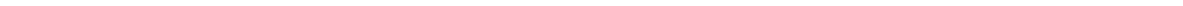




SEMIRARA
MINING
CORPORATION

Consolidated Financial Statements

December 31, 2009 and 2008 and Years Ended December 31, 2009, 2008 and 2007
and Independent Auditors' Report



Statement of Management's Responsibility for Financial Statements

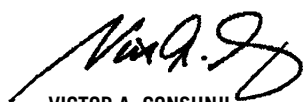
The management of **SEMIRARA MINING CORPORATION** is responsible for all information and representations contained in the financial statements for the years ended December 31, 2009 and 2008. The financial statements have been prepared in conformity with the generally accepted accounting principles in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

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

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

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

Singed under oath by the following:



VICTOR A. CONSUNJI

President



DAVID M. CONSUNJI

Chairman of the Board



JUNALINA S. TABOR

OIC-Chief Finance Officer

For: **NESTOR D. DADIVAS**

Chief Finance Officer

Audit Committee Report to the Board of Directors

For the Year Ended December 31, 2009

The Audit Committee ("Committee") assists the Board of Directors ("Board") in fulfilling oversight of the following matters consistent with its Board-approved Audit Committee Charter :

- (1) internal control environment,
- (2) financial reporting process and the financial statements,
- (3) external audit performance,
- (4) internal audit performance,
- (5) risk management, and
- (6) compliance with reporting, legal and regulatory matters and other reporting standards.

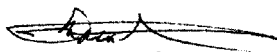
The Committee is comprised of three (3) Members of the Board, two of whom are Independent Directors. An Independent Director chairs the Committee. The Committee Members meet the experience and other qualification requirements of the Securities and Exchange Commission. In 2009, the Audit Committee had ten (10) meetings, all of which were in-person meetings that included sessions with Management, Independent External Auditor (SGV & Co.), Internal Audit Manager, Corporate Counsel, Compliance Officer and the Compliance Committee. Meetings were presided by the Committee Chairman with attendance by all its Members, except in May, August and September 2009 when meetings were held with a quorum of two Members.

In the discharge of its roles and responsibilities, the Audit Committee confirms that :

- The Committee reviewed and discussed the quarterly unaudited financial statements and the annual audited consolidated financial statements of Semirara Mining Corporation and Subsidiary as of and for the year ended December 31, 2009 with Management and SGV & Co. It also reviewed the adequacy of disclosures, including significant related party transactions to ensure a transparent and fair view that meet shareholder needs. The review is done in the context that Management has the primary responsibility for the financial statements and the financial reporting process, and that SGV & Co. is responsible for expressing an opinion on the conformity of the Company's audited consolidated financial statements with Philippine Financial Reporting Standards;
- The Committee reviewed and approved SGV & Co.'s audit and audit-related services, fees and terms of engagements for such services; it also reviewed and discussed the external audit performance, independence and qualifications, and considered the opinion of Management. Based on the results of the review, it is recommending to the Board the re-appointment of SGV & Co. as the Company's Independent External Auditor for 2010;
- The Committee reviewed and discussed audit findings, internal control assessments and compliance issues with SGV & Co., Internal Audit and the Compliance Committee ensuring that Management responded appropriately in a timely manner. The oversight is done in the context that Management has the responsibility and accountability for addressing internal control gaps and compliance with legal and regulatory matters;
- The Committee reviewed and approved the annual internal audit plan and risk-based work programs for 2009. It also discussed updates and reports of audit activities, including work directed toward continual conformance to ISO Integrated Management System by the Company's coal mining activity; and
- The Committee reviewed and discussed with Management significant risk issues and exposures, ensuring that the Company's enterprisewide risk management system is adequately supported by risk mitigation measures and initiatives. It also monitored through the Internal Audit the appropriate actions undertaken by Management as a result of self-assessment risk reviews performed by the functional units. The oversight is done in the context that Management has the primary responsibility for the risk management process.

Based on the reviews and discussions referred to above, and subject to limitations on the Committee's roles and responsibilities referred to above, the Audit Committee recommends to the Board of Directors the inclusion of the Company's audited consolidated financial statements as of and for the year ended December 31, 2009 in the Company's Annual Report to the Stockholders and for filing with the Securities and Exchange Commission.

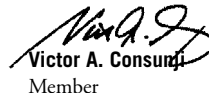
March 4, 2010



Victor C. Macalincag
Chairman



Federico E. Puno
Member



Victor A. Consunji
Member



Independent Auditors' Report

The Stockholders and the Board of Directors
Semirara Mining Corporation

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Independent Auditors' Report

Opinion

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

SYCIP GORRES VELAYO & CO.

Jessie D. Cabaluna

Jessie D. Cabaluna

Partner

CPA Certificate No. 36317

SEC Accreditation No. 0069-AR-2

Tax Identification No. 102-082-365

PTR No. 2087369, January 4, 2010, Makati City

March 9, 2010

Consolidated Statements of Financial Position

	December 31	
	2009	2008 (Note 2)
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 4, 28 and 29)	₱ 481,920,935	₱ 1,012,409,162
Receivables - net (Notes 3, 5, 17, 28 and 29)	1,254,095,120	1,779,050,330
Inventories - net (Notes 3, 6, 8 and 33)	3,084,879,380	1,383,220,166
Other current assets (Notes 7 and 29)	759,885,070	323,731,933
Total Current Assets	5,580,780,505	4,498,411,591
Noncurrent Assets		
Property, plant and equipment - net (Notes 3, 8, 19, 20 and 33)	17,818,687,301	1,106,064,258
Investments and advances (Notes 3 and 9)	244,432,588	223,231,759
Other noncurrent assets - net (Notes 3, 10 and 29)	184,011,054	283,749,310
Total Noncurrent Assets	18,247,130,943	1,613,045,327
	₱ 23,827,911,448	₱ 6,111,456,918
LIABILITIES AND EQUITY		
Current Liabilities		
Notes Payable (Notes 11, 28 and 29)	₱ 793,191,385	₱ 102,496,739
Current portion of long-term debt (Notes 12, 28, 29 and 33)	1,865,789,967	286,736,581
Trade and other payables (Notes 13, 17, 28 and 29)	2,857,535,375	1,189,370,180
Income tax payable	-	58,060,461
Total Current Liabilities	5,516,516,727	1,636,663,961
Noncurrent Liabilities		
Long-term debt - net of current portion (Notes 12, 28, 29 and 33)	8,364,484,229	137,065,242
Deferred tax liabilities - net (Notes 3 and 24)	72,056,929	14,125,154
Provision for decommissioning and site rehabilitation (Notes 3 and 14)	14,773,138	13,204,317
Pension liability (Notes 3 and 18)	12,935,734	9,498,998
Total Noncurrent Liabilities	8,464,250,030	173,893,711
Total Liabilities	13,980,766,757	1,810,557,672
Equity (Note 15)		
Capital stock	296,875,000	296,875,000
Additional paid-in capital	1,576,796,271	1,576,796,271
Deposit for future stock subscriptions	5,402,125,985	-
Retained earnings (Note 16)		
Unappropriated	2,400,238,695	2,256,119,235
Appropriated	700,000,000	700,000,000
	10,376,035,951	4,829,790,506
Cost of shares held in treasury (Note 16)	(528,891,260)	(528,891,260)
Total Equity	9,847,144,691	4,300,899,246
	₱ 23,827,911,448	₱ 6,111,456,918

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Comprehensive Income

	Years Ended December 31		
	2009	2008 (Note 2)	2007 (Note 2)
REVENUE (Note 32)			
Coal	₱ 11,500,192,811	₱ 8,490,045,380	₱ 6,466,700,620
Power	443,492,763	–	–
	11,943,685,574	8,490,045,380	6,466,700,620
COST OF SALES (Notes 17, 19 and 32)			
Coal	8,921,965,253	6,943,585,844	5,193,989,609
Power	440,470,595	–	–
	9,362,435,848	6,943,585,844	5,193,989,609
GROSS PROFIT	2,581,249,726	1,546,459,536	1,272,711,011
OPERATING EXPENSES (Notes 20 and 32)	(749,582,032)	(458,925,813)	(324,382,373)
FINANCE INCOME (Notes 22 and 32)	52,752,896	77,234,983	40,301,348
FOREIGN EXCHANGE GAINS (LOSSES) - net (Notes 28 and 32)	47,703,017	(82,781,003)	102,964,270
FINANCE COSTS (Notes 17, 21 and 32)	(112,192,664)	(101,240,084)	(140,251,461)
EQUITY IN NET LOSSES OF ASSOCIATES (Notes 9 and 32)	(39,349,171)	(1,768,241)	–
OTHER INCOME (Notes 23 and 32)	92,268,468	54,442,772	9,423,888
	(708,399,486)	(513,037,386)	(311,944,328)
INCOME BEFORE INCOME TAX	1,872,850,240	1,033,422,150	960,766,683
PROVISION FOR (BENEFIT FROM) INCOME TAX (Notes 24 and 32)			
Current	5,362,577	290,501,414	333,672,822
Deferred	57,931,775	(53,478,055)	(6,191,133)
	63,294,352	237,023,359	327,481,689
NET INCOME	1,809,555,888	796,398,791	633,284,994
OTHER COMPREHENSIVE INCOME	–	–	–
TOTAL COMPREHENSIVE INCOME	₱ 1,809,555,888	₱ 796,398,791	₱ 633,284,994
Basic / Diluted Earnings per Share (Note 25)	₱ 6.52	₱ 2.87	₱ 2.28

