403** | **9,649,957,670** |
| Various letters of credit 8-11% interest rate | **51,450,171** | – | – | – | **51,501,621** |
| Various local bank loans 5.5-8% interest rate | **793,191,385** | – | – | – | **793,984,576** |
| **Floating Rate** | | | | | |
| $15.14 million loan (USD) 6 months USD Libor plus 1.5% per annum | **61,055,376** | – | – | – | **61,055,376** |
| $6.64 million loan(USD) 3 months SIBOR plus 1.95% per annum | **72,202,448** | – | – | – | **72,202,448** |
| $4.63 million deferred purchase payment ,p.a. over the rate 180 days BBA LIBOR on 2 business days prior to 1st day of interest period | **1,344,513** | **474,363,625** | – | – | **475,708,138** |
| | **₱5,594,521,193** | **₱1,789,383,726** | **₱1,315,020,101** | **₱5,260,080,403** | **₱13,717,450,144** |

2008

| | Within 1 year | 1-2 years | 2-3 years | 3-4 years | Total – Gross (in ₱) |
|---|---|---|---|---|---|
| **Assets:** | | | | | |
| **Cash and Cash Equivalents** | ₱1,012,409,162 | ₱– | ₱– | ₱– | ₱1,012,409,162 |
| **Receivables** | | | | | |
| Trade | | | | | |
| Local sales | 1,766,074,476 | – | – | – | 1,766,074,476 |
| Export sales | 7,344,063 | – | – | – | 7,344,063 |
| Due from related parties | 6,607,698 | – | – | – | 6,607,698 |
| Others | 25,926,943 | – | – | – | 25,926,943 |
| **Prepayment -securitys** | – | 197,988,201 | 53,098,102 | – | 251,086,303 |
| | ₱2,915,983,670 | ₱197,988,201 | ₱53,098,102 | ₱– | ₱3,167,069,973 |
| | | | | | |
| **Liabilities:** | | | | | |
| **Trade and other payables** | | | | | |
| Trade | ₱984,870,898 | ₱– | ₱– | ₱– | ₱984,870,898 |
| Due to related parties (Note 16) | 45,761,873 | – | – | – | 45,761,873 |
| Accrued expenses and other payables | 82,982,573 | – | – | – | 82,982,573 |
| **Long term Debt** | | | | | |
| **Local bank loans** | | | | | |
| **Loan 1** | | | | | |
| ₱234.58 million promissory note | | | | | |
| 9.00% per annum | 59,705,710 | – | – | – | 59,705,710 |
| **Other loans** | | | | | |
| Various local loans | 103,203,383 | – | – | – | 103,203,383 |
| **Foreign bank loans** | | | | | |
| **Loan 1** | | | | | |
| US$6.64 million loan | | | | | |
| 3 month SIBOR | | | | | |
| Plus 1.95% per annum | 74,388,021 | 74,325,237 | – | – | 148,713,258 |
| **Other Loans** | | | | | |
| US$15.14 million loan | | | | | |
| 6 month USD LIBOR | | | | | |
| Plus 1.5% per annum | 144,006,798 | 62,849,554 | – | – | 206,856,352 |
| **Acceptances and trust receipt** | | | | | |
| Various letters of credits and suppliers debt with various interest rates | 11,281,248 | – | – | – | 11,281,248 |
| | ₱1,580,748,482 | ₱137,174,791 | ₱– | ₱– | ₱1,717,923,273 |

*Foreign Currency Risk*
The Group's foreign exchange risk results primarily from movements of the Philippine Peso (₱) against the US$. Majority of revenue are generated in Pesos, however, substantially all of capital expenditures are in US$. Approximately 88.30% and 30.16% of debts as of December 31, 2009 and 2008, respectively, were denominated in US$.

