

SEC Number : 91447
File Number : _____

SEMIRARA MINING CORPORATION
Company's Full Name

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

888-3550 to 888-3565
Telephone Number

For the Period Ending June 30, 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 **June 30, 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

**2rd 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 : 7th 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>296,875,000 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 June 30, 2010

	(Unaudited) June 30, 2010	(Audited) December 31, 2009
ASSETS		
Current Assets		
Cash and cash equivalents	1,197,262,807	481,920,935
Receivables - net	2,668,146,044	1,254,095,120
Inventories - net	2,509,712,450	3,084,879,380
Other current assets	853,354,485	759,885,070
<i>Total Current Assets</i>	<i>7,228,475,785</i>	<i>5,580,780,505</i>
Noncurrent Assets		
Property, plant and equipment - net	17,945,898,269	17,818,687,301
Investments and advances	613,461,008	244,432,588
Other noncurrent assets	188,680,571	184,011,054
<i>Total Noncurrent Assets</i>	<i>18,748,039,848</i>	<i>18,247,130,943</i>
TOTAL ASSETS	25,976,515,634	23,827,911,448
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Notes Payable	1,024,291,015	793,191,385
Current portion of long-term debt	53,019,370	1,865,789,967
Trade and other payables	4,276,796,080	2,857,535,376
<i>Total Current Liabilities</i>	<i>5,354,106,465</i>	<i>5,516,516,728</i>
Noncurrent Liabilities		
Long-term debt - net of current portion	10,990,219,264	8,364,484,229
Deferred tax liability - net	72,056,928	72,056,929
Provision for decommissioning and site rehabilitation	14,773,138	14,773,138
Pension liability	15,131,027	12,935,734
<i>Total Noncurrent Liabilities</i>	<i>11,092,180,357</i>	<i>8,464,250,029</i>
<i>Total Liabilities</i>	<i>16,446,286,822</i>	<i>13,980,766,757</i>
Stockholders's Equity		
Capital stock	296,875,000	296,875,000
Additional paid-in capital	2,341,152,411	1,576,796,271
Deposit For Future Subscription	3,024,402,258	5,402,125,985
Retained earnings	3,867,799,142	3,100,238,695
Cost of shares held in treasury		(528,891,260)
<i>Total Stockholders' Equity</i>	<i>9,530,228,811</i>	<i>9,847,144,691</i>
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	25,976,515,634	23,827,911,448

SEMIRARA MINING CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the Period Ending June 30, 2010 and 2009
For the Quarter Ending June 30, 2010 and 2009

	(Unaudited) For the Period		(Unaudited) For the Quarter	
	2010	2009	2010	2009
REVENUE				
Coal	7,058,062,768	6,355,744,365	3,455,693,488	3,124,302,758
Power	5,956,810,684	-	3,465,733,768	-
	<u>13,014,873,452</u>	<u>6,355,744,365</u>	<u>6,921,427,255</u>	<u>3,124,302,758</u>
COST OF SALES				
Coal	4,606,224,405	4,824,151,920	2,230,945,961	2,247,125,694
Power	3,948,788,023	-	2,114,408,921	-
	<u>8,555,012,428</u>	<u>4,824,151,920</u>	<u>4,345,354,882</u>	<u>2,247,125,694</u>
GROSS PROFIT	<u>4,459,861,023</u>	<u>1,531,592,445</u>	<u>2,576,072,373</u>	<u>877,177,064</u>
OPERATING EXPENSES	(1,666,439,538)	(748,561,849)	(601,495,783)	(431,309,195)
FINANCE INCOME (COSTS)	(330,526,754)	(12,452,739)	(331,565,485)	(2,626,278)
FOREIGN EXCHANGE GAINS (LOSSES)	28,704,400	3,926,894	17,664,969	4,492,619
EQUITY IN NET LOSSES OF ASSOCIATES	64,219,801	-	63,606,806	-
OTHER INCOME	(6,436,346)	55,562,752	1,893,492	24,018,960
	<u>(1,910,478,437)</u>	<u>(701,524,942)</u>	<u>(647,653,769)</u>	<u>(405,423,894)</u>
INCOME BEFORE INCOME TAX	<u>2,549,382,586</u>	<u>830,067,503</u>	<u>1,928,418,604</u>	<u>471,753,170</u>
PROVISION FOR INCOME TAX	572,140	109,387,477	(26,550,480)	57,858,480
NET INCOME	<u>2,548,810,446</u>	<u>720,680,026</u>	<u>1,954,969,084</u>	<u>413,894,690</u>
OTHER COMPREHENSIVE INCOME	-	-	-	-
TOTAL COMPREHENSIVE INCOME	<u>2,548,810,446</u>	<u>720,680,026</u>	<u>1,954,969,084</u>	<u>413,894,690</u>
Basic / Diluted Earnings per Share	<u>8.90</u>	<u>2.60</u>	<u>6.59</u>	<u>1.49</u>
Basis of EPS :				
EPS = NET INCOME (LOSS) FOR THE PERIOD/NO. OF OUTSTANDING SHARES				
Wherein :				
Wtd Average Outstanding Shares	286,530,727 (as of June 30, 2010)			
Wtd Average Outstanding Shares	277,572,800 (as of June 30, 2009)			