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Changes in Equity

	Common Stock (Note 15)	Additional Paid-in Capital	Deposit for Future stock Subscriptions (Note 15)	Unappropriated Retained Earnings (Notes 2 and 15)	Appropriated Retained Earnings (Note 16)	Total	Cost of Shares Held in Treasury (Notes 15 and 16)	Grand Total
At January 1, 2009	₱ 296,875,000	₱ 1,576,796,271	₱ -	₱ 2,256,119,235	₱ 700,000,000	₱ 4,829,790,506	₱ 528,891,260	₱ 4,300,899,246
Deposit for future stock subscriptions	-	-	₱ 5,402,125,985	-	-	₱ 5,402,125,985	-	₱ 5,402,125,985
Net income for the year	-	-	-	₱ 1,809,555,888	-	₱ 1,809,555,888	-	₱ 1,809,555,888
Dividends	-	-	-	(₱ 1,665,436,428)	-	(₱ 1,665,436,428)	-	(₱ 1,665,436,428)
At December 31, 2009	₱ 296,875,000	₱ 1,576,796,271	₱ 5,402,125,985	₱ 2,400,238,695	₱ 700,000,000	₱ 10,376,035,951	₱ 528,891,260	₱ 9,847,144,691
At January 1, 2008	₱ 296,875,000	₱ 1,576,796,271	₱ -	₱ 2,270,011,644	₱ 1,000,000,000	₱ 5,143,682,915	₱ 528,891,260	₱ 4,614,791,655
Net income for the year	-	-	-	₱ 796,398,791	-	₱ 796,398,791	-	₱ 796,398,791
Dividends	-	-	-	(₱ 1,110,291,200)	-	(₱ 1,110,291,200)	-	(₱ 1,110,291,200)
Reversal of appropriation	-	-	-	₱ 800,000,000	(₱ 800,000,000)	-	-	-
Additional appropriation	-	-	-	(₱ 500,000,000)	₱ 500,000,000	-	-	-
At December 31, 2008	₱ 296,875,000	₱ 1,576,796,271	₱ -	₱ 2,256,119,235	₱ 700,000,000	₱ 4,829,790,506	₱ 528,891,260	₱ 4,300,899,246
At January 1, 2007	₱ 296,875,000	₱ 1,576,796,271	₱ -	₱ 1,969,814,010	₱ 1,000,000,000	₱ 4,843,485,281	₱ 528,891,260	₱ 4,314,594,021
Net income for the year	-	-	-	₱ 633,284,994	-	₱ 633,284,994	-	₱ 633,284,994
Dividends	-	-	-	(₱ 333,087,360)	-	(₱ 333,087,360)	-	(₱ 333,087,360)
At December 31, 2007	₱ 296,875,000	₱ 1,576,796,271	₱ -	₱ 2,270,011,644	₱ 1,000,000,000	₱ 5,143,682,915	₱ 528,891,260	₱ 4,614,791,655

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

	Years Ended December 31		
	2009	2008 (Note 2)	2007 (Note 2)
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	₱ 1,872,850,240	₱ 1,033,422,150	₱ 960,766,683
Adjustments for:			
Depreciation and amortization (Notes 8, 10 and 19)	1,141,609,910	1,159,392,307	1,656,778,734
Finance costs (Note 21)	112,192,664	101,240,084	140,251,461
Equity in net losses of associates (Note 9)	39,349,171	1,768,241	–
Pension expense (Note 18)	3,745,508	4,839,774	8,861,276
Donation of school campus (Note 31)	–	–	18,164,254
Gain on sale of equipment (Notes 8 and 23)	(40,205,597)	(44,713,500)	(5,173,911)
Finance income (Note 22)	(52,752,896)	(77,234,983)	(40,301,348)
Net unrealized foreign exchange losses (gains)	(168,563,288)	71,788,836	(41,555,757)
Operating income before changes in working capital	2,908,225,712	2,250,502,909	2,697,791,392
Changes in operating assets and liabilities:			
Decrease (increase) in:			
Receivables	524,955,210	(625,030,364)	(543,458,037)
Inventories	(620,071,485)	(7,161,948)	263,719,356
Other current assets	(193,127,843)	(21,002,963)	(21,581,895)
Increase in Trade and other payables	1,561,774,355	420,558,669	188,104,222
Cash generated from operations	4,181,755,949	2,017,866,303	2,584,575,038
Interest received	86,501,617	87,005,291	34,820,344
Interest paid	(58,900,149)	(88,561,504)	(116,098,795)
Income taxes paid	(63,423,038)	(272,607,496)	(324,074,439)
Net cash provided by operating activities	4,145,934,379	1,743,702,594	2,179,222,148
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of equipment	745,980,367	1,532,458,450	5,380,800
Additions to property, plant and equipment (Notes 8 and 31)	(2,860,200,490)	(1,704,529,706)	(214,754,775)
Acquisition of a business (Note 33)	(7,107,740,798)	–	–
Advance rental paid	(150,568,000)	–	–
Additions to investments and advances	(60,550,000)	(144,128,793)	(80,871,207)
Decrease (increase) in other noncurrent assets (Note 10)	121,319,196	(282,366,016)	–
Proceeds from short-term cash investments	–	–	300,000,000
Contribution to the pension plan	–	–	(56,871,980)
Net cash used in investing activities	(9,311,759,725)	(598,566,065)	(47,117,162)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net availments of notes payable	690,694,646	102,496,739	–
Availments of long-term debt	1,574,960,402	1,218,495,299	446,857,219
Deposit for future stock subscriptions (Note 15)	5,402,125,985	–	–
Payment of dividends (Note 16)	(1,665,436,428)	(1,110,291,200)	(333,087,360)
Repayment of long-term debt	(1,367,007,486)	(1,994,234,542)	(1,105,507,731)
Net cash provided by (used in) financing activities	4,635,337,119	(1,783,533,704)	(991,737,872)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(530,488,227)	(638,397,175)	1,140,367,114
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	1,012,409,162	1,650,806,337	510,439,223
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	₱ 481,920,935	₱ 1,012,409,162	₱ 1,650,806,337

See accompanying Notes to Consolidated Financial Statements.

Notes to the Consolidated Financial Statements

1. Corporate Information

Semirara Mining Corporation (the Parent Company) was incorporated on February 26, 1980. The Parent Company's registered and principal office address is at 2281 Don Chino Roces Avenue, Makati City, Philippines. The Parent Company is a majority-owned (58.88%) subsidiary of DMCI Holdings, Inc. (DMCI-HI), a publicly listed entity in the Philippines. Its ultimate parent company is Dacon Corporation.

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

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

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

2. Summary of Significant Accounting Policies

Basis of Preparation

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

Statement of Compliance

The consolidated financial statements of the Group have been prepared in compliance with Philippine Financial Reporting Standards (PFRS) as issued by the Financial Reporting Standards Council and adapted by the Securities and Exchange Commission (SEC).

Basis of Consolidation

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

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

Notes to the 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*

Notes to the Consolidated Financial Statements

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 as a single line. In addition, the Standard introduces the profit or loss: 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, presenting the net income and other comprehensive income in one statement. The Group has also changed the caption of the balance sheet to consolidated statement of financial position.
- **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.

Notes to the Consolidated Financial Statements

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

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

Future Changes in Accounting Policies

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

- Amendment to PFRS 3, *Business Combinations* (Revised) and to PAS 27, *Consolidated and Separate Financial Statements* (effective for annual periods beginning on or after July 1, 2009)
PFRS 3 (Revised) introduces significant changes in the accounting for business combinations occurring after the effective date. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs and future reported results. The amendment to PAS 27 requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes by PFRS 3 (Revised) and PAS 27 (Amended) will affect future acquisitions or loss of control of subsidiaries and transactions with non-controlling interests. PFRS 3 (Revised) will be applied prospectively while PAS 27 (Amended) will be applied retrospectively with a few exceptions.
- Philippine Interpretation IFRIC 15, *Agreement for Construction of Real Estate* (effective for annual periods beginning on or after January 1, 2012)
The Interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The Interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11, *Construction Contracts*, or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion. This Interpretation will have no impact on the consolidated financial statements because the Group does not conduct such activity.
- Philippine Interpretation IFRIC 17, *Distributions of Non-Cash Assets to Owners* (effective for annual periods beginning on or after July 1, 2009 with early application permitted)
This Interpretation provides guidance on how to account for non-cash distributions to owners. The Interpretation clarifies when to recognize a liability, how to measure it and the associated assets, and when to derecognize the asset and liability. The Group does not expect the Interpretation to have an impact on the consolidated financial statements as the Group has not made non-cash distributions to shareholders in the past.

Notes to the Consolidated Financial Statements

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.

Notes to the Consolidated Financial Statements

- 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.

Notes to the Consolidated Financial Statements

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

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

Determination of fair value

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

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

Day 1 difference

For transactions other than those related to customers' guaranty and other deposits, where the transaction price in a non-active market is different to the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Group recognizes the difference between the transaction price and fair value (a day 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.

Notes to the Consolidated Financial Statements

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.

Notes to the Consolidated Financial Statements

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.

Notes to the Consolidated Financial Statements

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.

Notes to the Consolidated Financial Statements

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

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

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.

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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.

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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.

Notes to the Consolidated Financial Statements

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.

Notes to the Consolidated Financial Statements

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.

Notes to the Consolidated Financial Statements

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.

Notes to the Consolidated Financial Statements

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 Group 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. Financial information on business segments is presented in Note 32.

Contingencies

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

Events after the Reporting Period

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

Notes to the Consolidated Financial Statements

3. Significant Accounting Estimates and Assumptions

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

Judgment

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

Determining functional currency

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

Operating lease commitments - the Group as lessee

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

Contingencies

The Group is currently involved in various legal proceedings. The estimate of the probable costs for the resolution of these claims has been developed in consultation with outside counsel handling the Group's defense in these matters and is based upon an analysis of potential results. The Group currently does not believe that these proceedings will have a material adverse affect on its financial position. It is possible, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the strategies relating to these proceedings (see Note 27).

Management's Use of Estimates

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

Revenue recognition

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

The Group's coal sales arrangement with its customers includes reductions of invoice price to take into consideration charges for penalties and bonuses. These 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.

Notes to the Consolidated Financial Statements

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

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

Estimating stock pile inventory quantities

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

Estimating allowance for write down in spare parts and supplies

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

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

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

Estimating decommissioning and site rehabilitation costs

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

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

As of December 31, 2009 and 2008, the provision for decommissioning and site rehabilitation has a carrying value of ₱14.77 million and ₱13.20 million, respectively (see Note 14).

Notes to the Consolidated Financial Statements

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

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

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

Estimating impairment for nonfinancial assets

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

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

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

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

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

	2009		2008
Property, plant and equipment (Note 8)	₱ 17,818,687,301	₱	1,106,064,258
Investments and advances (Note 9)	244,432,588		223,231,759
Software cost (Note 10)	7,536,022		5,374,111
	₱ 18,070,655,911	₱	1,334,670,128

Notes to the Consolidated Financial Statements

Deferred tax assets

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

In 2009, the Group has various deductible temporary differences from which no deferred tax assets have been recognized. Refer to Note 24 for the balances.