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

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

| | **December 31, 2009** | | December 31, 2008 | |
|---|---|---|---|---|
| | **U.S. Dollar** | **Peso Equivalent** | U.S. Dollar | Peso Equivalent |
| **Assets** | | | | |
| Cash and cash equivalents | **$6,388,441** | **₱295,145,974** | $828,243 | ₱39,358,107 |
| Trade receivables | **8,919,899** | **412,099,334** | 154,547 | 7,344,063 |
| **Liabilities** | | | | |
| Trade payables | **(2,094,555)** | **(96,768,441)** | (4,285,231) | (203,634,180) |
| Long-term debt (including current portion) | **(213,400,753)** | **(9,859,114,789)** | (7,475,029) | (355,213,366) |
| Net foreign currency denominated assets (liabilities) | **($200,186,968)** | **(₱9,248,637,922)** | ($10,777,470) | (₱512,145,376) |

*The spot exchange rates used in 2009 and 2008 were ₱46.20 to US$1 and ₱47.528 to US$1, respectively.*

The following table demonstrates the sensitivity to a reasonably possible change in foreign exchange rates, with all variables held constant, of the Group's income before tax (due to changes in the fair value of monetary assets and liabilities) on December 31, 2009 and 2008.

| Reasonably possible change in foreign exchange rate for every five units of Philippine Peso | Increase (decrease) in profit before tax **2009** | 2008 |
|---|---|---|
| ₱2 | **(₱1,343,329,140)** | (₱53,887,350) |
| (₱2) | **1,343,329,140** | 53,887,350 |

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

The Group recognized ₱47.70 million and (₱82.78) million foreign exchange gain(loss) for the year ended December 31, 2009 and 2008, respectively, arising from the translation of the Group's cash and cash equivalents, trade receivables, accounts payable and other payables and long-term debt.

*Credit Risk*
Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group trades only with recognized, creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. The Group evaluates the financial condition of the local customers before deliveries are made to them. On the other hand, export sales are covered by sight letters of credit issued by foreign banks subject to the Group's approval, hence,

mitigating the risk on collection. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

The Group generally offers 80% of coal delivered payable within 30 days upon receipt of billing and the remaining 20% payable within 15 days after receipt of final billing based on final analysis of coal delivered.

With respect to the credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. The Group transacts only with institutions or banks that have proven track record in financial soundness.

The credit risk is concentrated to the following markets:

| | **2009** | 2008 |
|---|---|---|
| Trade | | |
| Local sales | **65.15%** | 98.15% |
| Export sales | **32.70** | 0.41 |
| Other receivables | **2.16** | 1.44 |
| Total | **100.00%** | 100.00% |

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

| | **Gross Maximum Exposure** | |
|---|---|---|
| | **2009** | 2008 |
| Cash and cash equivalents | **₱481,920,935** | ₱1,012,409,162 |
| Receivables | | |
| Trade | | |
| Local coal sales | **337,326,286** | 1,766,074,476 |
| Export coal sales | **414,815,233** | 7,344,063 |
| Electricity sales | **489,245,876** | – |
| Due from related parties | **9,067,242** | 6,607,698 |
| Others | **27,352,040** | 25,926,943 |
| Security deposits | **291,613,296** | 251,086,303 |
| Total credit risk exposure | **₱4,103,931,816** | ₱3,069,448,645 |

As of December 31, 2009 and 2008, the credit quality per class of financial assets is as follows:

**2009**

| | Neither past due nor impaired | | Past due or Individually | |
|---|---|---|---|---|
| | Grade A | Grade B | Impaired | Total |
| Cash and cash equivalents | **₱481,920,935** | **₱–** | **₱–** | **₱481,920,935** |
| Trade | | | | |
| Local coal sales | **52,212,414** | **145,754,003** | **139,359,869** | **337,326,286** |
| Export coal sales | **407,471,171** | **–** | **7,344,062** | **414,815,233** |
| Electricity sales | **489,245,876** | **–** | **–** | **489,245,876** |
| Due from related parties | **9,067,242** | **–** | **–** | **9,067,242** |
| Others | **–** | **2,446,099** | **24,905,941** | **26,903,717** |
| Security deposits | **291,613,296** | **–** | **–** | **291,613,296** |
| Total | **₱1,731,530,934** | **₱148,200,102** | **₱171,609,872** | **₱2,050,892,585** |