SEMIRARA MINING CORPORATION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

As of June 30, 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				2,548,810,446		2,548,810,446		2,548,810,446
Additional Paid-In Capital		764,356,140				764,356,140		764,356,140
Deposit for Future Subscription			(2,377,723,727)			(2,377,723,727)		(2,377,723,727)
Cost of Shares Held in Treasury						-	528,891,260	528,891,260
Dividends				(1,781,250,000)		(1,781,250,000)		(1,781,250,000)
At June 30, 2010	<u>296,875,000</u>	<u>2,341,152,411</u>	<u>3,024,402,258</u>	<u>3,167,799,141</u>	<u>700,000,000</u>	<u>9,530,228,810</u>	<u>-</u>	<u>9,530,228,810</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				720,680,026		720,680,026		720,680,026
Additional Paid-In Capital						-		-
Deposit for Future Subscription						-		-
Cost of Shares Held in Treasury						-		-
Dividends				(1,665,436,800)		(1,665,436,800)		(1,665,436,800)
At June 30, 2009	<u>296,875,000</u>	<u>1,576,796,271</u>	<u>-</u>	<u>1,311,362,461</u>	<u>700,000,000</u>	<u>3,885,033,732</u>	<u>(528,891,260)</u>	<u>3,356,142,472</u>

SEMIRARA MINING CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOW
As of June 30, 2010 and 2009

(Unaudited)

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	2,548,810,446	830,067,502
Adjustments for:		
Depreciation and amortization	1,445,081,342	571,563,886
Finance costs and revenues	330,526,754	12,965,765
Gain on sale of equipment	(14,984)	(33,863,711)
Net unrealized foreign exchange gains	36,794,100	146,405
Equity in net earnings of associates	(64,219,801)	-
Provision for Income Tax	(572,140)	-
Pension expense	1,501,248	1,501,247
Operating income before changes in working capital	4,297,906,965	1,382,381,094
Decrease (increase) in:		
Receivables	(1,412,800,923)	912,810,712
Inventories	575,166,931	358,661,386
Other current assets	(364,220,710)	16,837,285
Increase (decrease) in:		
Trade and other payables	864,430,365	440,213,675
Cash generated from (used in) operations	3,960,482,628	3,110,904,152
Interest received	7,069,149	(37,844,650)
Income tax paid	(572,140)	(109,589,457)
Interest paid	(135,868,528)	(63,704,097)
Net cash provided by (used in) operating activities	3,831,111,109	2,899,765,949
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease (increase) in other noncurrent assets	266,081,778	(93,749,191)
Proceeds from sale of equipment	14,984	16,180,844
Additions to investments	(304,808,620)	(25,000,000)
Additions to property, plant and equipment	(1,572,277,326)	(1,997,785,865)
Net cash used in investing activities	(1,610,989,183)	(2,100,354,212)
CASH FLOWS FROM FINANCING ACTIVITIES		
Loan Availments	18,376,234,086	435,396,446
Proceeds from sale and leaseback of equipment	-	717,612,378
Payment of dividend	(1,781,250,000)	(1,665,436,428)
Loan Repayment	(17,015,287,813)	(670,708,743)
Movement in deposit for future stocks	(2,377,723,727)	-
Proceeds from sales of shares held in Treasury	1,293,247,400	-
Increase (decrease) in payable to related parties	-	8,013,951
Net cash provided by (used in) financing activities	(1,504,780,056)	(1,175,122,396)
NET INCREASE IN CASH AND CASH EQUIVALENTS	715,341,870	(375,710,660)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	481,920,937	1,012,409,162
CASH AND CASH EQUIVALENTS AT END OF YEAR	1,197,262,807	636,698,502

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 June 30, 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 June 30, 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 June 30, 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	2 to 13 years
Power plant and buildings	10 to 21 years
Roads and bridges	17 years
Other tools and equipment	3 to 5 years

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

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

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

Investments and Advances

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

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

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

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

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

Other intangible assets

Other intangible assets include computer software.

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

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

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

Input value-added tax (VAT)

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

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

Business Combinations

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

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

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

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

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

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

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

Impairment of Non-financial Assets

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

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

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

Investments in associates

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

Revenue Recognition

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

Sale of coal

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

Sale of electricity

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

Rendering of services

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

Finance income

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

Operating Expenses

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

Borrowing Costs

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

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

Pension Expense

The Group has a noncontributory defined benefit retirement plan.