Estimating pension and other employee benefits

The determination of the obligation and cost of retirement and other employee benefits is dependent on the selection of certain assumptions used in calculating such amounts. Those assumptions include, among others, discount rates, expected returns on plan assets and salary increase rates and price for the retirement of pension (see Note 18). Actual results that differ from the Group's assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods. While the Group believes that the assumptions are reasonable and appropriate, significant differences between actual experiences and assumptions may materially affect the cost of employee benefits and related obligations.

As of December 31, 2009 and 2008, the balances of the Group's defined benefit obligation and unrecognized actuarial gain follow (see Note 18):

	2009		2008
Present value of defined benefit obligation	₱ 54,262,702	₱	39,107,208
Unrecognized actuarial gains	25,297,504		27,311,741

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

The accrued balance of unpaid vacation and sick leaves as of December 31, 2009 and 2008 amounted to ₱1.55 million and ₱1.40 million, respectively (see Note 13).

4. Cash and Cash Equivalents

This account consists of:

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

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

Notes to the Consolidated Financial Statements

5. Receivables

This account consists of:

	2009	2008
Trade (Notes 28 and 29)		
Electricity sales	₱ 489,245,876	₱ –
Export coal sales	414,815,233	7,344,063
Local coal sales	337,326,286	1,766,074,476
Due from related parties (Notes 17, 28 and 29)	9,067,242	6,607,698
Others (Notes 28 and 29)	27,352,040	25,926,943
	1,277,806,677	1,805,953,180
Less allowance for impairment losses	23,711,557	26,902,850
	₱ 1,254,095,120	₱ 1,779,050,330

Trade

Coal sales

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

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

Electricity sales

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

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

As at December 31, 2009 and 2008, trade receivables and other receivables with a nominal value of ₱23.71 million and ₱26.90 million were impaired and provided for. Movements in the allowance for impairment of receivables were as follows:

2009

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

Notes to the Consolidated Financial Statements

2008

	Local Coal Sales	Other Receivables	Total
At January 1, 2008	₱ 12,056,502	₱ 14,846,348	₱ 26,902,850
Reclassification	4,962,147	(4,962,147)	–
At December 31, 2008	₱ 17,018,649	₱ 9,884,201	₱ 26,902,850
Individual impairment	₱ 17,018,649	₱ 9,884,201	₱ 26,902,850

6. Inventories

This account consists of:

	2009	2008
Coal inventory at cost (Note 33)	₱ 1,743,044,519	₱ 896,734,233
Spare parts and supplies at NRV (Note 33)	1,341,834,861	486,485,933
	₱ 3,084,879,380	₱ 1,383,220,166

Spare parts and supplies with original cost of ₱580.93 million and ₱539.77 million as of December 31, 2009 and 2008, respectively, provided with allowance for inventory obsolescence amounting to ₱53.29 million both in 2009 and 2008.

The cost of coal inventories recognized as expense in the profit or loss amounted to ₱9,094.78 million, ₱6,943.59 million and ₱5,193.99 million for the years ended December 31, 2009, 2008 and 2007, respectively (see Note 19).

7. Other Current Assets

This account consists of:

	2009	2008
Security deposit - current portion (Note 10)	₱ 270,751,295	₱ –
Advances to suppliers	182,964,826	97,621,328
Creditable withholding tax	149,441,458	–
5% input value added tax (VAT) withheld	117,455,626	190,500,982
Prepaid rent (Notes 10, 30 and 33)	27,719,442	19,967,673
Prepaid insurance and others	10,052,423	14,141,950
Environmental guarantee fund	1,500,000	1,500,000
	₱ 759,885,070	₱ 323,731,933

Notes to the Consolidated Financial Statements

Advances to suppliers

The Advances to suppliers account represent payments made in advance for the acquisition of equipment, materials and supplies. These advances are applied against purchase which normally occurs within one year from the date the advances have been made.

5% input value added tax (VAT) withheld

As a result of the enactment of Republic Act No. 9337 effective November 1, 2005 (see Note 24), NPC started withholding the required 5% input VAT on the VAT exempt coal sales of the Group. On March 7, 2007, the Group obtained a ruling from the Bureau of Internal Revenue which stated that the sale of coal remains exempt from VAT. In 2007, the Group filed a total claim for refund of ₱190.50 million from the BIR representing VAT erroneously withheld by NPC from December 2005 to March 2007, which eventually was elevated to the Court of Tax Appeals (CTA). On October 13, 2009, CTA granted the Parent Company's petition for a refund on erroneously withheld VAT initially on December 2005 sales amounting to ₱11.85 million. The Commissioner of Internal Revenue moved for reconsideration of the CTA's Decision. On November 21, 2009, the Parent Company filed its comment thereon. The motion for reconsideration remains pending to date. Management has estimated that the refund will be recovered after three (3) to five (5) years. Consequently, the claim for tax refund was provided with provision for probable loss amounting to ₱42.38 million (see Note 20).

Environmental guarantee fund

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

8. Property, Plant and Equipment

The rollforward analysis of this account follows:

2009

	Mining Equipment	Power Plant and Buildings	Roads and Bridges	Equipment in Transit and Construction in Progress	Total
At Cost					
At January 1	₱8,927,359,286	₱ 1,449,535,036	₱279,062,950	₱209,605,721	₱10,865,562,993
Acquisition of a business (Note 33)	–	15,697,026,189	–	–	15,697,026,189
Additions	2,191,703,508	108,843,673	–	559,653,309	2,860,200,490
Transfers	154,665,201	43,408,474	–	(198,073,675)	–
Disposals (Note 23)	(998,267,572)	–	–	–	(998,267,572)
At December 31	10,275,460,423	17,298,813,372	279,062,950	571,185,355	28,424,522,100
Accumulated Depreciation and Amortization					
At January 1	8,458,905,294	1,021,788,873	278,804,568	–	9,759,498,735
Depreciation and amortization (Notes 19 and 20)	804,854,479	316,734,991	258,382	–	1,121,847,852
Disposals (Note 23)	(275,511,788)	–	–	–	(275,511,788)
At December 31	8,988,247,985	1,338,523,864	279,062,950	–	10,605,834,799
Net Book Value	₱1,287,212,438	₱15,960,289,508	₱	₱571,185,355	₱17,818,687,301

Notes to the Consolidated Financial Statements

2008

	Mining Equipment	Power Plant and Buildings	Roads and Bridges	Equipment in Transit and Construction in Progress	Total
At Cost					
At January 1	₱ 8,930,642,580	₱ 1,425,618,757	₱ 279,062,950	₱ 207,937,003	₱ 10,843,261,290
Additions	1,551,863,209	23,916,279	–	128,750,218	1,704,529,706
Transfers	127,081,500	–	–	(127,081,500)	–
Disposals (Note 23)	(1,682,228,003)	–	–	–	(1,682,228,003)
At December 31	8,927,359,286	1,449,535,036	279,062,950	209,605,721	10,865,562,993
Accumulated Depreciation and Amortization					
At January 1	7,770,695,515	904,267,126	263,926,447	–	8,938,889,088
Depreciation and amortization (Notes 19 and 20)	943,370,908	117,521,747	14,878,121	–	1,075,770,776
Disposals (Note 23)	(255,161,129)	–	–	–	(255,161,129)
At December 31	8,458,905,294	1,021,788,873	278,804,568	–	9,759,498,735
Net Book Value	₱ 468,453,992	₱ 427,746,163	₱ 258,382	₱ 209,605,721	₱ 1,106,064,258

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

Certain mining equipment has been pledged as collaterals to secure the indebtedness of the Group to a local bank as of December 31, 2008 (see Note 12).

9. Investments and Advances

This account consists of:

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

Notes to the Consolidated Financial Statements

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

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

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

- DMCI-MC, a corporation engaged in nickel mining and other base metals
- DMCI-PC, a corporation engaged in power generation

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

	2009		2008	
	DMCI-PC	DMC-MC	DMCI-PC	DMC-MC
Assets				
Current assets	₱ 8,901,235	₱ 225,086,326	₱ 62,174,370	₱ 218,236,826
Noncurrent assets	541,008,336	21,771,995	156,062,456	346,504,106
	549,909,571	246,858,321	218,236,826	564,740,932
Liabilities				
Current liabilities	(272,417,744)	(71,034,972)	(6,003,986)	(123,317,484)
	(₱ 277,491,827)	₱ 175,823,349	₱ 212,232,840	₱ 441,423,448
Net income (loss)	(₱ 34,717,965)	(₱ 43,980,377)	(₱ 23,340,208)	₱ 19,803,726

DMCI-MC

In March 2007, DMCI-MC entered into a Memorandum of Agreement (MOA) with Fil-Asian Strategic Resources and Properties Corporation (Fil-Asian) wherein Fil-Asian appointed the DMCI-MC to exclusively undertake mining operations in the municipalities of Sta. Cruz and Candelaria, Province of Zambales. The profits of the mining operations will be split equally between the parties. The annual work program shall aim to accomplish five (5) million tons of ore in five (5) years. This agreement shall terminate upon the Group's extraction of five (5) million tons of laterite from the property, or the expiration of five (5) years from the date of the execution of this agreement, whichever comes first.

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

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

Notes to the Consolidated Financial Statements

DMCI-PC

On March 12, 2009, the Board of Directors (BOD) authorized the Parent Company to make an additional subscription to the unissued capital stock of DMCI-PC equivalent to 25.00 million shares at ₱1.00 par value or a total subscription price of ₱25.00 million payable in cash. Advances for future subscriptions were also made which amounted to ₱60.55 million.

10. Other Noncurrent Assets

This account consists of:

	2009		2008
Security deposits (Notes 28, 29 and 30)	₱ 291,613,296	₱	251,086,303
Prepaid rent - noncurrent (Note 30)	150,568,000		11,130,778
Software cost - net	7,536,022		5,374,111
Others	11,569,644		16,158,118
	<u>461,286,962</u>		<u>283,749,310</u>
Less current portion of			
Security deposits	270,751,095		-
Prepaid rent (Note 7)	6,524,613		-
	<u>277,275,708</u>		<u>-</u>
	₱ 184,011,254	₱	283,749,310

Security deposits represent payments to and held by the lessor as security for the faithful and timely performance by the Group of all its obligations and compliance with all provisions of the equipment rental agreement (see Note 30). These prepayments shall be returned by the lessor to the Group after deducting any unpaid rental, and/or any other amounts due to the lessor for any damage or expense incurred to put the vehicle in good working condition.

