

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

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

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

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

For the Period Ending March 31, 2010  
Period Ended

QUARTERLY REPORT FORM 17-Q  
Form Type

**SEC FORM 17-Q**

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

- 1. For the quarter period ended **March 31, 2010**
- 2. Commission Identification Number **91447**
- 3. BIR Tax Identification No. **000-190-324-000**

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

**SEMIRARA MINING CORPORATION**

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

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

7. Address of issuer's principal office Postal Code

**2<sup>rd</sup> Floor, DMCI Plaza, 1231  
2281 Chino Roces Avenue, Makati City**

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

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

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

Title of each class	Number of shares of common Stock Outstanding
<u>Common Stock, P1.00 par value</u>	<u>277,572,800 shares</u>

11. 296,875,000 shares are listed in the Philippine Stock Exchange

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

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

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SEMIRARA MINING CORPORATION AND SUBSIDIARY  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
As of March 31, 2010

	(Unaudited) March 31, 2010	(Audited) December 31, 2009
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents	1,077,544,775	481,920,935
Receivables - net	2,433,025,197	1,254,095,120
Inventories - net	2,358,694,113	3,084,879,380
Other current assets	521,753,585	759,885,070
<i>Total Current Assets</i>	<i>6,391,017,670</i>	<i>5,580,780,505</i>
Noncurrent Assets		
Property, plant and equipment - net	18,299,726,122	17,818,687,301
Investments and advances	245,045,583	244,432,588
Other noncurrent assets	169,509,853	184,011,054
<i>Total Noncurrent Assets</i>	<i>18,714,281,558</i>	<i>18,247,130,943</i>
	<i>25,105,299,228</i>	<i>23,827,911,448</i>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current Liabilities		
Notes Payable	7,886,191,385	793,191,385
Current portion of long-term debt	111,430,436	1,865,789,967
Trade and other payables	5,136,551,319	2,857,535,376
Income tax payable	-	-
<i>Total Current Liabilities</i>	<i>13,134,173,140</i>	<i>5,516,516,728</i>
Noncurrent Liabilities		
Long-term debt - net of current portion	1,429,680,187	8,364,484,229
Deferred tax liability - net	72,056,929	72,056,929
Provision for decommissioning and site rehabilitation	14,773,138	14,773,138
Pension liability	13,629,780	12,935,734
<i>Total Noncurrent Liabilities</i>	<i>1,530,140,033</i>	<i>8,464,250,029</i>
<i>Total Liabilities</i>	<i>14,664,313,173</i>	<i>13,980,766,757</i>
Stockholders's Equity		
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	5,402,125,985
Retained earnings	3,694,080,058	3,100,238,695
Cost of shares held in treasury	(528,891,260)	(528,891,260)
<i>Total Stockholders' Equity</i>	<i>10,440,986,054</i>	<i>9,847,144,691</i>
	<i>25,105,299,228</i>	<i>23,827,911,448</i>

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

For the Quarter Ending March 31, 2010 and 2009

For the Period Ending March 31, 2010 and 2009

	(Unaudited) For the Period		(Unaudited) For the Quarter	
	2010	2009	2010	2009
<b>REVENUE</b>				
Coal	3,602,369,280	3,231,441,607	3,602,369,280	3,231,441,607
Power	2,491,076,916	-	2,491,076,916	-
	<u>6,093,446,196</u>	<u>3,231,441,607</u>	<u>6,093,446,196</u>	<u>3,231,441,607</u>
<b>COST OF SALES</b>				
Coal	2,375,278,445	2,577,026,226	2,375,278,445	2,577,026,226
Power	1,834,379,101	-	1,834,379,101	-
	<u>4,209,657,546</u>	<u>2,577,026,226</u>	<u>4,209,657,546</u>	<u>2,577,026,226</u>
<b>GROSS PROFIT</b>	<u>1,883,788,650</u>	<u>654,415,381</u>	<u>1,883,788,650</u>	<u>654,415,381</u>
<b>OPERATING EXPENSES</b>	(1,064,943,755)	(317,252,654)	(1,064,943,755)	(317,252,654)
<b>FINANCE INCOME</b>	1,038,731	1,166,417	1,038,731	1,166,417
<b>FOREIGN EXCHANGE GAINS (LOSSES)</b>	11,039,431	(565,726)	11,039,431	(565,726)
<b>FINANCE COSTS</b>	(202,242,232)	(9,826,462)	(202,242,232)	(9,826,462)
<b>EQUITY IN NET LOSSES OF ASSOCIATES</b>	612,995	(8,255,745)	612,995	(8,255,745)
<b>OTHER INCOME</b>	(8,329,838)	30,377,374	(8,329,838)	30,377,374
	<u>(1,262,824,668)</u>	<u>(304,356,796)</u>	<u>(1,262,824,668)</u>	<u>(304,356,796)</u>
<b>INCOME BEFORE INCOME TAX</b>	620,963,982	350,058,585	620,963,982	350,058,585
<b>PROVISION FOR INCOME TAX</b>	27,122,620	51,528,997	27,122,620	51,528,997
<b>NET INCOME</b>	<u>593,841,362</u>	<u>298,529,588</u>	<u>593,841,362</u>	<u>298,529,588</u>
<b>OTHER COMPREHENSIVE INCOME</b>	-	-	-	-
<b>TOTAL COMPREHENSIVE INCOME</b>	<u>593,841,362</u>	<u>298,529,588</u>	<u>593,841,362</u>	<u>298,529,588</u>
<b>Basic / Diluted Earnings per Share</b>	<u>2.14</u>	<u>1.08</u>	<u>2.14</u>	<u>1.08</u>
Basis of EPS :				
EPS = NET INCOME (LOSS) FOR THE PERIOD/NO. OF OUTSTANDING SHARES				
Wherein :				
Wtd Average Outstanding Shares	277,572,800	(as of March 31, 2010)		
Wtd Average Outstanding Shares	277,572,800	(as of March 31, 2009)		

SEMIPARA MINING CORPORATION AND SUBSIDIARY  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
As of March 31, 2010 and 2009

	Common Stock	Additional Paid-In Capital	Deposit for Future Stock Subscriptions	Unappropriated Retained Earnings	Appropriated Retained Earnings	Total	Cost of Shares Held In Treasury	Grand Total
At January 1, 2010	296,875,000	1,576,796,271	5,402,125,985	2,400,238,695	700,000,000	10,376,035,951	(528,891,260)	9,847,144,691
Net Income for the period				593,841,363		593,841,363		593,841,363
Dividends								
At March 31, 2010	<u>296,875,000</u>	<u>1,576,796,271</u>	<u>5,402,125,985</u>	<u>2,994,080,058</u>	<u>700,000,000</u>	<u>10,969,877,314</u>	<u>(528,891,260)</u>	<u>10,440,986,054</u>
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
Net Income for the period				298,529,589		298,529,589		298,529,589
Dividends				(1,665,436,800)		(1,665,436,800)		(1,665,436,800)
At March 31, 2009	<u>296,875,000</u>	<u>1,576,796,271</u>	<u>-</u>	<u>889,212,024</u>	<u>700,000,000</u>	<u>3,462,883,295</u>	<u>(528,891,260)</u>	<u>2,933,992,035</u>