**2008**

| | Neither past due nor impaired | | Past due or Individually | |
|---|---|---|---|---|
| | Grade A | Grade B | Impaired | Total |
| Cash and cash equivalents | ₱1,012,409,162 | ₱– | ₱– | ₱1,012,409,162 |
| Trade | | | | |
| Local sales | 763,031,999 | 72,668,132 | 930,374,345 | 1,766,074,476 |
| Export sales | 7,344,063 | – | – | 7,344,063 |
| Due from related parties | 6,607,698 | – | – | 6,607,698 |
| Others | – | 4,180,958 | 21,745,985 | 25,926,943 |
| Security deposits | 251,086,303 | – | – | 251,086,303 |
| Total | ₱2,040,479,225 | ₱76,849,090 | ₱952,120,330 | ₱3,069,448,645 |

Grade A cash and cash equivalents are short-term placements and working cash fund placed, invested or deposited in foreign and local banks belonging to top ten (10) banks in the Philippines in terms of resources and profitability.

Grade A accounts are accounts considered to be high value and are covered with coal supply agreements, for trade receivables. The counterparties have a very remote likelihood of default and have consistently exhibited good paying habits. Grade B accounts active accounts with minimal to regular instances of payment default, due to collection issues. These accounts are typically not impaired as the counterparties generally respond to credit actions and update their payments accordingly. The Group determines financial assets as impaired when probability of recoverability is remote and in consideration of lapse in period which the asset is expected to be recovered.

As of December 31, 2009 and 2008, the aging analysis of the Group's receivables presented per class is as follows:

**2009**

| | Past due but not impaired | | Impaired Financial | |
|---|---|---|---|---|
| | <45 days | 45-135 days | Assets | Total |
| Receivables | | | | |
| Trade - export coal sales | **₱7,344,062** | – | – | **₱7,344,062** |
| Trade - local coal sales | **115,432,444** | **10,357,978** | **13,569,447** | **139,359,869** |
| Others | **1,327,698** | **13,436,133** | **10,142,110** | **24,905,941** |
| Total | **₱124,104,204** | **₱23,794,111** | **₱23,711,557** | **₱171,609,872** |

**2008**

| | Past due but not impaired | | Impaired Financial | |
|---|---|---|---|---|
| | <45 days | 45-135 days | Assets | Total |
| Receivables | | | | |
| Trade - local sales | ₱877,327,836 | ₱36,027,859 | ₱17,018,649 | ₱930,374,344 |
| Advances to suppliers | – | – | 1,042,061 | 1,042,061 |
| Others | 3,119,218 | 9,784,628 | 8,842,140 | 21,745,986 |
| Total | ₱880,447,054 | ₱45,812,487 | ₱26,902,850 | ₱953,162,391 |

*Capital Management*

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

The following table shows the component of the Group's capital as of December 31, 2009 and 2008:

| | **2009** | 2008 |
|---|---|---|
| Total paid-up capital | **₱1,873,671,271** | ₱1,873,671,271 |
| Deposit for future subscription | **5,402,125,985** | – |
| Retained earnings - unappropriated | **2,339,199,415** | 2,256,119,235 |
| Retained earnings - appropriated | **700,000,000** | 700,000,000 |
| Cost of shares held in treasury | **(528,891,260)** | (528,891,260) |
| | **₱9,786,105,411** | ₱4,300,899,246 |

## 28. Fair Values

The following tables set forth the carrying values and estimated fair values of the Group's financial assets and liabilities recognized as of December 31, 2009 and 2008.