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

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

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

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

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

Income Tax

Current tax

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

Deferred tax

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

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

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

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

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

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

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

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

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

Provisions

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

Provision for decommissioning and site rehabilitation

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

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

Leases

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

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

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

Group as a lessee

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

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

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

Foreign Currency Translation

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

the profit or loss.

Equity

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

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

Treasury Shares

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

Earnings per Share (EPS)

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

Segment Reporting

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

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.

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 HALF OPERATION

The company has expanded its normal mining capacity to 70 million bank cubic meters (bcm) annually with the commissioning of new mining equipment which took place in early this year. With this capacity, it posted total material movement of 40,632,772 bcm breaching its half year current capacity as we took advantage of the good weather condition.

Meanwhile, with a strip ratio of 10.2:1, run-of-mine (ROM) coal produced was 3,706,110 metric tons (MTs), comprised of 2,981,460 MTs of clean coal and 724,650 MTs of washable coal. These yielded to a net product coal of 3,382,088 MTs.

With the intensive mining operation catching up the steadily rising demand for Semirara coal, fueled by aggressive marketing efforts, the company posted a record high coal sales of 3,917,144 MTs for the period. The huge beginning inventory of 763,575 MTs augmented the current period's coal production to be able to reach coal sales at this level and reducing the inventory level to 193,122 MTs and the end of first half.

To sustain the current level of activity, the company intensifies its coal exploratory and confirmatory drillings around the adjacent areas of the current mine and the old mine. Moreover, drilling data further indicate favorable results. Also, support facilities are being put in place in order to level-up with the intensified mining operations.

At the outset, the integration of mining and power generation as a defensive strategy boosted the company business. With this, the Group posted P13.01 billion consolidated revenue for the period. Of this, the mining business shared P7.06 billion while power segment contributed P5.96 billion of sales after elimination of intercompany transactions.

The group's consolidated cost of sales amounted to P8.56 billion, P4.61 relates to cost of coal and P3.95 billion pertains to power generation cost. Thus, posting a gross margin of P4.46 billion of which P2.45 billion came from coal mining and P2.01 billion came from power generation.

Meanwhile, the operating expenses hit the level of P1.67 billion due to interim provision for government share of P1.02 billion, which is still subject to final adjustment after full accounting of the full year cost vis-à-vis coal sales. This is expected to taper off at year end due to expected rise in cost of fuel and cost of issuances of inventories which are still carried in the asset account. These inventories are intended for mine rehabilitation projects and programmed equipment maintenance. Cost is expected to rise in inverse proportion with coal sales. Taxes and

licenses of P366.72 million and general administrative expense of P283.45 million were mostly incurred by the power business segment in connection with the finalization of the documentation process re – Calaca Power Plant acquisition.

With the fluctuation of foreign exchange rates the group sustained a net forex gain amounting to P28.70. The financing charges on short-term and long-term loans amounted to P337.60 million while the other income and charges net at P0.6 million. Equity share in net income of associates amounted to P64.22 million. The share in earnings from DMCI Mining Corp. was mitigated by the share in losses of DMCI Power Corp. The latter has just started its commercial operations.

With these, the consolidated net income before tax amounted to P2.55 billion. The Group provided an income tax liability for the power business at P572 thousand only due to and zero for the coal mining because of the Group's registration with the Board of Investments for ITH incentive, Thus, consolidated Net Income After Tax amounted to P2.55 billion for the first half of the year, P1.26 billion came from the core business coal mining, and P1.29 billion from the power business segment.

2010 FIRST HALF FINANCIAL CONDITION

As of the first half, the group stood with P25.98 billion total assets showing a 9% growth from the beginning of the year. The increase principally came from impressive coal and power sales, as reflected in the increase in cash generation and accounts receivable. Of the total assets, current assets pose at P7.23 billion which comprises of cash, P1.20 billion, Receivables, P2.67 billion, inventories, P2.51 billion and other assets, P853 million, while the non-current assets sat at P18.75 which accounts for property, plant and equipment of P17.95 billion, and investments of P613.63 million and other non-current assets of P188.68 million. The increase of 148% and 119% in cash and cash equivalents and receivables were mainly driven by increase in volume both from coal and power sales. Similarly, the 19% decrease in inventories was mainly contributed by the decrease in coal inventory as more coal were sold than produced during the current period. While, the 151% increase in investments mainly came from the cash placement in sinking fund by the power segment amounting to P305 Mn.