SEMIRARA MINING CORPORATION AND SUBSIDIARY  
**CONSOLIDATED STATEMENTS OF CASH FLOW**  
As of March 31, 2010 and 2009

	(Unaudited)	
	2010	2009
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income before income tax	620,963,982	350,058,587
Adjustments for:		
Depreciation and amortization	645,098,769	307,317,970
Finance costs	202,242,232	9,826,462
Gain on sale of equipment	-	(11,681,218)
Finance revenue	(1,038,731)	(2,245,265)
Net unrealized foreign exchange gains	12,514,613	5,247,111
Equity in net earnings of associates	(612,995)	8,255,745
Provision for Income Tax	27,122,620	-
Pension expense	750,624	1,567,097
Operating income before changes in working capital	1,507,041,114	668,346,489
Decrease (increase) in:		
Receivables	(1,177,680,077)	(417,819,267)
Inventories	726,185,268	277,343,792
Other current assets	(343,733,411)	12,951,332
Increase (decrease) in:		
Trade and other payables	1,701,036,340	789,124,410
Cash generated from (used in) operations	2,412,849,234	1,329,946,756
Interest received	1,038,731	(33,992,737)
Interest paid	261,907,321	9,546,314
<b>Net cash provided by (used in) operating activities</b>	<b>2,675,795,286</b>	<b>1,305,500,333</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from (placement of) short-term cash investment	-	-
Decrease (increase) in other noncurrent assets	284,291,670	(73,793,260)
Proceeds from sale of equipment	-	495,739,385
Contribution to the pension fund	-	-
Additions to investments	-	(25,000,000)
Acquisition of a business	-	-
Additions to property, plant and equipment	(1,125,176,763)	(1,715,593,479)
<b>Net cash used in investing activities</b>	<b>(840,885,093)</b>	<b>(1,318,647,354)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Loan Availments	8,457,085,765	325,865,231
Loan Repayment	(9,696,372,120)	(454,100,470)
<b>Net cash provided by (used in) financing activities</b>	<b>(1,239,286,355)</b>	<b>(128,235,239)</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>595,623,838</b>	<b>(141,382,260)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>481,920,935</b>	<b>1,012,409,162</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>1,077,544,773</b>	<b>871,026,902</b>

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

### Basis of Preparation

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

### Statement of Compliance

The consolidated financial statements of the Group have been prepared in compliance with Philippine Financial Reporting Standards (PFRS) 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 March 31, 2010 and for the year then ended. 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 March 31, 2010 and for the year ended December 31, 2009, as presented herein, were previously reported as the Balance sheet, Statement of income, Statement of changes in stockholders' equity and Statement of cashflow of Semirara Mining Corporation. For comparative purposes, these financial statements are titled "consolidated financial statements".

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

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

### Changes in Accounting Policies

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those of the previous financial years except for the adoption of new and amended PFRS and Philippine Interpretations from International Financial Reporting Interpretation Committee (IFRIC) which became effective beginning January 1, 2009.

### *New Standards and Interpretations*

- Amendments to Philippine Accounting Standard (PAS) 1, *Presentation of*



#### *Financial Statements*

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

#### *Amendments to Standards*

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

#### *Derivatives*

#### *Improvements to PFRSs 2008 (and 2009)*

- PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*
- PAS 1, *Presentation of Financial Statements*
- PAS 16, *Property, Plant and Equipment*
- PAS 19, *Employee Benefits*
- PAS 18, *Revenue*
- PAS 23, *Borrowing Costs*
- PAS 27, *Consolidated and Separate Financial Statements*
- PAS 28, *Investments in Associates*
- PAS 29, *Financial Reporting in Hyperinflationary Economies*
- PAS 31, *Interests in Joint Ventures*
  
- PAS 36, *Impairment of Assets*
- PAS 38, *Intangible Assets*
- PAS 39, *Financial Instruments: Recognition and Measurement - Eligible Hedged Items*
- PAS 40, *Investment Properties*
- PAS 41, *Agriculture*

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

- Amendments to PAS 1, *Presentation of Financial Statements*  
The revised standard separates the owner and non-owner changes in equity. The consolidated statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented in a reconciliation of each component of equity. In addition, the Standard introduces

the consolidated statement of comprehensive income: it presents all items of recognized income and expense, either in one single statement, or in two linked statements. The Group has elected to present a single statement.

- **PAS 23, *Borrowing Costs* (Revised)**  
The revised PAS 23 requires capitalization of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. The Group's previous policy was to expense borrowing costs as they were incurred. In accordance with the transitional provisions of the amended PAS 23, the Group has adopted the standard on a prospective basis. Therefore, borrowing costs will be capitalized on qualifying assets with a prevailing commencement date on or after January 1, 2009. In 2009, Equipment-in-transit and construction-in-progress account mostly contains purchased mining equipments that are still in transit, as such, no borrowing cost was capitalized.
- **PFRS 8, *Operating Segments***  
This standard requires disclosure information about the Group's operating segments and replaces PAS 14, *Segment Reporting* which requires the determination of primary (business) and secondary (geographical) reporting segments of the Group. Disclosures required by PFRS 8 are presented in Note 32.
- **Amendment to PFRS 7, *Financial Instruments: Disclosure***  
The amendments to PFRS 7, *Financial Instruments: Disclosures*, require additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by source of inputs using a three level fair value hierarchy, by class, for all financial instruments recognized at fair value. In addition, reconciliation between the beginning and ending balance for level 3 fair value measurements is now required, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and financial assets used for liquidity management. The liquidity risk disclosures are not significantly impacted by the amendments and are presented in Notes 28 and 29.
- **PFRS 1 and PAS 27 Amendments, *Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate***  
The amendments to PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards*, allowed an entity to determine the 'cost' of investments in subsidiaries, jointly controlled entities or associates in its opening PFRS financial statements in accordance with PAS 27, *Consolidated and Separate Financial Statements*, or using a deemed cost method. The amendment to PAS 27 required all dividends from a subsidiary, jointly controlled entity or associate to be recognized in the profit or loss in the separate financial statement. The revision to PAS 27 was applied prospectively. The new requirement affects only

the Parent Company's separate financial statement and does not have an impact on the consolidated financial statements.

- **PAS 18, Revenue**  
The amendment adds guidance (which accompanies the standard) to determine whether an entity is acting as a principal or as an agent. The features to consider are whether the entity:
  - Has primary responsibility for providing the goods or service
  - Has inventory risk
  - Has discretion in establishing prices
  - Bears the credit risk

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

#### Future Changes in Accounting Policies

The Group has applied the following PFRS and Philippine Interpretations which are already effective :

- **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. This does not have a material impact on the consolidated financial statements.
- **Philippine Interpretation IFRIC 15, *Agreement for Construction of Real Estate* (effective for annual periods beginning on or after January 1, 2012)**  
The Interpretation covers accounting for revenue and associated expenses by

entities that undertake the construction of real estate directly or through subcontractors. The Interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11, *Construction Contracts*, or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion. This Interpretation will have no impact on the consolidated financial statements because the Group does not conduct such activity.

- **Philippine Interpretation IFRIC 17, *Distributions of Non-Cash Assets to Owners*** (effective for annual periods beginning on or after July 1, 2009 with early application permitted)  
This Interpretation provides guidance on how to account for non-cash distributions to owners. The Interpretation clarifies when to recognize a liability, how to measure it and the associated assets, and when to derecognize the asset and liability. The Group does not expect the Interpretation to have an impact on the consolidated financial statements as the Group has not made non-cash distributions to shareholders in the past.