| | **2009** | | 2008 | |
|---|---|---|---|---|
| | **Carrying Value** | **Fair Value** | Carrying Value | Fair Value |
| **Financial Assets** | | | | |
| Loans and receivables: | | | | |
| Cash and cash equivalents | **₱481,920,935** | **₱481,920,935** | ₱1,199,684,057 | ₱1,199,684,057 |
| Trade | | | | |
| Local sales | **826,572,161** | **826,572,161** | 1,749,055,827 | 1,749,055,827 |
| Export sales | **414,815,233** | **414,815,233** | 7,344,063 | 7,344,063 |
| Due from related parties | **9,067,242** | **9,067,242** | 6,607,698 | 6,607,698 |
| Advances to suppliers | **182,964,826** | **182,964,826** | 96,579,267 | 96,579,267 |
| Others | **27,352,041** | **27,352,041** | 17,084,803 | 17,084,803 |
| Prepayment -security | **291,613,296** | **296,438,346** | 251,086,303 | 255,940,292 |
| Total | **₱2,234,305,734** | **₱2,239,130,784** | ₱3,327,442,018 | ₱3,332,296,007 |
| **Financial Liabilities** | | | | |
| Other financial liabilities: | | | | |
| Long-term debt | **₱11,023,465,581** | **₱11,651,440,391** | ₱526,298,562 | ₱533,900,484 |
| Trade and other payables | | | | |
| Trade payables | **1,683,028,961** | **1,683,028,961** | 966,531,831 | 966,531,831 |
| Accrued expenses and other payables | **320,867,761** | **320,867,761** | 100,114,782 | 100,114,782 |
| Due to related parties | **609,143,593** | **609,143,593** | 45,761,873 | 45,761,873 |
| Payable to DOE and local government units | **216,516,873** | **216,516,873** | 52,734,125 | 52,734,125 |
| Total | **₱13,853,022,769** | **₱14,480,997,579** | ₱1,691,441,173 | ₱1,699,043,095 |

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, receivables approximate the amount of consideration at the time of initial recognition.

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

Long-term Debt

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

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

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

## 29. Lease Commitments

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

As of December 31, 2009 and 2008, the future minimum lease payments under this operating lease is as follows:

| | **2009** | 2008 |
|---|---:|---:|
| Less than one year | **₱648,771,220** | ₱688,927,075 |
| After one year but not more than 2 years | **14,364,414** | 344,752,799 |
| | **₱663,135,634** | ₱1,033,679,874 |

*Land Lease Agreement*
Also as discussed in Note 32, the Group entered into a Land Lease Agreement with PSALM for the lease of land with which the plant is situated, for the period of 25 years, renewable for other 25 years with the mutual agreement of both parties. The Group paid US$3.19 million or its peso equivalent ₱150.57 million as payment for the 25 years of rental.

Part of the agreement, the Group has the option to buy an Option Assets. Option assets are parcels of land that form part of the leased premises which the lessor offers for the sale to the lease for which the lessor issues an Option Existence Notice. As of to date, no Option Existence Notice was issued for the parcel of land where the plant is located. The Group was also required to deliver and submit to the lessor a performance security amounting to ₱34.83 million in the form of Stand by Letter of Credits (SBLC). The performance security shall be maintained by the Group in full force and effect continuously without any interruption until the Performance Security expiration date. The Performance Security initially must be effective for the period of one year from the date of issue, to be replaced prior to expiration every year thereafter and shall at all times remain valid.

## 30. Note to Consolidated Statements of Cash Flow

Supplemental disclosure of noncash investing and financing activities follows:

| | **2009** | 2008 | 2007 |
|---|---|---|---|
| Acquisition of business (Note 32) | **₱9,571,202,577** | ₱– | ₱– |
| Acquisition of conventional and other mining equipment on account (Notes 11 and 12) | **474,363,625** | 639,570,147 | 158,962,249 |
| Assignment of APA and LLA (Note 32) | **54,343,156** | – | – |
| Donation of school campus | **–** | – | 18,164,254 |

On August 29, 2007 the BOD approved the donation of a two (2) storey, twelve (12) classrooms with complete basic school provisions situated in Barangay Semirara, Caluya, Antique in favor of Department of Education - Division of Antique.