As of December 31, 2009 and 2008, security deposits with a nominal amount of ₱22.20 million and ₱282.37 million, respectively, were initially recorded at fair value. Movement in the unamortized discount of security deposits follows:

	2009		2008
At January 1	₱ 31,279,714	₱	-
Additions	2,300,375		34,273,116
Accretion (Note 22)	(20,623,718)		(2,993,402)
At December 31	<u>₱ 12,956,371</u>	₱	<u>31,279,714</u>

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

Notes to the Consolidated Financial Statements

Movements in software cost account follow:

	2009		2008
At Cost			
At January 1	₱ 10,102,737	₱	4,609,747
Additions	6,009,831		5,492,990
At December 31	16,112,568		10,102,737
Accumulated Amortization			
At January 1	4,728,626		2,879,265
Amortization (Note 19)	3,847,920		1,849,361
At December 31	8,576,546		4,728,626
Net Book Value	₱ 7,536,022	₱	5,374,111

11. Notes Payable

Notes payable represent various unsecured peso-denominated short-term promissory notes from local banks which bear interest ranging from 5.50% to 6.75% per annum, and are payable 30 days from date of issuance. The outstanding notes payable as of December 31, 2009 and 2008 amounted to ₱793.19 million and ₱102.50 million, respectively.

12. Long-term Debt

This account consists of:

	2009		2008
PSALM (Note 33)	₱ 9,571,202,577	₱	–
Deferred purchase payment	474,363,625		–
Bank loans	133,257,823		412,520,575
Acceptances and trust receipts payable	51,450,171		11,281,248
	10,230,274,196		423,801,823
Less current portion of:			
PSALM	1,681,081,972		–
Bank loans	133,257,824		275,455,333
Acceptances and trust receipts payable	51,450,171		11,281,248
	1,865,789,967		286,736,581
	₱ 8,364,484,229	₱	137,065,242

Notes to the Consolidated Financial Statements

Long-term debt to PSALM pertains to the deferred portion of the purchase price for the acquisition of the Power Plant with principal balance amounting to US\$226.26 million translated using ₱46.20 peso-dollar closing exchange rate as of December 31, 2009 (see Note 33).

Details of the bank loans follow:

Loan Type	Date of Availment	Outstanding Balance		Maturity	Interest Rate	Payment Terms	Covenants/ Collaterals
		2009	2008				
(In Millions)							
Foreign bank loans							
Loan 1	December 14, 2005	₱ 72.20	₱ 148.53	November 30, 2010	Based on SIBOR plus 1.95% p.a.	Repriceable and payable in 16 equal quarterly installments to commence 2 months after the draw down dates	Unconditional and irrevocable guarantee issued by Komatsu Asia and Pacific Pte Ltd. and other covenants
Other loans	Various availments in 2004 and 2005	61.06	206.67	Various maturities in 2009 and 2010	Based on 6-month USD LIBOR plus 1.5% p.a.	Payable in 10 equal consecutive semi-annual installments, the first of which was due and payable 6 months after the starting point	Unconditional and irrevocable guarantee issued by DMCI-HI (Note 18)
Local bank loans							
Loan 1	September 30, 2005	–	57.32	October 5, 2009	9% fixed p.a.	Payable in 48 equal monthly installments commencing on November 5, 2005	Secured by collaterals on mining equipment (Note 8)
		<u>₱ 133.26</u>	<u>₱ 412.52</u>				

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

Deferred purchase payment

On November 16, 2009, the Parent Company entered into a Deferred Payment Sale and Purchase Agreement with Maubeni Corporation (MC) for the purchase of various equipment intended for enhancing its mining activities.

The amounts corresponding to the units or pieces of equipment that are shipped to the Parent Company shall be paid by the Parent Company to MC within seven hundred twenty (720) days after the date of the bill of lading for the relevant shipment of such units or pieces of equipment.

Notes to the Consolidated Financial Statements

The interest rate applicable to each interest period shall be four percent (4.00%) per annum over the rate 180 days BBA LIBOR on two (2) business days prior to the first day of such interest period.

Notwithstanding the provisions for payment of the contract amount as stipulated, the Parent Company may, with not less than fourteen (14) business days written notice to MC, prior to the next interest payment date, prepay the whole or any part of the respective contract amount on that interest payment date.

13. Trade and Other Payables

This account consists of:

	2009		2008
Trade	₱ 1,683,028,961	₱	984,870,898
Due to related parties (Note 17)	609,143,593		45,761,873
Accrued expenses and other payables	348,845,948		106,003,284
Payable to DOE and local government units (Note 26)	216,516,873		52,734,125
	₱ 2,857,535,375	₱	1,189,370,180

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

Details of the accrued expenses and other payables account follow:

	2009		2008
Interest	₱ 115,735,925	₱	64,012,231
Withholding taxes	27,978,187		23,020,711
Rental	14,923,732		-
Salaries and wages	9,320,216		3,134,031
Professional fees	7,401,786		1,261,786
Others (Note 27)	173,486,102		13,367,667
	₱ 348,845,948	₱	106,003,284

Accrued interest arising from the acquisition of the Power Plant from PSALM amounted to ₱78.76 million as of December 31, 2009 (see Note 33).

Notes to the Consolidated Financial Statements

Others include provision for probable legal claims amounting to ₱110.85 million in 2009, these provisions are not discounted as the time of money is not material (see Note 27).

14. Provision for Decommissioning and Site Rehabilitation

The rollforward analysis of this account follows:

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

15. Capital Stock

The details of the Group's capital stock follow:

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

Cost of Shares Held in Treasury

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

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

Deposit for Future Stock Subscriptions

On December 1, 2009, DMCI-HI and Dacon Corporation advanced deposits on future subscriptions of ₱4,500.00 million and ₱902.13 million, respectively.

16. Retained Earnings

Cash Dividends

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

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

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

Notes to the Consolidated Financial Statements

Restrictions

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

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

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

17. Related Party Transactions

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

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

- a. In November 2006, the Group placed a short-term cash investment in DMCI-HI for a period of 180 days amounting to ₱300.00 million which bears interest at a rate of 11% per annum. Interest income earned in 2007 amounted to ₱8.05 million. On March 22, 2007, the short-term cash investment was terminated;
- b. Continuing Indemnity Agreement dated September 3, 1998 with DMCI-HI and certain related parties whereby the Group, in consideration for guarantees extended by DMCI-HI and related parties in the form of Real Estate Mortgage (REM), standby letters of credit and other credit lines or facilities to secure the Group's indebtedness to various banks and creditors, agreed to indemnify and hold DMCI-HI and related parties free from and against any and all claims, liabilities, demands, actions, costs, expenses and consequences of whatever nature which may arise or result from said corporate guarantees. The Group further agreed to pay a fixed interest rate per annum on all sums or monies paid by DMCI-HI and related parties by reason of or in connection with the said corporate guarantees, letters of credit, credit facilities or REM; real properties of this affiliate were already freed from lien effective at the time when these old equipment loan were fully paid. The loans contracted in 2005 and 2006 were still guaranteed by DMCI-HI. Guarantee fees incurred amounted to ₱2.62 million, ₱7.91 million and ₱8.07 million in 2009, 2008 and 2007, respectively. These are included under finance costs in the profit or loss (see Note 21);
- c. DMC-Construction Equipment Resources, Inc. (DMC-CERI), an affiliate, has transactions with the Parent Company for services rendered relating to the Parent Company's coal operations. These included services for the confirmatory drilling for coal reserve evaluation of identified potential areas, exploratory drilling of other minerals within Semirara Island, dewatering well drilling along cut-off wall of Panian mine and fresh water well drilling for industrial and domestic supply under an agreement. Expenses incurred for said services amounted to ₱166.22 million, ₱117.72 million and ₱113.14 million for the years ended in 2009, 2008, and 2007, respectively. These are included under Cost of sales - Outside services (see Note 19);

Notes to the Consolidated Financial Statements

DMC-CERI also provides to the Parent Company marine vessels for use in the delivery of coal to its various customers. The coal freight billing is on a per metric ton basis plus demurrage charges when delay will be incurred in the loading and unloading of coal cargoes. Expenses (at gross amount) incurred for these services amounted to ₱500.75 million, ₱246.94 million and ₱241.25 million in 2009, 2008 and 2007, respectively, and are included under Cost of sales - Shipping, hauling and shiploading costs (see Note 19). The reported expense of the Group is net of freight payment by NPC (billing is C&F);

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

- d. M&S Company, Inc. rent out various equipments used in the Parent Company's operations. Also, M&S Company supplies the rough lumber used by the Parent Company in its various projects and the seedlings to be planted on the areas surrounding the pit, in compliance with the agreement between the Parent Company and DENR. Rough lumbers purchased amounted to ₱39.01 million, ₱50.99 million and ₱8.38 million for years ended December 31, 2009, 2008, and 2007, respectively. The related rental expense amounted to ₱91.49 million for the years ended December 31, 2009, 2008 and 2007. This is included under other expenses of the production cost for the year.
- e. D.M. Consunji, Inc. (DMCI) had transactions with the Parent Company representing equipment rental and other transactions such as transfer of equipment, hauling and retrofitting services. The related expenses amounted to ₱69.01 million, ₱17.21 million and ₱5.65 million for the periods ended December 31, 2009, 2008 and 2007, respectively. Equipment rentals amounted to ₱89.35 million, ₱11.83 million and ₱3.19 million for the years ended December 31, 2009, 2008, and 2007, respectively. These are included under contracted services of the production cost for the year.
- f. DMC Urban Property Developers, Inc. (UPDI) had transactions with the Parent Company representing long-term lease on office space and other transactions rendered to the Parent Company necessary for the coal operations. Office rental expense amounted to ₱7.78 million, ₱1.84 million and ₱5.00 million for the years ended December 31, 2009, 2008 and 2007, respectively.
- g. Labor cost related to manpower services rendered by DMC-CERI and DMCI employees represents actual salaries and wages covered during the period when the services were rendered to Parent Company in its coal operations. Under existing arrangements, payments of said salaries and wages are given directly to personnel concerned; and