#### *Amendments to Standards*

- **PAS 39 Amendment - *Eligible Hedged Items*** (effective for annual periods beginning on or after July 1, 2009)  
The amendment to PAS 39, *Financial Instruments: Recognition and Measurement*, clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. This also covers the designation of inflation as a hedged risk or portion in particular situations. The Group has concluded that the amendment will have no impact on the financial position or performance of the Group, as the Group has not entered into any such hedges.
- **PFRS 2 Amendments - *Group Cash-settled Share-based Payment Transactions*** (effective for annual periods beginning on or after January 1, 2010)  
The amendments to PFRS 2, *Share-based Payment*, clarify the scope and the accounting for group cash-settled share-based payment transactions. The Group has concluded that the amendment will have no impact on the financial position or performance of the Group as the Group has not entered into any such share-based payment transactions.

#### *Improvements to PFRS 2009*

The omnibus amendments to PFRS issued in 2009 were issued primarily with a view to removing inconsistencies and clarifying wording. The amendments are effective for annual periods financial years January 1, 2010 except otherwise stated. The Group

has not yet adopted the following amendments and anticipates that these changes will have no material effect on the consolidated financial statements.

- **PFRS 2, *Share-based Payment***: clarifies that the contribution of a business on formation of a joint venture and combinations under common control are not within the scope of PFRS 2 even though they are out of scope of PFRS 3, *Business Combinations (Revised)*. The amendment is effective for financial years on or after July 1, 2009.
- **PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations***: clarifies that the disclosures required in respect of non-current assets and disposal groups classified as held for sale or discontinued operations are only those set out in PFRS 5. The disclosure requirements of other PFRSs only apply if specifically required for such non-current assets or discontinued operations.
- **PFRS 8, *Operating Segment Information***: clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker.
- **PAS 1, *Presentation of Financial Statements***: clarifies that the terms of a liability that could result, at anytime, in its settlement by the issuance of equity instruments at the option of the counterparty do not affect its classification.
- **PAS 7, *Statement of Cash Flows***: explicitly states that only expenditure that results in a recognized asset can be classified as a cash flow from investing activities.
- **PAS 17, *Leases***: removes the specific guidance on classifying land as a lease. Prior to the amendment, leases of land were classified as operating leases. The amendment now requires that leases of land are classified as either 'finance' or 'operating' in accordance with the general principles of PAS 17. The amendments will be applied retrospectively.
- **PAS 36, *Impairment of Assets***: clarifies that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in PFRS 8 before aggregation for reporting purposes.
- **PAS 38, *Intangible Assets***: The standard clarifies that if an intangible asset acquired in a business combination is identifiable only with another intangible asset, the acquirer may recognize the group of intangible assets as a single asset provided the individual assets have similar useful lives. Also clarifies that the valuation techniques presented for determining the fair value of intangible assets acquired in a business combination that are not traded in active markets are only examples and are not restrictive on the methods that can be used.
- **PAS 39, *Financial Instruments: Recognition and Measurement***: clarifies the

following:

a) that a prepayment option is considered closely related to the host contract when the exercise price of a prepayment option reimburses the lender up to the approximate present value of lost interest for the remaining term of the host contract.

b) that the scope exemption for contracts between an acquirer and a vendor in a business combination to buy or sell an acquiree at a future date applies only to binding forward contracts, and not derivative contracts where further actions by either party are still to be taken.

c) that gains or losses on cash flow hedges of a forecast transaction that subsequently results in the recognition of a financial instrument or on cash flow hedges of recognized financial instruments should be reclassified in the period that the hedged forecast cash flows affect profit or loss.

- Philippine Interpretation IFRIC-9, *Reassessment of Embedded Derivatives*: clarifies that it does not apply to possible reassessment at the date of acquisition, to embedded derivatives in contracts acquired in a business combination between entities or businesses under common control or the formation of joint venture.
- Philippine Interpretation IFRIC-16, *Hedge of a Net Investment in a Foreign Operation*: states that, in a hedge of a net investment in a foreign operation, qualifying hedging instruments may be held by any entity or entities within the group, including the foreign operation itself, as long as the designation, documentation and effectiveness requirements of PAS 39 that relate to a net investment hedge are satisfied.

#### SEC Memorandum Circular (SMC) 8

On July 15, 2009, the SEC issued SMC 8, Series of 2009 which covers scales of fines for non-compliance with the financial reporting requirements of the SEC. The memorandum circular provides guidance on what is considered as material deficiency in the financial statements. Accordingly, the Group has provided additional disclosures for equity and operating expenses under summary of significant accounting policies in compliance with the said memorandum circular.

#### Financial Instruments

##### *Date of recognition*

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

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

All financial assets are initially recognized at fair value. Except for securities at fair

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

As of March 31, 2010 and December 31, 2009, the Group's financial instruments are of the nature of loans and receivables, and other financial liabilities.

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

#### *Determination of fair value*

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

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

#### *Day 1 difference*

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

### *Financial asset*

#### Loans and Receivables

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

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

### *Financial liabilities*

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

#### Other financial liabilities

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

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

#### Impairment of Financial Assets

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

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

### *Loans and receivables*

For loans and receivables carried at amortized cost, the Group first assesses whether



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

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

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

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

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of such credit risk characteristics as industry, customer type, customer location, past-due status and term. Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

## Derecognition of Financial Assets and Liabilities

### *Financial Assets*

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

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

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

### *Financial Liabilities*

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

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

## Offsetting of Financial Instruments

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

## Inventories

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

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

#### Mine Exploration, Evaluation and Development Costs

##### *Pre-license costs*

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

##### *Exploration and evaluation costs*

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

In evaluating if expenditures meet the criteria to be capitalized, several different sources of information are utilized. The information that is used to determine the probability of future benefits depends on the extent of exploration and evaluation that has been performed.

Exploration and evaluation expenditure incurred on licenses where a Joint Ore Reserves Committee (JORC) compliant resource has not yet been established is expensed as incurred until sufficient evaluation has occurred in order to establish a JORC compliant resource. Costs incurred during this phase are included as part of production cost.

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

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

##### *Mines under construction*

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

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

#### Property, Plant and Equipment

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

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

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

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

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

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

	<u>Number of years</u>
Mining equipment	<b>2 to 13 years</b>
Power plant and buildings	<b>10 to 21 years</b>
Roads and bridges	<b>17 years</b>
Other tools and equipment	<b>3 to 5 years</b>

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

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

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

#### Investments and Advances

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

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

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

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

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

#### Other intangible assets

Other intangible assets include computer software.

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

Internally generated intangible assets are not capitalized and expenditure is reflected in the profit or loss in the year in which the expenditure is incurred.

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

#### Input value-added tax (VAT)

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

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

#### Business Combinations

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

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

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

Goodwill is initially measured at cost being the excess of the consideration transferred over the Group's net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in profit or loss.

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

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

If the initial accounting for a business combination can only be determined on a provisional basis by the end of the period in which the combination is effected because either the fair values to be assigned to the acquiree's identifiable assets, liabilities or contingent liabilities or the cost of the combination can be determined only provisionally, the Parent Company accounts for the combination using those provisional values. The Parent Company recognizes any adjustment to those provisional values as a result of completing the initial accounting within 12 months from the acquisition date.

#### Impairment of Non-financial Assets

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

An assessment is made at each reporting date whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If any such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the

estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If such is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the profit or loss unless the asset is carried at revalued amount, in which case, the reversal is treated as a revaluation increase. After such reversal, the depreciation and amortization charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

#### *Investments in associates*

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

#### Revenue Recognition

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

#### *Sale of coal*

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

#### *Sale of electricity*

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

#### *Rendering of services*

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

#### *Finance income*

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



### Operating Expenses

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

### Borrowing Costs

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

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

### Pension Expense

The Group has a noncontributory defined benefit retirement plan.