Meanwhile, total liabilities amounted to P16.45 billion, of this, current liabilities is P5.35 billion consisting of short-term loans, trade payable and due to government agencies. The decrease in current portion of long-term debt was due to the reclassification to long term debt portion of the current portion of PSALM debt after this was refinanced by the group via project financing. While the increase in notes payable were related to bridge loans incurred by the group relative to the full payment of the PSALM debt. The huge increase in Trade and Other Payables is principally due to the interim provision of royalty to the government of P1.02 Bn, the rest of the increase came from purchases of goods and services from consignment parts and for various development projects. The balance of P11.09 billion represents the non-

current obligations principally from the project financing loan of P9.6 billion for the power business from local banks with a grace period of one (1) year and deferred payment arrangement for conventional mining equipment from foreign supplier amounting to P1.5 Bn (US\$32 Mn).

The group's total shareholder's equity totaled P9.53 billion with a paid-up capital amounting to P5.66 billion. Total paid-up capital decreased by 8% compared to the beginning of the year. This was due to decrease in deposit for future subscription by P2.38 billion, from P5.40 billion at the start of the year to P3.02 at the end of 1H.. After determination of the final SRO share price of P74/share for 59,375,000 shares last 10 June 2010, the company returned the excess deposit beyond the rights entitlement. The final estimated gross proceeds is P4.39 billion from the stock rights offering. The decrease was offset by the Gain on Sale of Treasury Shares which was re-issued last April 2010 amounting to P765 million. The entire 19,302,200 shares held in treasury were all sold. Also, the retained earnings shoot-up to P3.87 after recording the group's net income of P2.55 billion net of P6/share cash dividend as declared last 27 April, 2010 or P1.77 billion which was paid last 23 June 2010.

2010 COMPARATIVE REPORT

I. COAL PRODUCTION / POWER GENERATION

Aligned with the company's expansion program, it has commissioned a number of new mining equipment in early part of the year. This increased the company's excavating and material movement capacity 70 Mn bcm from 60 Mn bcm. As a result, it posted a total of 40.6 million bcm material movement in first half of the year, a 32% increase over last year's 30.7 million bcm. Materials movement in Q1 and Q2 were 19.45 million bcm and 21.18 million bcm respectively or higher by 20% and 46% than last year,

Meanwhile, the company almost doubled its ROM coal production in the first half than same period a year ago as it took advantage of the good weather condition and adequately matched the increasing demand of coal during the current period. The Q1 and Q2 ROM coal extraction were 1.85 Mn MT and 1'86 Mn MT, respectively or higher by 121% and 74%. First half coal production is 85% higher than same period last year.

While the company is continuously aggressive on its coal extraction and coal shipment it was able to manage a safe level of ending inventory of 193.12 thousand MT in the first half.

On the other hand, the power business was able to generate 1,082 GWh during the 1st half of which 617 GWh was generated during the 2nd quarter or 33% higher from the 1st quarter performance. The improvement was realized after some minor repairs activities were done from the date the company took over the operation of the power

plant. Plant availability registered at an average of 64% in 1Q to 84% in 2Q or 30% improvement. Thus, power generation in 1Q was lower due to lower availability caused by the interruption in the power plants operation resulting from minor rehabilitation activities. The average capacity in the 1st half was at 163 MW and 171 MW for Unit 1 and Unit 2, respectively or at combined capacity of 334 MW.

II. MARKETING

With the company's aggressive marketing effort coupled with the rising demand for coal, it has accepted the entrance of new customers from the region. Evidently, the company posted a record high 3.92 Mn MT of coal sold for the first half, higher by 81% from last year's shipments on the same period. Of the total coal shipment, 2.01 Mn MT were sold in Q1 and 1.91 Mn MT were sold in Q2.

The export sales during the 1st half remained the biggest part of the pie at 58% posting an impressive increase of 136% from last year's coal shipments of 955 thousand MT to 2.26 Mn MT. Export sales contribution to coal revenue is at 53% in the current period against 30% of 1st half last year

Local sales amounted to 1.66 Mn MT consisting of sales to power plants, cements and other industries of 987 thousand MT, 442 thousand MT and 233 thousand MT, respectively. Relatively, sales to these industries improved from last year by 33%, 41% and 48%, respectively, with aggregate increase in local sales by 34% from last years 1.24 Mn MT. Local power plants, other than the group's own power plant increase their offtake with the commissioning of a new plant. The increase in the offtake of the cement industry was due to the entry of a major player in the cement industry, while the old customers likewise increase their coal requirement similarly with the rest in the other industry group.

After the company took over the power plant business, it has modified its pricing scheme for its own power plant from import parity pricing to market base pricing to be comparative with those other power plant customers. As a result, the composite average price has declined by 24% from P2,914/MT level last year. However, with the bubbling coal demand which provided the company a pricing advantage, the Q1 average effective FOB price level of P2,142/MT went up to P2,300/MT in Q2 averaging at P2,219/MT in the first half.