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

	2009		2008
Due from related parties (see Note 5)			
Under common control	₱ 9,043,545	₱	6,584,001
Others	23,697		23,697
	9,067,242		6,607,698

Notes to the Consolidated Financial Statements

	2009	2008
Due to related parties (see Note 13)		
Stockholders	85,231,045	–
Under common control	162,389,000	44,349,830
Others	361,523,548	1,412,043
	609,143,593	45,761,873
	(₱ 600,076,351)	(₱ 39,154,175)

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

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

	2009	2008	2007
Short-term employee benefits	₱ 19,519,829	₱ 15,009,863	₱ 13,188,401
Post employment benefits	1,268,462	1,456,793	1,604,192
	₱ 20,788,291	₱ 16,466,656	₱ 14,792,593

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

18. Pension Plan

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

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

	2009	2008	2007
Current service cost	₱ 3,876,679	₱ 4,536,956	₱ 4,202,052
Interest cost on benefit obligation	3,734,738	2,212,513	4,659,224
Expected return on plan asset	(3,415,197)	–	–
Actuarial gain recognized	(1,663,057)	(1,909,695)	–
	₱ 2,533,163	₱ 4,839,774	₱ 8,861,276

Notes to the Consolidated Financial Statements

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

	2009		2008
Present value of defined benefit obligation	₱ 40,981,694	₱	39,107,208
Fair value of plan assets	28,423,387		25,008,190
Excess of present value of defined benefit obligation over fair value of plan assets	12,558,307		14,099,018
Unrecognized actuarial gain (losses)	377,427		(4,600,020)
	₱ 12,935,734	₱	9,498,998

Movements in the present value of defined benefit obligation follow:

	2009		2008
Balance at the beginning of year	₱ 39,107,208	₱	27,760,518
Current service cost	3,876,679		4,536,956
Interest cost on benefit obligation	3,734,738		2,212,513
Actuarial loss (gain)	6,640,504		4,597,221
Benefits paid	903,573		–
Balance at end of year	₱ 54,262,702	₱	39,107,208

Movements in the fair value of plan assets follow:

	2009		2008
Balance at beginning of the year	₱ 25,008,190	₱	23,462,704
Expected return on plan assets	3,415,197		–
Actuarial gain from plan assets	–		1,545,486
Balance at end of year	₱ 28,423,387	₱	25,008,190

The Group's plan assets consist mainly of cash.

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

Notes to the Consolidated Financial Statements

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

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

The amounts for the current and previous two periods follow:

	2009	2008	2007
Present value of defined benefit obligation	₱ 54,262,702	₱ 39,107,208	₱ 27,760,518
Fair value of plan assets	28,423,387	56,919,951	55,374,465
Unfunded obligation	12,558,307	(17,812,743)	(27,613,947)
Experience adjustments on plan liabilities	(5,651,794)	(12,320,619)	(37,166,703)
Experience adjustments on plan assets	(31,911,761)	1,545,486	–

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

19. Cost of Sales and Services

Cost of coal sales consists of:

	2009	2008	2007
Materials and supplies (Note 17)	₱ 2,469,067,063	₱ 2,289,843,994	₱ 1,304,615,144
Outside services (Note 17)	2,290,521,563	688,021,318	345,638,871
Fuel and lubricants	1,895,994,109	1,870,250,075	1,161,726,775
Depreciation and amortization (Notes 8 and 10)	1,037,072,834	1,154,232,140	1,651,861,176
Shipping, hauling and shiploading costs (Note 17)	525,769,005	380,577,351	253,282,342
Direct labor	366,772,235	264,843,502	244,503,934
Production overhead	336,768,444	295,817,464	232,361,367
	₱ 8,921,965,253	₱ 6,943,585,844	₱ 5,193,989,609

Notes to the Consolidated Financial Statements

Cost of energy sales in 2009 consists of:

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

On December 4, 2009, SCPC received from the Philippine Electricity Market Corporation the electronic certificate which evidence the direct membership of the SCPC in the Wholesale Electricity Spot Market (WESM). Being a direct member of the WESM, the Company can sell electricity to its customers assigned by PSALM, sell available power in excess of its customers' electricity requirement in the WESM as spot sales and purchase power directly from the spot market should the need arises. In December 2009, SCPC purchased power from the spot market in the amount of ₱154.85 million.

20. Operating Expenses

This account consists of:

	2009	2008	2007
Government share (Note 27)	₱ 450,151,548	₱ 253,381,663	₱ 191,290,056
Personnel costs (Notes 18 and 19)	140,485,645	87,214,869	67,852,077
Provision for probable loss (Note 7)	42,384,738	-	-
Professional fees	28,373,909	15,511,658	15,187,397
Transportation and travel	17,871,246	12,134,020	10,260,915
Entertainment, amusement and recreation	9,251,477	7,628,340	7,018,849
Depreciation	8,436,156	6,442,988	4,024,593
Taxes and licenses	2,729,342	3,568,231	1,017,989
Office expenses and others	49,897,971	73,044,044	27,730,497
	<u>₱ 749,582,032</u>	<u>₱ 458,925,813</u>	<u>₱ 324,382,373</u>

Notes to the Consolidated Financial Statements

21. Finance Costs

The finance costs are incurred from the following financial liabilities:

	2009	2008	2007
Interest on:			
Bank loans	₱ 111,031,671	₱ 70,134,901	₱ 124,272,283
Acceptances and letters of credits, other short-term borrowings and accretion of interest on ARO (Note 14)	1,160,993	31,105,183	15,274,663
Purchase contracts	–	–	704,515
	₱ 112,192,664	₱ 101,240,084	₱ 140,251,461

22. Finance Income

Finance income is derived from following sources:

	2009	2008	2007
Interest on:			
Short term placements and temporary investments (Note 17)	₱ 28,604,294	₱ 69,348,852	₱ 39,098,278
Cash in banks	1,514,481	4,892,729	1,203,070
Accretion on security deposits (Notes 7 and 10)	20,623,718	2,993,402	–
Accretion on input vat claim (Note 7)	2,010,403	–	–
	₱ 52,752,896	₱ 77,234,983	₱ 40,301,348

23. Other Income

This account consists of:

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

Notes to the Consolidated Financial Statements

24. Income Taxes

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

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

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

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

Notes to the Consolidated Financial Statements

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

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

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

Board of Investments (BOI) Incentives

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

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

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

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

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

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

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

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25. Basic / Diluted Earnings per Share

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

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

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

26. Coal Operating Contract with DOE

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

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

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

In return for the mining rights granted to the Parent Company, the Government is entitled to receive annual royalty payments consisting of the balance of the gross income after deducting operating expenses, operator's fee and special allowance. The Parent Company's provision for DOE's share (including accrued interest computed at 14% per annum on outstanding balance) under this contract and to the different local government units in the province of Antique, under the provisions of the Local Government Code of 1991, amounted to ₱450.15 million, ₱253.38 million and ₱191.29 million in 2009, 2008 and 2007, respectively. The liabilities, amounting to ₱216.52 million and ₱52.73 million are included under the "Trade and other payables" account in the consolidated statement of financial position (see Note 13).

The DOE, through the Energy Resources Development Bureau, approved the exclusion of coal produced and used solely by the Parent Company to feed its power plant in determining the amount due to DOE.

27. Contingencies and Commitments

Electricity Sales Contracts

The Asset Purchase Agreement (APA) included a number of Transition Supply Contracts (TSC) to distribution utilities and large load customers located in close proximity to the Power Plant. The volume of energy demand for each of the customers is reflected in their

Notes to the Consolidated Financial Statements

respective TSC. The electricity pricing in the said TSC is tied to the National Power Corporation's (NPC's) Luzon Time of Use (TOU) rate approved by the Energy Regulatory Commission (ERC) which is adjustable by changes in foreign exchange and fuel cost. The said tariff, even if adjustable, is subject to ERC's approval before the same could be implemented. The TSC will expire on various dates in 2010, except for Sun Power Corporation which is part of the TSC's assign to SCPC.

Provision for probable legal claims

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

28. Financial Risk Management Objectives and Policies

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

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

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

Interest Rate Risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term obligations with floating interest rates. The Group's policy is to manage its interest cost using a mix of fixed and variable rate debts. The Group's policy is to maintain a balance of Peso-denominated and United States Dollar (US\$) denominated debts.

The following table shows the information about the Group's financial instruments that are exposed to cash flow (floating rate instrument) and fair value (fixed rate instrument) interest rate risks and presented by maturity profile.

Notes to the Consolidated Financial Statements

	Interest	Within				More than 4 years	Carrying Value
		1 year	1-2 years	2-3 years	3-4 years		
		(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							
\$6.64 million loan (USD)	3 month SIBOR plus 1.95% p.a.	72,202	-	-	-	-	72,202
\$15.14 million loan (USD)	6 month USD LIBOR plus 1.5% p.a.	61,055	-	-	-	-	61,055
Deferred purchase payment	4% pa over the rate 180 days BBA LIBOR	-	474,364	-	-	-	474,364
Acceptance and trust receipts							
Various letters of credit	8-11% interest rate	51,450	-	-	-	-	51,450
		₱ 2,658,979	₱ 1,789,384	₱ 1,315,020	₱ 1,315,020	₱ 3,945,060	₱11,023,463

2009

Notes to the Consolidated Financial Statements

2008

	Interest	Within				More than 4 years	Carrying Value
		1 year	1-2 years	2-3 years	3-4 years		
		(In Thousands)					
Cash equivalents	5.25% to 6.5%	₱ 1,012,409	₱ -	₱ -	₱ -	₱ -	₱ 1,012,409
Notes payable							
Various local bank loans	5.5-8.0% fixed p.a	₱ 102,497	₱ -	₱ -	₱ -	₱ -	₱ 102,497
Long-term debts							
Local bank loans at fixed rate							
Local bank loan	9% fixed p.a	57,315	-	-	-	-	57,315
Foreign bank loans at floating rate							
\$6.64 million loan (USD)	3-month SIBOR plus 1.95% p.a.	74,265	74,265	-	-	-	148,530
\$15.14 million loan (USD)	6-month USD LIBOR plus 1.5% p.a	143,875	62,800	-	-	-	206,675
Acceptance and trust receipts							
Various letters of credit	8-11% interest rate	11,281	-	-	-	-	11,281
		₱ 389,233	₱ 137,065	₱ -	₱ -	₱ -	₱ 526,298

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The following table demonstrates the sensitivity of the Group's profit before tax to a reasonably possible change in interest rates on December 31, 2009 and 2008, with all variables held constant, through the impact on floating rate borrowings.