## 31. Operating Segments

Segment Information

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

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

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

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

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

**2009**

| | In thousands | | | |
|---|---|---|---|---|
| | Mining | Power Generation | Adjustments and Eliminations | Consolidated |
| **Revenue** | | | | |
| Sales to external customers | **₱11,500,193** | **₱443,493** | **₱–** | **₱11,943,686** |
| Inter-segment sales | **175,039** | **956** | **(175,995)** | **–** |
| Equity in net loss of an associate | **(21,990)** | **(17,359)** | **–** | **(39,349)** |
| | **11,653,242** | **427,090** | | **11,904,337** |
| Cost of sale | **(8,053,399)** | **(344,370)** | **(964,667)** | **(9,362,436)** |
| Depreciation | **(1,045,501)** | **(96,109)** | **(1,141,610)** | **–** |
| Gross profit | **2,554,342** | **(13,389)** | | **2,541,901** |
| Operating expenses | **(715,498)** | **(121,748)** | **87,664** | **(749,582)** |
| **Operating profit** | **1,838,844** | **(135,137)** | | **1,792,319** |
| Other income | | | | **92,268** |
| Interest income | | | | **52,753** |
| Foreign exchange gain | | | | **47,703** |
| Interest expense | | | | **(112,193)** |
| Provision for income tax | | | | **(63,294)** |
| **Net income** | **₱1,797,740** | **₱62,934** | **(₱51,118)** | **₱1,809,556** |
| | | | | |
| **Operating assets** | **₱6,491,705** | **₱17,381,980** | **(₱290,206)** | **₱23,583,479** |
| **Investments and advances** | **87,912** | **156,521** | | **244,433** |
| | **₱6,403,793** | **₱17,225,459** | **(₱290,206)** | **₱23,827,912** |
| | | | | |
| **Operating liabilities** | **₱4,066,034** | **₱9,960,506** | **(₱117,830)** | **₱13,908,710** |
| **Deferred tax liability** | **35,910** | **36,147** | **–** | **72,057** |
| | **₱4,030,124** | **₱9,924,359** | **(₱117,830)** | **₱13,980,767** |
| **Other disclosures** | | | | |
| Capital expenditure | **₱2,850,705** | **₱15,706,522** | **₱–** | **₱18,557,227** |
| Investment in associates | **87,912** | **156,521** | **–** | **244,433** |

2008

| | In thousands | | | |
|---|---|---|---|---|
| | Mining | Power Generation | Adjustments and Eliminations | Consolidated |
| **Revenue** | | | | |
| Sales to external customers | ₱8,490,045 | ₱– | ₱– | ₱8,490,045 |
| Inter-segment sales | – | – | – | – |
| Equity in net earnings (loss) of an associate | 9,902 | (11,670) | – | (1,768) |
| | 8,490,045 | (11,670) | | 8,488,277 |
| Cost of sale | (5,789,354) | – | (1,160,675) | (6,943,586) |
| Depreciation | (1,160,675) | – | 1,160,675 | – |
| Gross profit | 1,546,459 | (11,670) | | 1,544,691 |
| Operating expenses | (458,926) | – | (6,443) | (465,369) |
| **Operating profit** | 1,081,090 | (11,670) | (957,179) | 1,079,322 |
| Other income | | | | 54,443 |
| Interest income | | | | 77,235 |
| Interest expense | | | | (101,240) |
| Foreign exchange gain (loss) | | | | (82,781) |
| Provision for income tax | | | | (237,023) |
| **Net income** | ₱808,069 | (₱11,670) | | ₱789,956 |
| | | | | |
| **Operating assets** | ₱6,111,457 | ₱– | (₱223,231) | ₱5,888,226 |
| **Investments and advances** | 223,231 | – | – | 223,231 |
| | ₱5,888,226 | ₱– | (₱223,231) | ₱6,111,457 |
| | | | | |
| **Operating liabilities** | ₱1,810,558 | ₱– | (₱72,185) | ₱1,738,373 |
| **Deferred tax liability** | 14,125 | – | – | 14,125 |
| **Income tax payable** | 58,060 | – | – | 58,060 |
| | ₱1,738,373 | ₱– | (₱72,185) | ₱1,810,558 |
| **Other disclosures** | | | | |
| Investment in associates | ₱223,231 | ₱– | ₱– | ₱223,231 |
| Capital expenditure | 1,704,530 | – | – | 1,704,530 |