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

The defined benefit obligation is calculated annually by an independent actuary using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using prevailing interest rate on government bonds that have terms to maturity approximating the terms of the related retirement liability. Actuarial gains and losses arising from experience

adjustments and changes in actuarial assumptions are credited to or charged against income when the net cumulative unrecognized actuarial gains and losses at the end of the previous period exceeded 10% of the higher of the present value of the defined benefit obligation and the fair value of plan assets at that date. These gains or losses are recognized over the expected average remaining working lives of the employees participating in the plan.

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

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

### Income Tax

#### *Current tax*

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

#### *Deferred tax*

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

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

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a

business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

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

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

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

#### Provisions

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

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

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

cost. Additional disturbances or changes in rehabilitation costs will be recognized as additions or charges to the corresponding assets and rehabilitation liability when they occur. For closed sites, changes to estimated costs are recognized immediately in the profit or loss.

#### Leases

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

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

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

#### *Group as a lessee*

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

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

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

#### Foreign Currency Translation

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

the profit or loss.

### Equity

The Group records common stocks at par value and additional paid-in capital in excess of the total contributions received over the aggregate par values of the equity share. Incremental costs incurred directly attributable to the issuance of new shares are deducted from proceeds.

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

### Treasury Shares

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

### Earnings per Share (EPS)

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

### Segment Reporting

The Group's operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets.

### Contingencies

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

### Events after the Reporting Period

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

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

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

### Judgment

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

#### *Determining functional currency*

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

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

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

#### *Contingencies*

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

#### Management's Use of Estimates

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

### *Revenue recognition*

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

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

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

### *Estimating 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.

### *Estimating stock pile inventory quantities*

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

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

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

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

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

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

#### *Estimating useful lives of property, plant and equipment and intangible assets*

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

#### *Estimating impairment for nonfinancial assets*

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

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

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

#### *Deferred tax assets*

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

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

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

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

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

### **2010 FIRST QUARTER OPERATION**

Towards the end of 2009, the Company negotiated to buy new mining equipment worth USD32.25 million. These included three units 16-tonner excavators, 25 units 100-tonner dumtrucks, support equipment and spare parts and accessories. These equipment started arriving at the site in November 2009 until the first quarter of this year.

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

Meanwhile, exploratory drilling activities beyond the ultimate pit limit of Panian mine are ongoing during the period.

Also, construction activities to complete another loading facility are on-going. This project is a necessary logistic support for the increasing mining capacity and growing demand for Semirara coal.

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

### **2010 FIRST QUARTER FINANCIAL CONDITION**

On 2 December 2009, the Company acquired its single biggest user of coal, the 2 x 300 MW power plants in Calaca, Batangas (the Power Plant). Although rehabilitation works still need to be done to maximize the Company's return of its investments, the Power Plant already contributed positively to the the Company's financial position during the quarter.

The core business of the Company generated Coal Sales of PHP3.60 billion, while the Power Plant recorded Energy Sales of PHP2.49 billion during the quarter, thus resulting to consolidated Revenues of PHP6.09 billion. Meanwhile, The Company and the Power Plant recorded Cost of Sales of PHP2.36 billion and PHP1.83 billion, respectively, consolidating to PHP4.21 billion. Consolidated Gross Profit amounted to PHP1.88 billion, PHP1.23 billion was generated by the coal business while PHP656.7 million was generated by the Power Plant.

The Company incurred Operating Expenses of PHP670.92 million, inclusive of provision for Government Share of PHP582.31 million. On the other hand, the Power Plant recorded Operating Expenses of PHP394.02 million. Consolidated Operating Expenses totaled to PHP1.06 billion.

In Q1, the Company recognized Interest Expenses amounting to PHP63.98 million for loans availed both for its operations and for the acquisition of the Power Plant. Meanwhile, the Power Plant incurred PHP139.26 million Interest Expenses mainly for bridge loans for the pre-payment of the more expensive loan from the Power Sector Assets and Liabilities Management Corporation (PSALM) for the deferred balance of the acquisition cost of the assets. Consolidated Interest Expenses totaled to PHP202.24 million.

On the other hand, the Company and the Power Plant recorded Interest Income for short-term placements amounting to PHP785.45 thousand and PHP253.28 thousand, respectively. Consolidated Interest Income was at PHP1.04 million.

The continued strengthening of the PHP against the USD proved beneficial for the Company during the quarter as foreign loans which were availed of when the USD was stronger were partially settled when it was weaker. Hence, the Company recognized Forex Gains of PHP47.29 million. On the other hand, the Power Plant, recorded Forex Losses of PHP36.20 million. This was primarily attributable to the partial pre-payment of the PSALM loan amounting to USD 100 million in January when the exchange rate was at USD1:PHP46.7, while the exchange rate as at the end of 2009 was lower at USD1:PHP46.2.

Meanwhile, the Company recognized Equity in Net Income of Associates amounting to PHP0.61 million from its investments in power and nickel mining.

The Company incurred Other Expenses of PHP11.27 million, while the Power plant generated Other Income of PHP2.94 billion, reflecting consolidated Other Expenses of PHP8.33 million.

Income Before Tax at consolidated level was PHP620.96 million, PHP530.56 and PHP90.41 million was respectively contributed by the Company and the Power Plant.

Since the Company enjoys an Income Tax Holiday as a Bureau of Investments (BOI)-registered company, no provision for Income Tax during the quarter was made. On the Other hand, the Power Plant recorded deferred Income Tax provision amounting to PHP27.12 million.

The resulting Income After Tax generated by the Company was PHP530.56 million, while the Power Plant generated PHP63.29 million. At consolidated level, Net Income After Tax for the period was at PHP593.84 million.

At consolidated level Current Assets, closed at PHP6.70 billion, the Company accounted for PHP3.64 billion, while the Power Plant at P3.06 billion. This posted a 20% growth from the account's beginning balance of PHP5.58 billion.

Cash and Cash Equivalents increased by 124% from PHP 481.92 million to PHP1.08 billion, PHP491.43 million was generated by the Company while PHP586.11 million came from the Power Plant. Both the Company and the Power Plant started to accumulate cash from healthy sales during the period.

Robust sales during the period likewise increased consolidated Net Receivables by 94% from beginning balance of PHP1.25 billion to PHP2.43 billion, PHP859.87 of which represented the Receivables of the Company while the Power Plant accounted for the remaining PHP1.57 billion. This is the main contributor to the growth in Current Assets.

On the other hand, consolidated Net Inventories dropped by 24% from beginning balance of PHP3.09 billion to PHP2.36 billion. The Company's Inventory level closed at PHP1.47 billion, while the Power Plant's ending balance was at PHP883.98 million.

Consolidated Other Current Assets posted a 31% reduction from PHP759.89 million to PHP521.75 million. The bulk of this was contributed by the Company amounting to PHP818.40, consisting mainly of security deposits from operating leases, advances to suppliers, claim to BIR for erroneously withheld output VAT by NPC, while the output VAT of PHP311.11 million of the Power Plant was offset to the mining company's claim of erroneously withheld output VAT amounting to P150.12 million plus other current assets of the Power Plant amounting to PHP14.47 million.

Consolidated Non-Current Assets also posted a slight 3% growth from PHP18.25 billion as at the start of the year to ending balance of PHP18.71 billion. The bulk of this came from the group's Property Plant and Equipment (PPE) account which also increase by 3% from beginning balance of PHP17.82 billion, closing at PHP18.30 billion. This is mainly comprised of the value of the PPE, net of depreciation for the quarter, of the newly acquired Power Plant amounting to PHP15.40 billion. The PPE of the Company closed at PHP2.89 billion with the additional acquisition of mining equipment amounting to PHP 1.06 billion during the quarter.