Basis points (in hundred thousands)	Effect on profit before tax					
	2009			2008		
+100	(¥	6,076)	(US\$131.52)	(¥	3,555)	(US\$74.80)
-100		6,076	131.52		3,555	74.80

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

Liquidity Risk

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

Notes to the Consolidated Financial Statements

The tables below summarize the maturity profile of the Group's financial assets and liabilities as of December 31, 2009 and 2008 based on undiscounted contractual payments.

2009

	Within					Total
	1 year	1-2 years	2-3 years	3-4 years		
Assets						
Cash and cash equivalents	₱ 481,920,935	₱ -	₱ -	₱ -	₱ -	₱ 481,920,935
Receivables						
Trade						
Electricity sales	489,245,876	-	-	-	-	489,245,876
Local coal sales	337,326,286	-	-	-	-	337,326,286
Export coal sales	414,815,233	-	-	-	-	414,815,233
Due from related parties	9,067,242	-	-	-	-	9,067,242
Others	27,352,040	-	-	-	-	27,352,040
Security deposits	270,751,295	33,818,372	-	-	-	304,569,667
	₱ 2,030,478,907	₱ 33,818,372	₱ -	₱ -	₱ -	₱ 2,064,297,279
Liabilities						
Trade and other payables						
Trade	₱ 1,683,028,961	₱ -	₱ -	₱ -	₱ -	₱ 1,683,028,961
Due to related parties (Note 17)	609,143,593	-	-	-	-	609,143,593
Accrued expenses and other payables	320,867,761	-	-	-	-	320,867,761
Notes payable	793,191,385	-	-	-	-	793,191,385
Long-term debt						
Fixed Rate						
\$361,481,091 payable to PSALM, 11% compounded semi-annually	1,759,837,065	1,315,020,101	1,315,020,101	5,260,080,403	9,649,957,670	
Various letters of credit 8-11% interest rate	51,450,171	-	-	-	51,450,171	
Floating Rate						
\$15.14 million loan (USD) 6 months						
USD Libor plus 1.5% per annum	61,055,376	-	-	-	-	61,055,376
\$6.64 million loan(USD) 3 months						
SIBOR plus 1.95% per annum	72,202,448	-	-	-	-	72,202,448
\$4.63 million deferred purchase payment, p.a. over the rate 180 days BBA LIBOR on 2 business days prior to 1st day of interest period						
	1,344,513	474,363,625	-	-	-	475,708,138
	₱ 5,352,121,273	₱ 1,789,383,726	₱ 1,315,020,101	₱ 5,260,080,403	₱ 13,716,605,503	

Notes to the Consolidated Financial Statements

2008

	Within				Total – Gross
	1 year	1-2 years	2-3 years	3-4 years	(in ₱)
Assets					
Cash and Cash Equivalents	₱ 1,012,409,162	₱ –	₱ –	₱ –	₱ 1,012,409,162
Receivables					
Trade					
Local sales	1,766,074,476	–	–	–	1,766,074,476
Export sales	7,344,063	–	–	–	7,344,063
Due from related parties	6,607,698	–	–	–	6,607,698
Others	25,926,943	–	–	–	25,926,943
Security Deposits	–	₱ 197,988,201	₱ 53,098,102	–	₱ 251,086,303
	₱ 2,818,362,342	₱ 197,988,201	₱ 53,098,102	₱ –	₱ 3,167,069,973
Liabilities					
Trade and other payables					
Trade	₱ 984,870,898	₱ –	₱ –	₱ –	₱ 984,870,898
Due to related parties (Note 17)	45,761,873	–	–	–	45,761,873
Accrued expenses and other payables	82,982,573	–	–	–	82,982,573
Notes payable	103,203,383	–	–	–	103,203,383
Long term Debt					
Local bank loans					
Loan 1					
₱234.58 million promissory note 9.00% per annum	59,705,710	–	–	–	59,705,710
Foreign bank loans					
Loan 1					
US\$6.64 million loan 3 month SIBOR Plus 1.95% per annum	74,388,021	74,325,237	–	–	148,713,258
Other Loans					
US\$15.14 million loan 6 month USD LIBOR Plus 1.5% per annum	144,006,798	62,849,554	–	–	206,856,352
Acceptances and trust receipt					
Various letters of credits and suppliers debt with various interest rates	11,281,248	–	–	–	11,281,248
	₱ 1,506,200,504	₱ 137,174,791	₱ –	₱ –	₱ 1,643,375,295

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Foreign Currency Risk

The Group's foreign exchange risk results primarily from movements of the Philippine Peso (₱) against the US\$. Majority of revenue are generated in Pesos, however, substantially all of capital expenditures are in US\$. Approximately 88.30% and 30.16% of debts as of December 31, 2009 and 2008, respectively, were denominated in US\$.

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

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

	December 31, 2009		December 31, 2008	
	U.S. Dollar	Peso Equivalent	U.S. Dollar	Peso Equivalent
Assets				
Cash and cash equivalents	\$6,388,441	₱ 295,145,974	\$828,243	₱ 39,358,107
Trade receivables	8,919,899	412,099,334	154,547	7,344,063
Liabilities				
Trade payables	(2,094,555)	(96,768,441)	(4,285,231)	(203,634,180)
Long-term debt (including current portion)	(213,400,753)	(9,859,114,789)	(7,475,029)	(355,213,366)
Net foreign currency denominated (liabilities)	(\$200,186,968)	(₱9,248,637,922)	(\$10,777,470)	(₱ 512,145,376)

The spot exchange rates used in 2009 and 2008 were ₱46.20 to US\$1 and ₱47.528 to US\$1, respectively.

The following table demonstrates the sensitivity to a reasonably possible change in foreign exchange rates, with all variables held constant, of the Group's income before tax (due to changes in the fair value of monetary assets and liabilities) on December 31, 2009 and 2008.

Reasonably possible change in the Philippine peso-US dollar exchange rate	Increase (decrease) in profit before tax	
	2009	2008
₱2	(₱ 1,343,329,140)	(₱ 21,554,940)
(₱2)	1,343,329,140	21,554,940

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

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The Group recognized ₱47.70 million and (₱82.78) million net foreign exchange gain (loss) for the years ended December 31, 2009 and 2008, respectively, arising from the translation of the Group's cash and cash equivalents, trade receivables, trade payables and long-term debt.

Credit Risk

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

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

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

The credit risk is concentrated to the following markets:

	2009	2008
Trade		
Local sales	65.15%	98.15%
Export sales	32.70	0.41
Other receivables	2.15	1.44
Total	100.00%	100.00%

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

	Gross Maximum Exposure	
	2009	2008
Cash and cash equivalents	₱ 481,920,935	₱ 1,012,409,162
Receivables		
Trade		
Local coal sales	337,326,286	1,766,074,476
Export coal sales	414,815,233	7,344,063
Electricity sales	489,245,876	–
Due from related parties	9,067,242	6,607,698
Others	27,352,040	25,926,943
Security deposits	291,613,296	251,086,303
Total credit risk exposure	₱ 2,051,340,908	₱ 3,069,448,645

As of December 31, 2009 and 2008, the credit quality per class of financial assets is as follows:

2009

	Neither past due nor impaired		Past due or Individually Impaired	Total
	Grade A	Grade B		
Cash and cash equivalents	₱ 481,920,935	₱ –	₱ –	₱ 481,920,935
Trade				
Electricity sales	489,245,876	–	–	489,245,876
Local coal sales	52,212,414	145,754,003	139,359,869	337,326,286
Export coal sales	407,471,171	–	7,344,062	414,815,233
Due from related parties	9,067,242	–	–	9,067,242
Others	–	2,446,099	24,905,941	26,903,717
Security deposits	291,613,296	–	–	291,613,296
Total	₱ 1,731,530,934	₱ 148,200,102	₱ 171,609,872	₱ 2,050,892,585

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2008

	Neither past due nor impaired		Past due or	Total
	Grade A	Grade B	Individually Impaired	
Cash and cash equivalents	₱ 1,012,409,162	₱ –	₱ –	₱ 1,012,409,162
Trade				
Local sales	763,031,999	72,668,132	930,374,345	1,766,074,476
Export sales	7,344,063	–	–	7,344,063
Due from related parties	6,607,698	–	–	6,607,698
Others	–	4,180,958	21,745,985	25,926,943
Security deposits	251,086,303	–	–	251,086,303
Total	₱ 2,040,479,225	₱ 76,849,090	₱ 952,120,330	₱ 3,069,448,645

Cash and cash equivalents are short-term placements and working cash fund placed, invested or deposited in foreign and local banks belonging to top ten (10) banks in the Philippines in terms of resources and profitability, therefore classified under Grade A.

Included under Grade A are accounts considered to be high value and are covered with coal supply and power supply contracts agreements, for trade receivables. The counterparties have a very remote likelihood of default and have consistently exhibited good paying habits. Grade B accounts are active accounts with minimal to regular instances of payment default, due to collection issues. These accounts are typically not impaired as the counterparties generally respond to credit actions and update their payments accordingly. The Group determines financial assets as impaired when probability of recoverability is remote and in consideration of lapse in period which the asset is expected to be recovered.