2007

| | In thousands | | | |
|---|---|---|---|---|
| | Mining | Power Generation | Adjustments and Eliminations | Consolidated |
| **Revenue** | | | | – |
| Sales to external customers | ₱6,466,701 | ₱– | ₱– | ₱6,466,701 |
| Inter-segment sales | – | – | – | – |
| | 6,466,701 | – | – | 6,466,701 |
| Cost of sale | (3,542,128) | – | (1,651,861) | 5,193,989 |
| Depreciation | (1,655,886) | – | 1,655,886 | 1,651,861 |
| Gross profit | 1,272,711 | – | | 1,272,711 |
| Operating expenses | (320,358) | – | (4,025) | 324,382 |
| **Operating profit** | 948,329 | – | | 948,329 |
| Foreign exchange gain (loss) | | | | 102,964 |
| Interest income | | | | 40,301 |
| Other income | | | | 9,424 |
| Interest expense | | | | (140,251) |
| Provision for income tax | | | | (327,482) |
| **Net income** | ₱633,285 | ₱– | | ₱633,285 |
| | | | | |
| **Operating assets** | ₱6,558,472 | ₱– | ₱– | ₱6,558,472 |
| **Investments and advances** | 80,871 | – | – | 80,871 |
| | ₱6,477,601 | ₱– | ₱– | ₱6,639,343 |
| | | | | |
| **Operating liabilities** | ₱1,943,680 | ₱– | ₱– | ₱1,943,680 |
| **Deferred tax liability** | 67,603 | – | – | 67,603 |
| **Income tax payable** | 40,166 | – | – | 40,166 |
| | ₱1,835,911 | ₱– | ₱– | ₱2,051,449 |
| **Other disclosures** | | | | |
| Investment in associates | ₱80,871 | ₱– | ₱– | ₱80,871 |
| Capital expenditure | 214,755 | – | – | 214,755 |

1. Inter-segment revenues are eliminated on consolidation.
2. Cost of sales do not include depreciation and amortization expense charged during production.
3. Segment asset include investment in associates accounted for by the equity method
4. Segment liabilities exclude deferred tax liabilities amounting to ₱72.06 million, ₱14.13 million, and ₱67.60 million in 2009, 2008 and 2007, respectively; and income tax payable amounting to ₱58.06 million, and ₱40.17 million in 2008 and 2007, respectively. Long term bank loans are no longer included as these are managed on a group basis.
5. Capital expenditure consists of additions of property, plant and equipment including assets from the acquisition of business.
6. All non-current assets other than financial instruments are located in the Philippines.

Geographic Information

*Revenues from external customers*

The financial information about the operation of the Group as of December 31, 2009, 2008 and 2007 reviewed by the management follows:

| | **2009** | 2008 | 2007 |
|---|---|---|---|
| **Revenue** | | | |
| Local | **₱7,252,952,002** | ₱6,648,580,099 | ₱5,332,724,835 |
| Export | **4,247,240,809** | 1,841,465,281 | 1,133,975,785 |
| | **₱11,500,192,811** | ₱8,490,045,380 | ₱6,466,700,620 |

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

Sales to power company amounted to ₱4.30 billion, ₱3.41 billion and ₱2.86 billion for the years ended December 31, 2009, 2008 and 2007, respectively.

## 32. Business Combination

Pursuant to the mandate of the Electric Power Industry Reform Act (EPIRA) and in accordance with the Bidding Procedures dated July 8, 2009 for the sale of the 600-megawatt Batangas Coal-Fired Thermal Power Plant (the Power Plant) located in San Rafael Calaca Batangas, the Power Sector Assets and Liabilities Management (PSALM) conducted an open and competitive second round of public bidding for the sale of the Power Plant, at which DMCI-HI was selected as the winning bidder last July 8, 2009.