The Company's Investments and Advances slightly increased from PHP244.43 million as at the start of the year to PHP245.05 million. This minimal increase is due to the equity share in net income from investments.

Meanwhile, Consolidated Other Non-Current Assets posted an 8% drop from beginning balance of PHP 184.01 million to PHP169.51 million. Other Non-Current Assets of the Company closed at PHP25.47 million, while the Power Plant's amounted to PHP144.04 million as at the end of the period.

With the movements of the foregoing accounts, consolidated Total Assets stood at PHP25.11 billion, 7% more than the beginning balance of PHP23.83 billion. The Company's Total Assets closed at PHP6.81 billion, while the Power Plant recorded an ending balance of PHP15.55 billion.

Similarly, Consolidated Total Liabilities also increased by 7% from PHP13.98 billion as at the start of the year, closing at PHP14.66 billion as at the end of the quarter. The Company's Total Liabilities closed at PHP10.56 billion, while the Power Plant's ending balance was at PHP4.11 billion.

Total Current Liabilities posted a significant increase of 144% from beginning balance of PHP5.52 billion to PHP13.13 billion as at the end of the period, the Company accounted for PHP9.07 billion, while the Power Plant closed with PHP4.07 billion. This is explained by avilment of short-term bridge loans both by the Company and the Power Plant to pre-pay the more expensive PSALM loan. The loan will be taken out by a project financing facility which will be participated by three banks. While the lenders arrange and process the facility, they provided bridge financing to both the Company and the Power Plant to cut down interest expenses. This is reflected in the increase in Current Portion of Long-Term Debt by 329% from PHP1.87 billion beginning balance to PHP13.45 billion as at the end of the period. The Company and the Power Plant accounted for PHP4.85 billion and PHP3.15 billion, respectively.

Meanwhile, the 49% increase of the Trade and Other Payables account from PHP2.86 billion to PHP5.14 billion is primarily attributed to the advances made by affiliate companies to complete the pre-payment of the PSALM debt. Also, the Power Plant accrued real property taxes payable for the newly acquired assets. Of the ending balance, the Company accounted for PHP4.21 billion while the Power Plant at PHP1.23 billion.

On the other hand, Total-Non Current Liabilities dropped by 82% from beginning balance of PHP8.46 billion to PHP1.53 billion. This is mainly explained by the continuous amortization of Long-Term debts by the Company which is clearly reflected in the huge drop of the Long-Term Debt – net of current portion account by 83% from PHP8.36 billion beginning balance to PHP1.43 billion closing balance. The Power Plant has no long-term debts as at the end of the quarter since the PSALM debt was already fully pre-paid on 5 March 2010.

Pension Liability also posted a 5% increase from beginning balance of PHP12.94 million to PHP13.63 million closing balance due to additional provision during the quarter. Likewise, the Power Plant has not recognized any Pension Liability as of this time.

The Company's Provision for Decommissioning and Site Rehabilitation remained the same at PHP14.77 million.

Likewise, consolidated Deferred Tax Liabilities remained at PHP72.06 million as the group did not recognize additional deferred tax liabilities during the quarter. Of the

amount, the Company accounted for PHP35.91 million, while the Power Plant's deferred tax liabilities stood at PHP36.15 million.

The quarter's consolidated Net Income After Tax of PHP593.84 million beefed up consolidated Total Stockholders' Equity which closed at PHP10.44 billion from PHP9.85 billion, reflecting a growth of 6%.

## **2010 COMPARATIVE REPORT**

### **I. PRODUCTION**

The increase in mining capacity brought about by the acquisition of new mining equipment was reflected by the 20% growth in Total Material movement in the current quarter at 19,447,774 bcm as compared to Q1 2009 material movement of 16,205,095 bcm.

Meanwhile, with the strong demand for Semirara coal during the period more coal was produced to balance demand vis-à-vis extensive stripping activities which were permitted by the additional capacities. As a result, strip ratio is lower this period at 9.8:1 compared to 18.13:1 in Q1 2009. Consequently, ROM coal production is 121% more this period at 1,849,130 MTs as against 834,893 MTs in Q1 2009. Net product coal likewise increased by 116% at 1,689,238 MTs this quarter as against 780,340 MTs in the same period last year.

Ending inventory also posted an increase of 198% at 413,373 MTs this period compared to 138,743 MTs in Q1 2009.

### **II. MARKETING**

Demand for Semirara coal continued to soar as revealed in the 86% increase in sales this period at 2,003,473 MTs compared to Q1 2009 sales of 1,078,343 MTs.

The main growth driver is export sales which increased by 185% from 443,100 MTs in Q1 2009 to 1,262,884 MTs this year. Around 1 million MTs went to China, while the rest were distributed to Thailand, Taiwan, and Hong Kong. Consequently, the market share of export sales went up from 41% in Q1 2009 to 63% in the current quarter.

Likewise, sales to cement plants increased by 35% from 148,777 MTs in Q1 2009 to 201,481 MTs this period. All cement plant customers of the Company increased their purchases this quarter.

Sales to other industries also reflected a sizeable growth of 107% from 62,033 MTs in Q1 2009 to 124,309 MTs in the current period. This is due to the increased purchases of a local trader who found a niche in reselling to small industrial coal users.

On the other hand, sales to the power industry showed a minimal drop of 2% from 424,433 MTs last year to 414,799 MTs in the current period. This is mainly caused by the decrease in the off-take of the newly acquired Power Plant as rehabilitation works to improve the plants' capacities already started.

Composite average FOB price per MT decreased by 28% from PHP2,976 in Q1 2009 to PHP2,142 this quarter. With the acquisition of the Power Plant, the Company has amended its Coal Supply Contract, specifically the pricing mechanism, such that selling price to the Power Plant reflects the actual market price and not anymore set at import parity.

### **III. FINANCE**

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

High coal sales during the period sufficiently offset the 28% decrease in composite FOB price, such that total Coal Revenues recorded a 34% increase from PHP3.23 billion in Q1 2009 to PHP4.30 billion, inclusive of sales to the Power Plant, this quarter. After eliminating entries, the current period's consolidated Revenues posted an 89% increase over Q1 2009 Revenues.

Meanwhile, due to economies of scale and lower strip ratio, Cost of Coal Sold dropped by 8% at PHP2.38 billion from PHP2.58 billion in Q1 2009. However, consolidated Cost of Sales, inclusive of the costs incurred by the Power Plant amounting to PHP1.83 billion, is 63% more than Q1 2009 level.

The resulting consolidated Gross Profit indicated a 188% growth this period at PHP1.88 billion compared to Q1 2009 results of PHP654.21 million. Consolidated Gross Profit Margin likewise recorded an improvement at 31% in the current period as against 20% last year.

On the other hand, the Company's Operating Expenses reflected a sizeable jump of 111% at PHP670.92 million from PHP317.25 million in Q1 2009 after providing for higher Government Share during the current period. Consolidated Operating Expenses increased by 236% at PHP1.06 billion from Q1 2009 level.

Consolidated Finance Income, reflecting interest earned from short-term investments, is minimal this year at PHP1.04 million, declining by 11% from Q1 2009 earnings of PHP1.17 million. This is due to the utilization of both company's cash generation on PSALM debt pre-payment to minimize interest expenses.

Meanwhile, consolidated Forex Gains of PHP11.04 million was recognized after the gains recorded by the Company offset the losses of the Power Plant. In Q1 2009, the Company incurred Forex Losses amounting to PHP565.73 thousand.