As of December 31, 2009 and 2008, the aging analysis of the Group's receivables presented per class is as follows:

2009

	Past due but not impaired		Impaired Financial	Total
	<45 days	45-135 days	Assets	
Receivables				
Trade - export coal sales	₱ 7,344,062	₱ –	₱ –	₱ 7,344,062
Trade - local coal sales	115,432,444	10,357,978	13,569,447	139,359,869
Others	1,327,698	13,436,133	10,142,110	24,905,941
Total	₱ 124,104,204	₱ 23,794,111	₱ 23,711,557	₱ 171,609,872

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2008

	Past due but not impaired		Impaired Financial Assets	Total
	<45 days	45-135 days		
Receivables				
Trade - local sales	₱ 877,327,836	₱ 36,027,859	₱ 18,060,710	₱ 931,416,405
Others	3,119,218	9,784,628	8,842,140	21,745,986
Total	₱ 880,447,054	₱ 45,812,487	₱ 26,902,850	₱ 953,162,391

Capital Management

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

The following table shows the component of the Group's capital as of December 31, 2009 and 2008:

	2009	2008
Total paid-up capital	₱ 1,873,671,271	₱ 1,873,671,271
Deposit for future subscription	5,402,125,985	–
Retained earnings - unappropriated	2,339,199,415	2,256,119,235
Retained earnings - appropriated	700,000,000	700,000,000
Cost of shares held in treasury	(528,891,260)	(528,891,260)
	₱ 9,786,105,411	₱ 4,300,899,246

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29. Fair Values

The following tables set forth the carrying values and estimated fair values of the Group's financial assets and liabilities recognized as of December 31, 2009 and 2008.

	2009		2008	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets				
Loans and receivables:				
Cash and cash equivalents	₱ 481,920,935	₱ 481,920,935	₱ 1,199,684,057	₱ 1,199,684,057
Trade				
Electricity sale	489,245,876	489,245,576	–	–
Local sales	337,326,286	337,326,286	1,766,074,476	1,766,074,476
Export sales	414,815,233	414,815,233	7,344,063	7,344,063
Due from related parties	9,067,242	9,067,242	6,607,698	6,607,698
Others	27,352,041	27,352,041	17,084,803	17,084,803
Security deposits	291,613,296	296,438,346	251,086,303	255,940,292
Total	₱ 2,051,340,908	₱ 2,056,165,958	₱ 3,230,862,751	₱ 3,235,716,740

	2009		2008	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Liabilities				
Other financial liabilities:				
Notes payable	₱ 793,191,385	₱ 793,191,385	₱ 102,496,739	₱ 102,496,739
Long-term debt	10,230,274,196	10,858,249,006	423,801,823	431,403,745
Trade and other payables				
Trade payables	1,683,028,961	1,683,028,961	966,531,831	966,531,831
Accrued expenses and other payables	320,867,761	320,867,761	82,982,573	82,982,573
Due to related parties	609,143,593	609,143,593	45,761,873	45,761,873
Payable to DOE and local government units	216,516,873	216,516,873	52,734,125	52,734,125
Total	₱13,853,022,769	₱14,480,997,579	₱ 1,674,308,964	₱ 1,681,910,886

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

Financial Assets

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

The fair values of security deposits are calculated by discounting expected future cash flows at applicable rates for similar instruments using the remaining terms to maturity. The discount rate used ranged from 3.82% to 4.93% in 2009 and 2008.

Financial Liabilities

Trade and other payables

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

Long-term Debt

Floating rate loans

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

Fixed rate loans

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

As of December 31, 2009 and 2008, the Group does not have financial instruments measured at fair value.

30. Lease Commitments

Equipment Rental Agreement

On various dates in 2009 and 2008, the Group entered into Equipment Rental Agreement (the Agreement) with Banco de Oro Rental, Inc. (the Lessor) for the rental of various equipments for a period of twenty (20) months starting on various dates. The Agreement requires for the payment of a fixed monthly rental. The Agreement also requires the Group to pay security deposit which shall be held by the lessor as security for the faithful and timely performance by the Group of all its obligations. Upon termination of the Agreement, the lessor shall return to the Group the security deposit after deducting any unpaid rental and/or other amounts due to lessor (see Note 10). The equipment is, at all times, shall be and remain, the sole and exclusive equipment of the lessor, and no title shall pass to the Group.

As of December 31, 2009 and 2008, the future minimum lease payments under this operating lease are as follows:

	2009		2008
Within one year	₱ 648,771,220	₱	688,927,075
After one year but not more than 2 years	14,364,414		344,752,799
	₱ 663,135,634	₱	1,033,679,874

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Land Lease Agreement

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

As part of the agreement, the Group has the option to buy the parcels of land that form part of the leased premises upon issuance of an Option Existence Notice. As of to date, no Option Existence Notice was issued for the parcel of land. The Group was also required to deliver and submit to the lessor a performance security amounting to ₱34.83 million in the form of Stand-by Letter of Credits (SBLC).

31. Note to Consolidated Statements of Cash Flow

Supplemental disclosure of noncash investing and financing activities follows:

	2009	2008	2007
Acquisition of business (Note 33)	₱9,571,202,577	₱ –	₱ –
Acquisition of conventional and other mining equipment on account (Notes 12 and 13)	474,363,625	639,570,147	158,962,249
Assignment of APA and LLA (Note 33)	54,343,156	–	–
Donation of school campus	–	–	18,164,254

On August 29, 2007, the BOD approved the donation of a two (2) storey, twelve (12) classrooms with complete basic school provisions situated in Barangay Semirara, Caluya, Antique in favor of the Department of Education - Division of Antique.

32. Operating Segments

Segment Information

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

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

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

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

Notes to the Consolidated Financial Statements

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

2009

	In thousands			
	Mining	Power Generation	Adjustments and Eliminations	Consolidated
Revenue				
Sales to external customers	₱ 11,500,193	₱ 443,493	₱ –	₱ 11,943,686
Inter-segment sales	175,039	956	(175,995)	–
Equity in net loss of an associate	(21,990)	(17,359)	–	(39,349)
	11,653,242	427,090	(175,995)	11,904,337
Cost of sale	(8,050,618)	(345,066)	(966,752)	(9,362,436)
Depreciation	(1,045,501)	(96,110)	1,141,611	–
Gross profit	2,557,123	(14,086)	(1,136)	2,541,901
Operating expenses	(714,811)	(25,647)	(9,124)	(749,582)
Operating profit	1,842,312	(39,733)	(10,260)	1,792,319
Other income				92,268
Interest income				52,753
Foreign exchange gain				47,703
Interest expense				(112,193)
Provision for income tax				(63,294)
Net income	₱ 1,756,623	₱ 63,193	(₱ 10,260)	₱ 1,809,556

Notes to the Consolidated Financial Statements

2009

	In thousands			
	Mining	Power Generation	Adjustments and Eliminations	Consolidated
Operating assets	₱ 6,457,141	₱ 17,382,952	(₱ 256,614)	₱ 23,583,479
Investments and advances	87,912	156,521	–	244,433
	₱ 6,545,053	₱ 17,539,473	(₱ 256,614)	₱ 23,827,912
Operating liabilities	₱ 2,156,227	₱ 552,458	(₱ 246,354)	₱ 2,462,331
Long-term debt				11,446,379
Deferred tax liability				72,057
	₱ 2,156,227	₱ 552,458	(₱ 246,354)	₱ 13,980,767
Other disclosures				
Capital expenditure	₱ 2,850,705	₱ 15,706,522	₱ –	₱ 18,557,227
Investment in associates	87,912	156,521	–	244,433

2008

	In thousands			
	Mining	Power Generation	Adjustments and Eliminations	Consolidated
Revenue				
Sales to external customers	₱ 8,490,045	₱ –	₱ –	₱ 8,490,045
Inter-segment sales	–	–	–	–
Equity in net earnings (loss) of an associate	9,902	(11,670)	–	(1,768)
	8,490,045	(11,670)	–	8,488,277
Cost of sale	(5,789,354)	–	(1,154,232)	(6,943,586)
Depreciation	(1,160,675)	–	1,160,675	–
Gross profit	1,546,459	(11,670)	–	1,544,691
Operating expenses	(458,926)	–	(6,443)	(465,369)
Operating profit	1,081,090	(11,670)	–	1,079,322
Other income				54,443
Interest income				77,235
Interest expense				(101,240)
Foreign exchange gain (loss)				(82,781)
Provision for income tax				(237,023)
Net income	₱ 808,069	(₱ 11,670)	₱ –	₱ 789,956

Notes to the Consolidated Financial Statements

2008

	In thousands			
	Mining	Power Generation	Adjustments and Eliminations	Consolidated
Operating assets	₱ 5,888,226	₱ –	₱ –	₱ 5,888,226
Investments and advances	109,902	113,330	–	223,232
	₱ 5,998,128	₱ 113,330	₱ –	₱ 6,111,457
Operating liabilities	₱ 1,212,074	₱ –	₱ –	₱ 1,212,074
Long-term debt				526,299
Deferred tax liability				14,125
Income tax payable				58,060
	₱ 1,212,074	₱ –	₱ –	₱ 1,810,558
Other disclosures				
Investment in associates	₱ 223,231	₱ –	₱ –	₱ 223,231
Capital expenditure	1,704,530	–	–	1,704,530

2007

	In thousands			
	Mining	Power Generation	Adjustments and Eliminations	Consolidated
Revenue				–
Sales to external customers	₱ 6,466,701	₱ –	₱ –	₱ 6,466,701
Inter-segment sales	–	–	–	–
	6,466,701	–	–	6,466,701
Cost of sale	(3,542,128)	–	(1,651,861)	5,193,989
Depreciation	(1,655,886)	–	1,655,886	1,651,861
Gross profit	1,272,711	–	4,025	1,272,711
Operating expenses	(320,358)	–	(4,025)	324,382
Operating profit	948,329	–	–	948,329
Foreign exchange gain (loss)				102,964
Interest income				40,301
Other income				9,424
Interest expense				(140,251)
Provision for income tax				(327,482)
Net income	₱ 633,285	₱ –	₱ –	₱ 633,285
Operating assets	₱ 6,477,601	₱ –	₱ –	₱ 6,477,601
Investments and advances	43,295	37,576	–	80,871
	₱ 6,520,896	₱ 37,576	₱ –	₱ 6,558,472

Notes to the Consolidated Financial Statements

2007

	In thousands						
	Mining		Power Generation		Adjustments and Eliminations		Consolidated
Operating liabilities	₱	708,159	₱	–	₱	–	₱ 708,159
Long-term debt							1,127,752
Deferred tax liability							67,603
Income tax payable							40,166
	₱	708,159	₱	–	₱	–	₱ 1,943,680
Other disclosures							
Investment in associates	₱	80,871	₱	–	₱	–	₱ 80,871
Capital expenditure		214,755		–		–	214,755

1. Inter-segment revenues are eliminated on consolidation.
2. Cost of sales do not include depreciation and amortization expense charged during production.
3. Segment asset include investment in associates accounted for by the equity method.
4. Segment liabilities exclude deferred tax liabilities amounting to ₱72.06 million, ₱14.13 million, and ₱67.60 million in 2009, 2008 and 2007, respectively; and income tax payable amounting to ₱58.06 million, and ₱40.17 million in 2008 and 2007, respectively. Long term bank loans are no longer included as these are managed on a group basis.
5. Capital expenditures consist of additions of property, plant and equipment including assets from the acquisition of business.
6. All non-current assets other than financial instruments are located in the Philippines.