Meanwhile, the group's power sales in 1st half went as high as 998 GWh from 469 GWh in Q1 or 13% higher from Q1 sales. These figures exclude sales from spot purchase being that said sale is cost neutral. These sales represent power sold from power generated by the group's power plant. Out of the total sales, 664 GWh was for TSCs and 332 GWh was sold to the spot market. Total revenue contributed by the power business was at 46% to the group's gross revenue inclusive of spot purchase. The average price per KWh registered at P4.75 at the end of 1st half.

III. FINANCE

A. Sales and Profitability

Strong demand for coal motivated by the aggressive marketing efforts spurs SMC coal shipments to shoot-up to 3.92 Mn MT posting P8.67 billion in coal revenue. On the other hand, the power sales poured-in P5.96 billion sales. After elimination, the Group's consolidated revenue totaled P13.015 billion showing a growth of 106% over H1 2009.

Inversely, the cost of coal sold shows a 2% decrease from P6.36 to P6.26 Bn as of end of the period Benefiting from economies of scale. The decline in cost is attributable to the better stripping ratio of 10.25:1 compared to last year of 15.00:1 and with the intensified mining activities which allowed the maximization of the mining equipment capacities. In addition, the Power business incurred P3.95 Bn power generation cost. The consolidated cost of sales amounted to P8.56 Bn, resulting to a gross profit of P4.46 Bn or almost tripled the P1.517 billion gross profit margin in H1 2009. This demonstrates a 10% increase in gross profit in every peso sales, from 24% last year same period to 34% as of end of the current period.

The Group's operating expenses hit to P1.67 Bn of which P1.19 Bn was incurred by coal mining, higher by 123% than H1 2009 and the P479 Mn was incurred by the power business.

As a consequence of the movement of foreign exchange rates, the group has sustained a P28.71 million foreign exchange gain. Also, the Company has incurred Finance Cost amounting to P337.60 million and incurred other expenses amounting to P633 thousand.

Meanwhile, the Group realized an additional income from its share in earnings of associates amounting to P64.21 million to further augment Net Income Before Tax to P2.55 billion.

With the approval of the Power Plant's BOI registration, the Group is now enjoying income tax incentive., The provision for income tax amounted to P572 thousand by the power business, thus the company posted a record high Net Income After Tax of P2.55 billion which 3x of the full year NIAT last year. Consolidated earnings per share is at P8.90 based on weighted average outstanding shares as of June 30, 2010 of 286,530,727 shares after the re-issuance of treasury shares last April 8, 2010.

B. Financial Condition, Solvency and Liquidity

Total assets stood at P25.98 billion of which current assets amounted to P7.23 billion while the rest are non-current. In conjunction, liabilities totaled P11.09 billion, of this amount P5.35 billion are current obligation and rest are non-current resulting to current ratio of 1.35:1 and 7% Net working capital ratio. These evidently demonstrate the company's strong financial condition.

Meanwhile, the operations provided a net the Net Cash of P3.83 billion for the first semester showing an increase of 32%. This was mainly due to the high inflow from earnings, increase in liability and decrease in inventory offset by increases in receivables and other current assets. Moreover, current year's Cash utilization for its investing activities amounted to P1.61 billion, majority were spent for the acquisition of new equipment for this year's expansion.

On the other hand, Net Cash Used in Financing Activities amounted only to P1.5 billion. Although borrowing exceeds the loan servicing by P1.36 billion, and ample cash was generated from the sale of treasury shares, most of the cash were used to pay cash dividend amounting to P1.78 Bn and return of the excess deposit for future stock subscription beyond the minimum rights entitlement amounting to P2.39 Bn.

In summary, the Group has generated a Net Cash of P715 million or 148% from the beginning balance of P482 million resulting to P1.2 billion cash balance at the end of 1st half. With this cash level, the cash ratio has increased by 12% from the start of the year of 8% indicating the strengthening of the Group's cash position.

IV. PERFORMANCE INDICATORS

1. **Earnings per Share** – The earnings per share shoot up to P8.90 a piece with the combined net income from the coal and power segments. This is more than three folds of the EPS posted in the 1st half last year. This indicated a very promising growth to the group as the power business is providing more value to the core business, coal mining.
2. **Debt-to-Equity Ratio** – The Group's consolidated Debt-to-Equity Ratio stood at 1.75x with the availment of project finance loan 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 H1 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:



VICTOR A. CONSUNJI
Principal Executive and Operating Officer
Date: August 13, 2010



JUNALINA S. TABOR
Chief Finance Officer
Principal Financial Officer/Comptroller
Date: August 13, 2010