Finance Costs surged after both the Company and the Power Plant incurred interest expenses related to the acquisition of the assets. Consolidated Finance Costs of PHP202.24 million, of which PHP62.98 million was incurred by the Company while PHP139.26 million was incurred by the Power Plant, is 1,958% more than the minimal Finance Costs of PHP9.83 million recorded by the Company in Q1 2009.

The Company recognized Equity in Net Income of Associated amounting to PHP613.00 thousand in the current quarter, as against the losses of PHP8.26 million incurred in Q1 2009. This is due to the positive results of the Company's investment in DMCI Mining Corp.

On the other hand, the Company incurred Other Expenses amounting to PHP11.27 million. This is offset by the Other Income generated by the Power Plant amounting to PHP2.94 million. As a result, consolidated Other Expense is at PHP8.33 million, as against Other Income generation of PHP30.38 million by the Company in Q1 2009 from sale of electricity and insurance claims.

The resulting consolidated Income Before Tax of PHP620.96 million in the current quarter reflected a 77% increase over Q1 2009 results of PHP350.06 million.

With the Income Tax Holiday enjoyed by the Company by virtue of its registration with the BOI, no Income Tax provision was made during the period. In Q1 2009, the Company's Income Tax Provision amounted to PHP58.52 million. Meanwhile, since the Power Plant's registration with the BOI was still in process during the current quarter, it recorded deferred Income Tax Provision amounting PHP27.12 million.

As a result, consolidated Net Income After Tax in the current quarter was PHP593.84 million. This is 99% more than Q1 2009 net results of PHP298.53 million.

Correspondingly, Earnings per Share (EPS) also reflected a 99% growth at PHP2.14 as against Q1 EPS of PHP1.08.

## **B. Solvency and Liquidity**

The Company's cash flow in the current period is significantly boosted with the contribution of its investment in the Power Plant.

On a consolidated level, Net Cash Provided by Operations during the current quarter amounted to PHP2.68 billion. This is 128% higher than Q1 2009 level of PHP1.18 billion. This is primarily due to higher consolidated Operating Income Before Working Capital Changes as both the Company and the Power Plant reflected healthy results in the current period. Huge Receivables of the Power Plant explained the increase in Receivables to PHP1.19 billion from beginning balance. Meanwhile, Trade and Other



Payables reflected a significant increase after accruing for the advances made by affiliates to the Company and real estate tax payables of the Power Plant.

Additions to PPE, particularly in the parent level when it invested in new mining equipment for capacity expansion, mainly comprised Cashflows Used in Investing Activities. Notably, the net consolidated amount of PHP840.89 million is significantly lower than Q1 2008 level of PHP1.81 billion since more mining equipment were acquired and paid last year.

Although partially offset by availment of bridge loans, both the Company and the Power Plant used up substantial amount of cash for the pre-payment of PSALM debt. During the period, consolidated Cashflows Used in Financing activities amounted to PHP1.24 billion. On the other hand, in Q1 2009, the Company generated cash from its financing activities from availments of short-term debts and from proceeds of sale and leaseback transactions.

Despite the sizeable cash outflows both for investing and financing activities, consolidated cash generation during the period amounted to PHP595.62 million, thus resulting to a consolidated Cash End of PHP1.08 billion. This is 24% more than Q1 2009 Cash End of P871.03 million.

With the availment of bridge loans while the project financing for the 60% acquisition cost of the Power Plant is arranged, Current Ratio as at the end of the quarter dropped to 0.50x as compared to Q1 2009 level of 1.09x. Meanwhile, Debt-to-Equity ratio increased from 0.91:1 in Q1 2009 to 1.43:1 as at the end of the current period.

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

- 1. Average Selling Price** – With the acquisition of the Power Plant, the Coal Supply Agreement was amended, such that FOB selling price is not anymore set at import parity, but at market price. As a result, the composite FOB price of Semirara coal during the period is now reflective of actual market price of coal. Despite the decrease of the composite average price in the current period as compared to last year, the Company still enjoyed comfortable profit margins. Moving forward, this development will help the Company in implementing realistic pricing strategies.
- 2. Debt-to-Equity Ratio** – Although the Company's Debt-to-Equity Ratio deteriorated with the availment of debts to finance the acquisition of the Power Plant, the management is however positive that this deterioration in the ratio is just temporary. Despite the fact that the Power Plant is still to undergo major rehabilitation works, it is already contributing positively to the Company's Q1 results.
- 3. Business Expansion** – The Company continuously aims for growth and development. In order to achieve this, operations must take each opportunity

to expand. The aggressive capacity expansion program launched by the Company is a well calculated risk that offers promising improvement of total stakeholders' value especially with the acquisition of a coal fired power plant which is a forward integration of the core business of coal mining.

4. **Expanded Market** – The growing sales of Semirara coal over the past few years is a clear testament to the success of the Company's marketing efforts. The expansion of its markets, especially to the export markets, drive the Company's sustainable growth.
5. **Improved coal quality** – One of the biggest challenges that the Company is confronted with is to successfully market coal that is naturally of lower quality. However, with its persistent efforts to maximize the quality of its product, overcoming inherent limitations, Semirara coal ultimately became acceptable to a wide range of coal users. Moreover, it continues to find innovative ways to further improve and maximize coal quality.

## **PART II OTHER INFORMATION**

### **Other disclosures:**

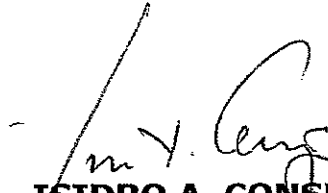
- a. The Group's operation is not cyclical in nature or seasonal. Mining activities is continuous throughout the year;
- b. There were no issuances, repurchases, and repayments of debt in equity securities which transpired during the quarter;
- c. There are no subsequent events, that came to our knowledge,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