Geographic Information

Revenues from external customers

The financial information about the operation of the Group as of December 31, 2009, 2008 and 2007 reviewed by the management follows:

	2009	2008	2007
Revenue			
Local coal sale	₱ 7,252,952,002	₱ 6,648,580,099	₱ 5,332,724,835
Export coal sale	4,247,240,809	1,841,465,281	1,133,975,785
	₱ 11,500,192,811	₱ 8,490,045,380	₱ 6,466,700,620

Substantially all revenues from external customer are from open cut mining and sales of thermal coal. Local and export classification above is based on the geographic location of the customer. All non-current assets other than financial instruments are located in the Philippines.

Coal sales to power company amounted to ₱4.30 billion, ₱3.41 billion and ₱2.86 billion for the years ended December 31, 2009, 2008 and 2007, respectively.

Notes to the Consolidated Financial Statements

33. Business Combination

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

The acquisition of the Power Plant is both a defensive and an opportunistic investment for the Parent Company. It is a defensive investment because the acquisition of the Power Plant will protect the Parent Company's coal supply contract with the Power Plant. The investment is opportunistic because as a stand-alone investment, it is expected to provide a fair return on investment.

Pursuant to the provision of the Asset Purchase Agreement (APA), PSALM, agreed to sell and transfer to DMCI-HI on an "as is where is" basis, the Power Plant. The agreed Purchase Price amounting to \$368.87 million was for the 2 x 300-megawatt (MW) Batangas Coal-Fired Thermal Power Plant from PSALM as of December 2, 2009. Below are the significant provisions of the APA:

- a. All liabilities, obligations, taxes, fees, fines or penalties pertaining to the Power Plant and operating contracts accruing or incurred prior to closing date, regardless of the date when the demand for payment or assessment is made, shall be for the account of PSALM
- b. SCPC must hire as contractual employees all of the separated NPC employees for a period of five (5) months
- c. During the deferred payment period, SCPC shall at the end of each fiscal year shall at the end of each fiscal year, maintain a debt service ratio of at least 1.1:1.0 and debt-equity ratio not exceeding 2.5:1.0
- d. Should there (i) Semirara coal; (ii) diesel fuel and (iii) bunker fuel on site on closing date, SCPC shall pay PSALM the value of those based on the price paid by NPC for the same

As embedded in the APA, DMCI-HI will also enter into a Land Lease Agreement (LLA) with PSALM for the lease of land in which the Power Plant is situated, for the period of 25 years, renewable for another period of 25 years, upon mutual agreement of both Parties. Refer to Note 30.

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

1. ₱ 6.62 billion in peso equivalent using the exchange rate of ₱47.13 representing 40% down payment for US\$351.0 million purchase price of the Power Plant; and
2. ₱ 0.49 billion in peso equivalent using the exchange rate of ₱47.20 representing 40% down payment for US\$10.39 million advance rental payment for the 25-year lease of the premises underlying the Power Plant and for purchase orders for parts and services for the Power Plant.

Other provision of the Agreement includes:

- a. DMCI-HI undertakes that it shall own at least 57% of the voting capital of the Parent Company; and
- b. SCPC shall be a wholly owned subsidiary of the Parent Company

Notes to the Consolidated Financial Statements

A breach of any of the above shall constitute a breach by DMCI-HI of the APA.

Relative to the assignment of the APA and LLA by DMCI-HI to SCPC, total consideration recognized by SCPC as due to DMCI-HI amounted to ₱54.34 million.

In a letter dated December 18, 2009, PSALM claims an additional amount of ₱9.55 million representing the difference between the US\$ to Peso exchange rate used for the 40% down-payment of the purchase price versus the ₱47.2 US\$ to Peso exchange rate PSALM alleges to be in accordance with the APA. The assessed amount was accrued in 2009 as additional acquisition cost allocated to Property, plant and equipment. Subsequently, the amount was paid by the Group in February 8, 2010.

The principal amount of the Deferred Payment is equivalent to 60% of the purchase price for the Power Plant. The Deferred Payment will be paid to PSALM via 14 equal semi-annual payments beginning June 2, 2010 with an interest rate of 11% per annum, compounded semi-annually. Under the APA, upon prior written notice to PSALM, and on the condition that SCPC is not in breach of any of its substantial obligations to PSALM under the APA and LLA, SCPC may prepay any portion of the Deferred Payment in Philippine Pesos (see Note 12).

Under a Memorandum of Agreement dated December 2, 2009 between PSALM and SCPC, the amounts of ₱288.39 million representing parts identified as required to achieve 350 MW capability of the Power Plant and ₱247.55 million as unawarded purchase orders will be deducted from the principal amount of the Deferred Payment.

After considering the above adjustments, the fair value of the identifiable assets and liabilities as at the date of acquisition were:

Property, plant and equipment (Note 8)	₱ 15,697,026,189
Materials and supplies (Note 6)	720,931,040
Coal (Note 6)	273,935,933
Prepaid rent (Notes 7 and 10)	150,568,000
Fuel and diesel (Note 6)	86,705,538
Total assets acquired	<u>₱ 16,929,166,700</u>

Total consideration transferred relating to the acquisition follows:

Cash consideration	₱ 7,107,740,798
Payable to PSALM (Note 12)	9,767,082,746
Payable to DMCI-HI (Note 17)	54,343,156
Total cost	<u>₱ 16,929,166,700</u>

The accounting for business combination was done provisionally for the property, plant and equipment due to lack of proper fair value estimate of fixed assets acquired as of to date.

Notes to the Consolidated Financial Statements

34. Other Matters

a. Electric Power Industry Reform Act (EPIRA)

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

Under EPIRA, NPC's generation assets are to be sold through transparent, competitive public bidding, while all transmission assets are to be transferred to the Transmission Company, initially a government-owned entity that is eventually being privatized. The privatization of these NPC assets has been delayed and is considerably behind the schedule set by the Department of Energy (DOE). EPIRA also created PSALM, which is to accept transfers of all assets and assume all outstanding obligations of NPC, including its obligations to IPPs. One of PSALM's responsibilities is to manage these contracts with IPPs after NPC's privatization. PSALM also is responsible for the privatizing at least 70% of the transferred generating assets and IPP contracts no later than three years from the effective date of the law.

In August 2005, the ERC issued a resolution reiterating the statutory mandate under the EPIRA law for the generation and distribution companies, which are not publicly listed, to make an initial public offering (IPO) of at least 15% of their common shares. Provided, however, that generation companies, distribution utilities or their respective holding companies that are already listed in the Philippine Stock Exchange (PSE) are deemed in compliance. SCPC has complied with this requirement given that the Parent Company is a publicly listed company.

Wholesale Electricity Spot Market (WESM)

With the objective of providing competitive price of electricity, the EPIRA authorized the DOE to constitute an independent entity to be represented equitably by electric power industry participants and to administer and operate WESM. The WESM will provide a mechanism for identifying and setting the price of actual variations from the quantities transacted under contracts between sellers and purchasers of electricity.

In addition, the DOE was tasked to formulate the detailed rules for WESM which include the determination of electricity price in the market. The price determination methodology will consider accepted economic principles and should provide a level playing field to all electric power industry participants. The price determination methodology is subject to the approval of the ERC.

In this regard, the DOE created Philippine Electricity Market Corporation (PEMC) to act as the market operator governing the operation of the WESM. On June 26, 2006, the WESM became operational in the Luzon grid and adopts the model of a "gross pool, net settlement" electricity market.

Notes to the Consolidated Financial Statements

b. Clean Air Act

On November 25, 2000, the IRR of the Philippine Clean Air Act (PCAA) took effect. The IRR contains provisions that have an impact on the industry as a whole and on SCPC in particular, that need to be complied with within 44 months (or July 2004) from the effectivity date, subject to approval by the DENR. The power plant of SCPC uses thermal coal and uses a facility to test and monitor gas emissions to conform with Ambient and Source Emissions Standards and other provisions of the Clean Air Act and its Implementing Rules and Regulations. Based on SCPC's initial assessment of its power plant's existing facilities, SCPC believes that it is in full compliance with the applicable provisions of the IRR of the PCAA as of December 31, 2009. SCPC is currently complying with the provisions of the Clean Air Act and its IRR.

c. Contract for the Fly Ash of the Power Plant

On October 20, 1987, NPC and Pozzolan Australia Pty, Ltd. ("Pozzolan") executed the Contract for the Purchase of Fly Ash of the Power Plant (the "Pozzolan Contract"). Under the Pozzolan Contract, Pozzolan was given the right to sell, store, process, remove or otherwise dispose of the all fly ash produced at the first unit of the Power Plant. It was also granted the first option to purchase fly ash, under similar terms and conditions, from the second unit of the Power Plant that NPC may construct. It may also exercise the exclusive right of first refusal to purchase fly ash from any new coal-fired power plants which will be put up by NPC.

The Pozzolan Contract is effective for a period of five consecutive five-year terms from its signing, or a period of 25 years from October 20, 1987 or until 2012, subject to cancellation by NPC upon default or any breach of contract by Pozzolan. At the end of each five-year term, the parties agree to assess and evaluate the Pozzolan Contract, and if necessary, revise, alter, modify the same upon their mutual consent.

The Government has determined as invalid that provision of the Pozzolan Contract which grants Pozzolan the exclusive right of first refusal to purchase fly ash from the second unit of the Power Plant and from any coal-fired power plant put up by NPC after the execution of the Pozzolan Contract. This is the subject of a case filed by Pozzolan and pending before the regional trial court of Quezon City.

35. Approval of Consolidated Financial Statements

The consolidated financial statements of Semirara Mining Corporation and Subsidiary as of December 31, 2009 and 2008 and for each of the three years in the period ended December 31, 2009 were endorsed for approval by the Audit Committee on March 4, 2010 and were authorized for issue by the Executive Committee of the BOD on March 9, 2010.

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