LEANDRO D. COSTALES
Principal Accounting Officer
Date: August 13, 2010

PART IV - ANNEX A

SEMIRARA MINING CORPORATION
AGING OF ACCOUNTS RECEIVABLE
As of June 30, 2010

	TOTAL	Current	2 - 3 Months	4 - 6 Months	7 Months - 1 Year	1 - 2 Years	2 - 5 Years	Over 5 Years	Allow for Doubtful Accts
A. ACCOUNTS RECEIVABLE - TRADE									
COAL	-								
APEC	23,642,535	23,642,535							
PNOC	190,138,726	159,468,518	30,670,207						
TPC	57,663,237	33,153,776	24,509,461						
APO	88,143,069	10,275,128	77,867,941						
PPFC	4,068,786	3,880,703	188,083						
JPC	66,845,354	66,845,354							
SOLID	62,347,649	21,285,571	41,062,078						
EXPORT	369,940,614	369,811,787	22,456	106,372					
PLATINUM GROUP	555,989					555,989			
HOLCIM	76,255,134	36,765,026	39,490,108						
89- TRADE, INC	2,047,184	-	-	130,227	1,916,958				
CEDC	78,183,959	74,435,737	3,748,222						
NPC	(16,418,325)				(22,037,721)		5,619,396		13,569,447
POWER									
BATELEC 1	91,432,636	91,432,636							
CEZ-PEZA	181,309,943	151,828,311	14,740,816	14,740,816					
MERALCO	89,958,640	25,994,160	19,595,687	44,368,793					
PEMC	527,609,602	216,101,676	311,507,926						
POZZOLANIC	1,901,223	1,901,223							
PSALM	636,841,452	698,799,363	(26,624,762)	(35,333,149)					
PUYAT STEEL	3,026,620	2,773,252	-	253,367					
STEEL CORP	10,019,596	8,873,343	465,632	680,621					
OTHERS	5,619,849	5,619,849							
	<u>2,551,133,474</u>	<u>2,002,887,950</u>	<u>537,243,856</u>	<u>24,947,046</u>	<u>(20,120,763)</u>	<u>555,989</u>	<u>5,619,396</u>	<u>-</u>	<u>13,569,447</u>
Less: Allowance for doubtful account	<u>13,569,447</u>								
Net TRADE RECEIVABLES	<u>2,537,564,026</u>								
B. NON - TRADE RECEIVABLES									
COAL									
Advances - Officers	367,516	23,270	44,408	299,838					
Advances - Employees	455,864	213,556	128,846	87,173	26,289				519,697
Advances - Contractors	18,855,470	94,655	4,896,668	6,357,571	7,506,576				6,254,991
Advances - for Liquidation	4,710,298	73,349	519,746	2,823,164	1,294,039				1,948,809
Advances - SSS Claims	531,954	5,395	16,500		36,434		319,702	153,923	500,910
Advances - Others	905,310	224,893	249,133	210,414	220,871				917,703
Advances - Medical Accounts	2,651,557	126,093	254,378	1,524,958	746,127				
POWER									
Advances-Employees	17,033	17,033							
Advances-Suppliers	550,425	550,425							
Advances-For liquidation	146,412	146,412							
Adv.for Govt Institutions	1,942,822	1,942,822							
	<u>31,134,661</u>	<u>3,417,901</u>	<u>6,109,679</u>	<u>11,303,118</u>	<u>9,830,337</u>	<u>-</u>	<u>319,702</u>	<u>153,923</u>	<u>10,142,110</u>
Less: Allowance for D/A-AR Others	<u>10,142,110</u>								
Net NON - TRADE RECEIVABLE	<u>20,992,551</u>								
C. Due from affiliated companies	<u>109,589,466</u>								
TOTAL RECEIVABLE (A + B + C)	<u>2,668,146,044</u>								

ANNEX B

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

JUNE 30, 2010

	Interest	Within 1 year	1-2 years	2-3 years	3-4 years	More than 4 years	Carrying Value
(In Thousands)							
Notes payable	5.5-6.75% fixed pa P	1,010,191	-	-	-	- P	1,010,191
Long-term debts - Project Financing	6.016% pa	- P	1,536,000 P	1,536,000 P	1,536,000 P	4,992,000	9,600,000
Foreign bank loans at floating rate							
	3 month SIBOR						36,234
\$6.64 million loan (USD)	plus 1.95% pa	36,234	-	-	-	-	-
	6 month USDLIBOR						16,785
\$15.14 million loan (USD)	plus 1.5% pa	16,785	-	-	-	-	-
	4% pa over the rate						
Deferred purchase payment	180 days BBALIBOR	-	1,495,391	-	-	-	1,495,391
Acceptance and trust receipts							-
Various letters of credit	8-11% interest rate	14,100	-	-	-	-	14,100
		P 1,077,310 P	3,031,391 P	1,536,000 P	1,536,000 P	4,992,000 P	12,172,701