**PART III SIGNATURES**

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

Issuer: **SEMIRARA MINING CORPORATION**

**Signature and Title:**



**ISIDRO A. CONSUNJI**

Vice-Chairman and Chief Executive Officer

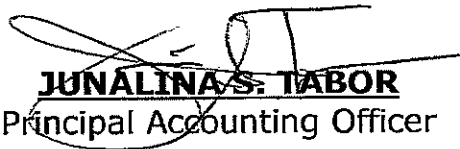
Date: May 14, 2010



**JUNALINA S. TABOR**

Chief Finance Officer  
Principal Financial Officer/Comptroller

Date: May 14, 2010



**JUNALINA S. TABOR**

Principal Accounting Officer

Date: May 14, 2010

PART III - ANNEX

SEMIRARA MINING CORPORATION AND SUBSIDIARY  
AGING OF ACCOUNTS RECEIVABLE  
As of March 31, 2010

	TOTAL	Current	2 - 3 Months	4 - 6 Months	7 Months to		Over 5 Years	Allowance for doubtful acct.
					1 Year	1 to 2 Years		
<b>A. ACCOUNTS RECEIVABLE - TRADE</b>								
COAL								
APEC	43,420,777	43,420,777	-	-	-	-	-	-
PNOC	246,651,435	243,709,607	2,941,828	-	-	-	-	-
TPC	116,676,633	95,491,917	21,184,717	-	-	-	-	-
APO	63,795,490	29,984,451	33,811,039	-	-	-	-	-
JPC	76,558,747	76,558,747	-	-	-	-	-	-
SOLID	32,651,732	32,651,732	-	-	-	-	-	-
EXPORT	179,759,332	172,415,260	-	-	-	-	-	7,344,063
PLATINUM GROUP	555,989	555,989	-	-	-	-	-	555,989
HOLCIM	91,398,023	88,019,644	3,378,379	-	-	-	-	-
89 - TRADE, INC.	11,776,745	9,859,787	-	-	-	-	-	-
UPPC	7,102,144	7,102,144	-	-	985,261	931,696	-	-
POWER								
PSALM	213,002,999	213,002,999	-	-	-	-	-	-
PEMC	497,050,909	497,050,909	-	-	-	-	-	-
Pozzolanic (fly-ash & rent)	1,119,876	1,119,876	-	-	-	-	-	-
AR-Customers	838,172,273	838,172,273	-	-	-	-	-	-
OTHERS	(28,329,125)	(28,329,125)	-	-	-	-	-	13,569,447
	<u>2,391,363,968</u>	<u>2,320,230,996</u>	<u>61,315,963</u>	<u>985,261</u>	<u>931,696</u>	<u>7,900,051</u>	<u>-</u>	<u>13,569,447</u>
Less: Allowance for doubtful account								
	<u>13,569,447</u>							
<b>Net TRADE RECEIVABLES</b>	<u>2,377,794,521</u>							
<b>B. NON - TRADE RECEIVABLES</b>								
COAL								
Advances - Officers	299,838	299,838	199,021	248,708	-	-	-	519,697
Advances - Employees	576,575	128,846	-	-	-	-	-	-
Advances - Suppliers	-	-	-	-	-	-	-	-
Advances - Operations	(665)	(665)	-	-	-	-	-	-
Advances - Contractors	17,732,818	1,687,955	2,328,631	6,209,655	7,506,576	-	-	6,254,991
Advances - for liquidation	4,780,654	432,658	346,847	2,476,318	1,524,831	-	-	1,948,809
Advances - SSS Claims	511,284	59,421	189,712	1,623	36,036	-	-	500,910
Advances - Others	570,633	165,953	88,425	300,794	20,706	-	-	917,703
Advances - Medical Accounts	2,709,476	2,709,476	-	1,524,958	930,140	-	-	-
POWER								
Advances - Employees	8,000	8,000	-	-	-	-	-	-
Advances - for liquidation	397,408	397,408	-	-	-	-	-	-
Advances - Government Institution	3,884,716	3,884,716	-	-	-	-	-	-
	<u>31,470,737</u>	<u>7,064,797</u>	<u>3,151,970</u>	<u>10,762,056</u>	<u>10,018,290</u>	<u>-</u>	<u>319,702</u>	<u>153,923</u>
Less: Allowance for D/A-AR Others								
	<u>10,142,110</u>							
<b>Net NON - TRADE RECEIVABLE</b>	<u>21,328,628</u>							
C. Due from affiliated companies	33,902,048							
<b>NET RECEIVABLES ( A + B + C )</b>	<u>2,433,025,197</u>							

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**SEMIRARA MINING CORPORATION**  
**FINANCIAL RISK MANAGEMENT DISCLOSURES**  
**As of March 31, 2010**

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.

**2010**

	Interest	Within 1 year	1-2 years	2-3 years	3-4 years	More than 4 years	Carrying Value
(In Thousands)							
<b>Notes payable</b>	5.5-6.75% fixed p.a.	<b>₱7,886,191</b>	<b>₱-</b>	<b>₱-</b>	<b>₱-</b>	<b>₱-</b>	<b>₱7,886,191</b>
<b>Foreign bank loans at floating rate</b>							
\$6.64 million loan (USD)	3 month SIBOR plus 1.95% p.a.	52,945	-	-	-	-	52,945
\$15.14 million loan (USD)	6 month USD LIBOR plus 1.5% p.a.	16,351	-	-	-	-	16,351
<b>Deferred purchase payment</b>	4% pa over the rate 180 days BBA LIBOR	-	1,429,680	-	-	-	1,429,680
<b>Acceptance and trust receipts</b>							
Various letters of credit	8-11% interest rate	42,135	-	-	-	-	42,135
		<b>₱7,997,622</b>	<b>₱1,429,680</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>₱9,427,302</b>

**2009**

	Interest	Within 1 year	1-2 years	2-3 years	3-4 years	More than 4 years	Carrying Value
<b>Cash equivalents</b>	5.25% to 6.5%	<b>₱369,720</b>	<b>₱-</b>	<b>₱-</b>	<b>₱-</b>	<b>₱-</b>	<b>₱369,720</b>
				(In Thousands)			
<b>Notes payable</b>	5.5-6.75% fixed p.a.	<b>₱793,191</b>	<b>₱-</b>	<b>₱-</b>	<b>₱-</b>	<b>₱-</b>	<b>₱793,191</b>
<b>Long-term debts</b>							
<b>PSALM</b>	11% fixed rate	<b>1,681,081</b>	<b>1,315,020</b>	<b>1,315,020</b>	<b>1,315,020</b>	<b>3,945,060</b>	<b>9,571,201</b>
<b>Foreign bank loans at floating rate</b>							
\$6.64 million loan (USD)	3 month SIBOR plus 1.95% p.a.	<b>72,202</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>72,202</b>
\$15.14 million loan (USD)	6 month USD LIBOR plus 1.5% p.a.	<b>61,055</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>61,055</b>
<b>Deferred purchase payment</b>	4% pa over the rate 180 days BBA LIBOR	<b>-</b>	<b>474,364</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>474,364</b>
<b>Acceptance and trust receipts</b>							
Various letters of credit	8-11% interest rate	<b>51,450</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>51,450</b>
			<b>₱</b>				
		<b>₱2,658,979</b>	<b>1,789,384</b>	<b>₱1,315,020</b>	<b>₱1,315,020</b>	<b>₱3,945,060</b>	<b>₱11,023,463</b>

**Liquidity Risk**

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans. The Group's policy is to maintain a level of cash that is sufficient to fund its monthly cash requirements, at least for the next four to six months. Capital expenditures are funded through a mix of suppliers' credit, letters of credit, trust receipts and long-term debt, while operating expenses and working capital requirements are sufficiently funded through cash collections.

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

## 2010

	Within 1 year	1-2 years	2-3 years	3-4 years	Total
<b>Assets</b>					
Cash and cash equivalents	¥1,077,544,775	¥-	¥-	¥-	¥1,077,544,775
Receivables					
Trade					
Electricity sales	1,549,346,056	-	-	-	1,549,346,056
Local coal sales	662,258,590	-	-	-	662,258,590
Export coal sales	179,759,322	-	-	-	179,759,322
Due from related parties	33,902,045	-	-	-	33,902,045
Others	31,470,737	-	-	-	31,470,737
Security deposits	291,613,296	-	-	-	291,613,296
	¥3,825,894,821	¥-	¥-	¥-	¥3,825,894,821
<b>Liabilities</b>					
Trade and other payables					
Trade	¥2,335,707,423	¥-	¥-	¥-	¥2,335,707,423
Due to related parties	1,626,850,549	-	-	-	1,626,850,549
Accrued expenses and other payables	571,337,150	-	-	-	571,337,150
Notes payable	7,886,191,385	-	-	-	7,886,191,385
Long-term debt					
Fixed Rate					
Various letters of credit 8-11% interest rate	42,134,958	-	-	-	42,134,958
Floating Rate					
\$15.14 million loan (USD) 6 months USD Libor plus 1.5% per annum	16,350,923	-	-	-	16,350,923
\$6.64 million loan(USD) 3 months SIBOR plus 1.95% per annum	52,944,555	-	-	-	52,944,555
\$31.65 million deferred purchase payment, p.a. over the rate 180 days BBA LIBOR on 2 business days prior to 1st day of interest period	15,578,120	1,429,680,187	-	-	1,445,258,307
	¥12,547,095,063	¥1,429,680,187	¥-	¥-	¥13,975,775,250