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

Under the Asset Purchase Agreement (APA), PSALM agreed to sell and transfer to, DMCI-HI on an "as is where is" basis, the Power Plant. The agreed Purchase Price amounting to US$351.0 million was for the total capacity of 600 MW for the two power plants as of December 2, 2009. As embedded in the APA, DMCI-HI will also entered into Land Lease Agreement (LLA) with PSALM for the lease of the land in which the Power Plant is situated, for the period of 25 years, renewable for another period of 25 years, upon mutual agreement of both Parties. Refer to Note 29.

On December 1, 2009, an Assignment Agreement was entered into between DMCI-HI and SCPC for the assignment of DMCI-HI's rights and obligations over the APA and LLA for a total consideration of ₱35.40 million. On December 2, 2009, an Amendment, Accession and Assumption Agreement (the Agreement) was also executed amongst PSALM, DMCI-HI and SCPC for PSALM to consent on the said assignment. Also provided under the Amendment, Accession and Assumption Agreement are the following provisions:

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

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

On the same date, SCPC successfully closed the purchase transaction with PSALM by paying the following:  1.)  ₱6,617.33 million representing the peso equivalent of the 40% down payment for the Purchase Price; 2.)  US$10.39 million as Rentals and the amount of Purchase orders of spare parts and materials; and, 3.)  ₱4.29 million as pro-rated premium for insurance on the Power Plant, corresponding to the period from December 2 to 31, 2009.  On the other hand, DMCI-HI submitted to PSALM closing deliveries including two stand-by letters of credit representing the down payment Security and the performance security on the LLA.  NPC was not able to deliver the required capacity as agreed in APA, thus, the cost of a combination of minor repairs, running repairs, major rehabilitation and possible replacement of components of the Power Plant with an estimated cost amounting to ₱288.39 million was deducted to the total Purchase Price.

The consideration paid was funded through the Parent Company deposit for future stock subscriptions (see Note 14).  The remaining 60% of the Purchase price is under deferred payments payable in 14 semi-annually of equal payments with an interest of 12% (see Note 12).

Included in the provision of the APA, the Group acquired the right to assume various power supply contracts (PSC) from National Power Corporation (NPC).

The fair values of the identifiable assets and liabilities as at the date of acquisition were:

| | |
|---|---:|
| Property, plant and equipment (Note 8) | ₱15,697,026,189 |
| Materials and supplies (Note 6) | 720,931,040 |
| Fuel and diesel (Note 6) | 86,705,538 |
| Coal (Note 6) | 273,935,933 |
| Total assets acquired | ₱16,778,598,700 |

Total consideration transferred for the acquisition follows:

| | |
|---|---:|
| Cash consideration | ₱6,957,172,798 |
| Payable to PSALM (Note 12) | 9,767,082,746 |
| Payable to DMCI-HI (Note 16) | 54,343,156 |
| Total cost | ₱16,778,598,700 |

The fair values disclosed are provisional due to the complexity of the acquisition and due to the inherently uncertain nature of the power generation industry.  The review of the fair value of the assets acquired will be completed within 12 months of the acquisition date at the latest.

## 33. Other Matters

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

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

Under EPIRA, NPC's generation assets are to be sold through transparent, competitive public bidding, while all transmission assets are to be transferred to the Transmission Company, initially a government-owned entity that is eventually being privatized. The privatization of these NPC assets has been delayed and is considerably behind the schedule set by the Department of Energy (DOE). EPIRA also created PSALM, which is to accept transfers of all assets and assume all outstanding obligations of NPC, including its obligations to IPPs. One of PSALM's responsibilities is to manage these contracts with IPPs after NPC's privatization. PSALM also is responsible for the privatizing at least 70% of the transferred generating assets and IPP contracts no later than three years from the effective date of the law.

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

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

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

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

b. **Clean Air Act**

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

c. **Contract for the Fly Ash of the Power Plant**

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

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

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

## 34. Approval of Financial Statements

The consolidated financial statements of Semirara Mining Corporation and Subsidiary as of December 31, 2009 and 2008 and for each of the three years in the period ended December 31, 2009 were endorsed for approval by the Audit Committee on March 4, 2010 and were authorized for issue by the Executive Committee of the Board of Directors (BOD) on March 9, 2010.