DECEMBER 31, 2009

	Interest		Within 1 year	1-2 years	2-3 years	3-4 years	More than 4 years	Carrying Value
(In Thousands)								
Cash equivalents	5.25% to 6.5%	₱	369,720	-	-	-	- ₱	369,720
Notes payable	5.5-6.75% fixed p.a.	₱	793,191	-	-	-	- ₱	793,191
Long-term debts								
PSALM	11% fixed rate		1,681,081 ₱	1,315,020 ₱	1,315,020 ₱	1,315,020 ₱	3,945,060	9,571,201
Foreign bank loans at floating rate								
	3 month SIBOR							
\$6.64 million loan (USD)	plus 1.95% p.a.		72,202	-	-	-	-	72,202
	6 month USD LIBOR							
\$15.14 million loan (USD)	plus 1.5% p.a.		61,055	-	-	-	-	61,055
	4% pa over the rate							
Deferred purchase payment	180 days BBALIBOR		-	474,364	-	-	-	474,364
Acceptance and trust receipts								
Various letters of credit	8-11% interest rate		51,450	-	-	-	-	51,450
		₱	2,688,979 ₱	1,789,384 ₱	1,315,020 ₱	1,315,020 ₱	3,945,060 ₱	11,023,463

Liquidity Risk

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

The tables below summarize the maturity profile of the Group's financial assets and liabilities as of June 30, 2010 and December 31, 2009 based on undiscounted contractual payments.

JUNE 30, 2010

	Within 1 year	1-2 years	2-3 years	3-4 years	more than 4 Years	Total
(In Thousands)						
Assets						
Cash and cash equivalents	₱ 1,197,263	-	-	-	- ₱	1,197,263
Receivables	-	-	-	-	-	-
Trade	-	-	-	-	-	-
Electricity sales	1,547,720	-	-	-	-	1,547,720
Local coal sales	633,473	-	-	-	-	633,473
Export coal sales	369,941	-	-	-	-	369,941
Due from related parties	109,589	-	-	-	-	109,589
Others	31,135	-	-	-	-	31,135
Security deposits	291,613	-	-	-	-	291,613
	₱ 4,180,734	-	-	-	- ₱	4,180,734
Liabilities						
Trade and other payables						
Trade	₱ 2,389,148	-	-	-	- ₱	2,389,148
Due to related parties	303,148	-	-	-	-	303,148
Accrued expenses and other payables	500,887	-	-	-	-	500,887
Notes payable	1,010,191	-	-	-	-	1,010,191
Long-term debt - Project Financing 6.016% p.a.	- ₱	1,536,000 ₱	1,536,000 ₱	1,536,000 ₱	4,992,000	9,600,000
Various letters of credit 8-11% interest rate	14,100	-	-	-	-	14,100
Floating Rate						
\$15.14 million loan (USD) 6 months USD Libor plus 1.5% per annum	16,785	-	-	-	-	16,785
\$6.64 million loan(USD) 3 months SIBOR plus 1.95% per annum	36,234	-	-	-	-	36,234
\$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	-	1,495,391	-	-	-	1,495,391
	₱ 4,270,493 ₱	3,031,391 ₱	1,536,000 ₱	1,536,000 ₱	4,992,000 ₱	15,365,884

DECEMBER 31, 2009

	Within 1 year	1-2 years	2-3 years	3-4 years	more than 4 Years	Total
(In Thousands)						
Assets						
Cash and cash equivalents	₱ 481,921	-	-	-	- ₱	481,921
Receivables	-	-	-	-	-	-
Trade	-	-	-	-	-	-
Electricity sales	489,246	-	-	-	-	489,246
Local coal sales	337,326	-	-	-	-	337,326
Export coal sales	414,815	-	-	-	-	414,815
Due from related parties	9,067	-	-	-	-	9,067
Others	27,352	-	-	-	-	27,352
Security deposits	270,751	33,818	-	-	-	304,570
	₱ 2,030,479 ₱	33,818	-	-	- ₱	2,064,297
Liabilities						
Trade and other payables						
Trade	₱ 1,683,029	-	-	-	- ₱	1,683,029
Due to related parties (Note 17)	609,144	-	-	-	-	609,144
Accrued expenses and other payables	320,868	-	-	-	-	320,868
Notes payable	793,191	-	-	-	-	793,191
Long-term debt						
Fixed Rate						
\$361,481,091 payable to PSALM, 11% compounded semi-annually	1,759,837 ₱	1,315,020 ₱	1,315,020 ₱	1,315,020 ₱	3,945,060	9,649,958
Various letters of credit 8-11% interest rate	51,450	-	-	-	-	51,450
Floating Rate						
\$15.14 million loan (USD) 6 months USD Libor plus 1.5% per annum	61,055	-	-	-	-	61,055
\$6.64 million loan(USD) 3 months SIBOR plus 1.95% pa	72,202	-	-	-	-	72,202
\$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	1,345	474,364	-	-	-	475,708
	₱ 5,352,121 ₱	1,789,384 ₱	1,315,020 ₱	1,315,020 ₱	3,945,060 ₱	13,716,606