## 2009

	Within 1 year	1-2 years	2-3 years	3-4 years	Total
<b>Assets</b>					
Cash and cash equivalents	¥481,920,935	¥-	¥-	¥-	¥481,920,935
Receivables					
Trade					
Electricity sales	489,245,876	-	-	-	489,245,876
Local coal sales	337,326,286	-	-	-	337,326,286
Export coal sales	414,815,233	-	-	-	414,815,233
Due from related parties	9,067,242	-	-	-	9,067,242
Others	27,352,040	-	-	-	27,352,040
Security deposits	270,751,295	33,818,372	-	-	304,569,667
	¥2,030,478,907	¥33,818,372	¥-	¥-	¥2,064,297,279
<b>Liabilities</b>					
Trade and other payables					
Trade	¥1,683,028,961	¥-	¥-	¥-	¥1,683,028,961
Due to related parties	609,143,593	-	-	-	609,143,593
Accrued expenses and other payables	320,867,761	-	-	-	320,867,761
Notes payable	793,191,385	-	-	-	793,191,385
Long-term debt					
Fixed Rate					
\$361,481,091 payable to PSALM, 11% compounded semi-annually	1,759,837,065	1,315,020,101	1,315,020,101	5,260,080,403	9,649,957,670
Various letters of credit 8-11% interest rate	51,450,171	-	-	-	51,450,171
Floating Rate					
\$15.14 million loan (USD) 6 months USD Libor plus 1.5% per annum	61,055,376	-	-	-	61,055,376
\$6.64 million loan(USD) 3 months SIBOR plus 1.95% per annum	72,202,448	-	-	-	72,202,448
\$4.63 million deferred purchase payment, p.a. over the rate 180 days BBA LIBOR on 2 business days prior to 1st day of interest period	1,344,513	474,363,625	-	-	475,708,138
	¥5,352,121,273	¥1,789,383,726	¥1,315,020,101	¥5,260,080,403	¥13,716,605,503



## **Foreign Currency Risk**

The Group's foreign exchange risk results primarily from movements of the Philippine Peso (₱) against the US\$. Majority of revenue are generated in Pesos, however, substantially all of capital expenditures are in US\$. Approximately 11.04% and 88.30% of debts as of March 31, 2010 and December 31, 2009, respectively, were denominated in US\$.

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

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

	March 31, 2010		December 31, 2009	
	U.S. Dollar	Peso Equivalent	U.S. Dollar	Peso Equivalent
<b>Assets</b>				
Cash and cash equivalents	\$8,222,961	₱371,431,150	\$6,388,441	₱295,145,97
Trade receivables	3,979,618	179,759,322	8,919,899	412,099,33
<b>Liabilities</b>				
Trade payables	(3,417,580)	(154,372,084)	(2,094,555)	(96,768,441
Long-term debt (including current portion)	(33,185,204)	(1,498,975,665)	(213,400,753)	(9,859,114,785
Net foreign currency denominated (liabilities)	(24,400,205)	(1,102,157,277)	(\$200,186,968)	(₱9,248,637,922

The spot exchange rates used in 2010 and 2009 were ₱45.17 to US\$1 and ₱46.20 to US\$1, respectively.

The following table demonstrates the sensitivity to a reasonably possible change in foreign exchange rates, with all variables held constant, of the Group's income before tax (due to changes in the fair value of monetary assets and liabilities) on March 31, 2010 and 2009.

Reasonably possible change in the Philippine peso-US dollar exchange rate	Increase (decrease) in profit before tax	
	2010	2009
₱2	(₱48,800,410)	(₱1,343,329,140)
(₱2)	48,800,410	1,343,329,140

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

## Credit Risk

Credit risk is the risk that counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group trades only with recognized, creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. The Group evaluates the financial condition of the local customers before deliveries are made to them. On the other hand, export sales are covered by sight letters of credit issued by foreign banks subject to the Group's approval, hence, mitigating the risk on collection. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

The Group generally offers 80% of coal delivered payable within 30 days upon receipt of billing and the remaining 20% payable within 15 days after receipt of final billing based on final analysis of coal delivered.

With respect to the credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. The Group transacts only with institutions or banks that have proven track record in financial soundness.

The credit risk is concentrated to the following markets:

	03/31/2010	12/31/2009
Trade		
Local sales	90.00%	65.15%
Export sales	7.30	32.70
Other receivables	2.70	2.15
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>

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

	<b>Gross Maximum Exposure</b>	
	03/31/2010	12/31/2009
Cash and cash equivalents	₱1,077,544,775	₱481,920,935
Receivables		
Trade		
Local coal sales	662,258,590	337,326,286
Export coal sales	179,759,322	414,815,233
Electricity sales	1,549,346,056	489,245,876
Due from related parties	33,902,045	9,067,242
Others	31,470,737	27,352,040
Security deposits	291,613,296	291,613,296
<b>Total credit risk exposure</b>	<b>₱3,825,894,821</b>	<b>₱2,051,340,908</b>

## **Capital Management**

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

The following table shows the component of the Group's capital as of March 31, 2010 and December 31, 2009:

	03/31/2010	12/31/2009
Total paid-up capital	P 1,873,671,271	P 1,873,671,271
Deposit for future subscription	5,402,125,985	5,402,125,985
Retained earnings – unappropriated	2,994,080,058	2,400,238,695
Retained earnings – appropriated	700,000,000	700,000,000
Cost of shares held in treasury	(528,891,260)	(528,891,260)
	<b>P 10,440,986,055</b>	<b>P 9,847,144,691</b>

## **Fair Values**

The following tables set forth the carrying values and estimated fair values of the Group's financial assets and liabilities recognized as of March 31, 2010 and December 31, 2009.

	03/31/2010		12/31/2009	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<b>Financial Assets</b>				
Loans and receivables:				
Cash and cash equivalents	P1,077,544,775	P1,077,544,775	P481,920,935	P481,920,935
Trade				
Electricity sale	1,549,346,056	1,549,346,056	489,245,876	489,245,576
Local sales	662,258,590	662,258,590	337,326,286	337,326,286
Export sales	179,759,322	179,759,322	414,815,233	414,815,233
Due from related parties	33,902,045	33,902,045	9,067,242	9,067,242
Others	31,470,737	31,470,737	27,352,041	27,352,041
Security deposits	291,613,296	291,613,296	291,613,296	296,438,346
<b>Total</b>	<b>P3,825,894,821</b>	<b>P3,825,894,821</b>	<b>P2,051,340,908</b>	<b>P2,056,165,958</b>

	03/31/2010		12/31/2009	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<b>Financial Liabilities</b>				
Other financial liabilities:				
Notes payable	₱ 7,886,191,385	₱ 7,886,191,385	₱793,191,385	₱793,191,385
Long-term debt	1,541,110,623	1,571,640,373	10,230,274,196	10,858,249,006
Trade and other payables				
Trade payables	2,335,707,423	2,335,707,423	1,683,028,961	1,683,028,961
Accrued expenses and other payables	571,337,150	571,337,150	320,867,761	320,867,761
Due to related parties	1,626,850,549	1,626,850,549	609,143,593	609,143,593
Payable to DOE and local government units	581,588,570	581,588,570	216,516,873	216,516,873
<b>Total</b>	<b>₱14,452,785,700</b>	<b>₱14,573,315,450</b>	<b>₱13,853,022,769</b>	<b>₱14,480,997,579</b>

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

#### *Financial Assets*

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

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

#### *Financial Liabilities*

##### Trade and other payables

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

##### Long-term Debt

##### Floating rate loans

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

##### Fixed rate loans

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

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