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 10% and 88.30% of debts as of June 30, 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:

	30-Jun-10		31-Dec-09	
	U.S. Dollar	Peso Equivalent	U.S. Dollar	Peso Equivalent
Assets				
Cash and cash equivalents	2,162,357	100,268,492	6,388,441	295,145,974
Trade receivables	7,972,863	369,940,614	8,919,899	412,099,334
Liabilities				
Trade payables	(1,122,812)	(52,034,803)	(2,094,555)	(96,768,441)
Long-term debt (including current portion)	(33,392,497)	(1,548,410,087)	(213,400,753)	(9,859,114,789)
Net foreign currency denominated (liabilities)	(24,380,089)	(1,130,235,784)	(200,186,968)	(9,248,637,922)

The spot exchange rates used in 2010 and 2009 were ₱46.37 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 June 30, 2010 and 2009.

Reasonably possible change in the Philippine peso-US dollar exchange rate	Increase (decrease) in profit before tax			
	2010		2009	
₱ 2	₱	(48,760,179)	₱	(1,343,329,140)
₱ (2)	₱	48,760,179	₱	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:

	6/30/2010	12/31/2009
Trade		
Local sales	84.47%	65.15%
Export sales	14.33%	32.70%
Other receivables	1.21%	2.15%
Total	100.00%	100.00%

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

	Gross Maximum Exposure	
	6/30/2010	12/31/2009
Cash and cash equivalents	P 1,197,262,807	P 481,920,935
Receivables		
Trade		
Local coal sales	633,473,299	337,326,286
Export coal sales	369,940,614	414,815,233
Electricity sales	1,547,719,561	489,245,876
Due from related parties	109,589,466	9,067,242
Others	31,134,661	27,352,040
Security deposits	291,613,296	291,613,296
Total credit risk exposure	P 4,180,733,703	P 2,051,340,908

Capital Management

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

The following table shows the component of the Group's capital as of June 30, 2010 and December 31, 2009:

	6/30/2010	12/31/2009
Total paid-up capital	P 2,638,027,411 P	1,873,671,271
Deposit for future subscription	3,024,402,258	5,402,125,985
Retained earnings – unappropriated	3,167,799,142	2,400,238,695
Retained earnings – appropriated	700,000,000	700,000,000
Cost of shares held in treasury	-	(528,891,260)
	P 9,530,228,811 P	9,847,144,691

Fair Values

The following tables set forth the carrying values and estimated fair values of the Group's financial assets and liabilities recognized as of June 30, 2010 and December 31, 2009.

	6/30/2010		12/31/2009	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets				
Loans and receivables:				
Cash and cash equivalents	P 1,197,262,807 P	1,197,262,807 P	481,920,935 P	481,920,935
Trade				
Electricity sale	1,547,719,561	1,547,719,561	489,245,876	489,245,576
Local sales	633,473,299	633,473,299	337,326,286	337,326,286
Export sales	369,940,614	369,940,614	414,815,233	414,815,233
Due from related parties	109,589,466	109,589,466	9,067,242	9,067,242
Others	31,134,661	31,134,661	27,352,041	27,352,041
Security deposits	291,613,296	291,613,296	291,613,296	296,438,346
Total	P 4,180,733,703 P	4,180,733,703 P	2,051,340,908 P	2,056,165,958

	6/30/2010		12/31/2009	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Liabilities				
Other financial liabilities:				
Notes payable	₱ 1,024,291,015	₱ 1,024,291,015	₱ 793,191,385	₱ 793,191,385
Long-term debt	11,043,238,634	13,512,583,828	10,230,274,196	10,858,249,006
Trade and other payables				
Trade payables	2,389,147,947	2,389,147,947	1,683,028,961	1,683,028,961
Accrued expenses and other payables	500,887,006	500,887,006	320,867,761	320,867,761
Due to related parties	303,147,831	303,147,831	609,143,593	609,143,593
Payable to DOE and local government units	1,083,613,296	1,083,613,296	216,516,873	216,516,873
Total	₱ 16,344,325,729	₱ 18,813,670,923	₱ 13,853,022,769	₱ 14,480,997,579

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

Financial Assets

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

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

Financial Liabilities

Trade and other payables

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

Long-term Debt

Floating rate loans

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

Fixed rate loans

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

As of June 30, 2010 and December 31, 2009, the Group does not have financial instruments measured at fair value.