STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **SEMIRARA MINING CORPORATION** and its Subsidiary is responsible for all information and representations contained in the consolidated financial statements for the years ended December 31, 2010 and 2009. The consolidated 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 consolidated 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 consolidated 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
Chief Finance Officer

AUDIT COMMITTEE REPORT TO THE BOARD OF DIRECTORS

For the year ended December 31, 2010

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 legal and regulatory requirements and 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 2010, the Audit Committee had nine (9) meetings, all of which were in-person meetings that included sessions with Management, external auditor SGV & Co., internal audit manager, corporate counsel, Compliance Officer and Compliance Committee. Meetings were presided by the Committee Chairman with attendance by all its Members, except in April and November 2010 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 and annual consolidated financial statements of Semirara Mining Corporation and Subsidiary as of and for the year ended December 31, 2010 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 2011;*
- *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 and compliance with legal and regulatory matters;*
- *The Committee reviewed and approved the annual internal audit plan, scope and risk-based work programs for the year. It reviewed the performance of the internal audit function and discussed updates on 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 framework is adequately supported by management information systems, risk mitigation measures and initiatives. It also reviewed and discussed with the respective functional unit heads the results of their risk assessment reviews, and monitored through the Internal Audit the effectiveness of actions undertaken by Management. 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 the 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, 2010 in the Company's Annual Report to the Stockholders and for filing with the Securities and Exchange Commission.

March 7, 2011

Victor C. Macalincag
Committee Chairman
Independent Director

Federico E. Puno
Member
Independent Director

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, 2010 and 2009, 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, 2010, and a summary of significant accounting policies and other explanatory information.

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, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated 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 about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated 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 consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Semirara Mining Corporation and Subsidiary as at December 31, 2010 and 2009, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2010 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
BIR Accreditation No. 08-001998-10-2009,
June 1, 2009, Valid until May 31, 2012
PTR No. 2641508, January 3, 2011, Makati City

March 7, 2011

Consolidated Statements of Financial Position

	December 31	
	2010	2009 (As restated*)
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 4, 28 and 29)	**₱3,813,283,517**	₱481,920,935
Receivables - net (Notes 3, 5, 17, 28 and 29)	**3,183,300,192**	1,254,095,120
Inventories - net (Notes 3, 6, 8 and 33)	**2,375,874,790**	2,982,288,520
Other current assets (Notes 7 and 29)	**912,018,769**	608,943,613
Total Current Assets	**10,284,477,268**	5,327,248,188
Noncurrent Assets		
Property, plant and equipment - net (Notes 3, 8, 19 , 20 and 33)	**19,584,259,678**	18,356,642,013
Investments and advances (Notes 3 and 9)	**310,229,558**	244,432,588
Other noncurrent assets - net (Notes 3, 10 and 29)	**317,587,850**	334,952,512
Total Noncurrent Assets	**20,212,077,086**	18,936,027,113
	₱30,496,554,354	₱24,263,275,301
LIABILITIES AND EQUITY		
Current Liabilities		
Short-term loans (Notes 11, 28 and 29)	**₱449,845,179**	₱844,641,556
Current portion of long-term debt (Notes 12, 28, 29 and 33)	**1,132,896,820**	1,814,339,795
Trade and other payables (Notes 13, 17, 28 and 29)	**5,351,271,316**	3,253,621,567
Total Current Liabilities	**6,934,013,315**	5,912,602,918
Noncurrent Liabilities		
Long-term debt - net of current portion (Notes 12, 28, 29 and 33)	**11,159,821,454**	8,364,484,230
Deferred tax liabilities - net (Notes 3 and 24)	**28,087,305**	72,056,929
Provision for decommissioning and site rehabilitation (Notes 3 and 14)	**14,732,350**	17,621,980
Pension liability (Note 18)	**19,996,748**	12,935,734
Total Noncurrent Liabilities	**11,222,637,857**	8,467,098,873
Total Liabilities	**18,156,651,172**	14,379,701,791
Equity		
Capital stock (Note 15)	**356,250,000**	296,875,000
Additional paid-in capital (Note 15)	**6,675,527,411**	1,576,796,271
Deposit on future stock subscriptions (Note 15)	**–**	5,402,125,985
Retained earnings (Note 16)		
Unappropriated	**4,608,125,771**	2,436,667,514
Appropriated	**700,000,000**	700,000,000
	12,339,903,182	10,412,464,770
Cost of shares held in treasury (Notes 15 and 16)	**–**	(528,891,260)
Total Equity	**12,339,903,182**	9,883,573,510
	₱30,496,554,354	₱24,263,275,301

* Certain amounts shown here do not correspond to the 2009 financial statements and reflect adjustments made as detailed in Note 33.

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Comprehensive Income

	Years Ended December 31		
	2010	2009 (As restated*)	2008 (Note 2)
REVENUE (Note 32)			
Coal	**₱14,242,224,629**	₱11,500,192,811	₱8,490,045,380
Power	**8,655,623,846**	443,492,763	–
	22,897,848,475	11,943,685,574	8,490,045,380
COST OF SALES (Notes 17, 19 and 32)			
Coal	**10,136,303,396**	8,921,965,253	6,943,585,844
Power	**5,767,407,484**	419,708,530	–
	15,903,710,880	9,341,673,783	6,943,585,844
GROSS PROFIT	**6,994,137,595**	2,602,011,791	1,546,459,536
OPERATING EXPENSES (Notes 20 and 32)	**(2,790,092,746)**	(749,582,032)	(458,925,813)
INCOME FROM OPERATIONS	**4,204,044,849**	1,852,429,759	1,087,533,723
OTHER INCOME (CHARGES)			
Finance income (Notes 22 and 32)	**57,667,764**	52,752,896	77,234,983
Foreign exchange gains (losses) - net (Notes 28 and 32)	**199,487,633**	47,703,017	(82,781,003)
Finance costs (Notes 17, 21 and 32)	**(685,906,321)**	(112,192,664)	(101,240,084)
Equity in net earnings (losses) of associates (Notes 9 and 32)	**76,825,789**	(39,349,171)	(1,768,241)
Other income (Notes 23 and 32)	**65,427,012**	107,935,222	54,442,772
	(286,498,123)	56,849,300	(54,111,573)
INCOME BEFORE INCOME TAX	**3,917,546,726**	1,909,279,059	1,033,422,150
PROVISION FOR (BENEFIT FROM) INCOME TAX (Notes 24 and 32)			
Current	**8,808,092**	5,362,577	290,501,414
Deferred	**(43,969,623)**	57,931,775	(53,478,055)
	(35,161,531)	63,294,352	237,023,359
NET INCOME	**3,952,708,257**	1,845,984,707	796,398,791
OTHER COMPREHENSIVE INCOME	**–**	–	–
TOTAL COMPREHENSIVE INCOME	**₱3,952,708,257**	₱1,845,984,707	₱796,398,791
Basic/Diluted Earnings per Share (Note 25)	**₱12.10**	₱6.65	₱2.87

* Certain amounts shown here do not correspond to the 2009 financial statements and reflect adjustments made as detailed in Note 33.

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Changes in Equity

	Common Stock (Note 15)	Additional Paid-in Capital (Note 15)	Deposit on Future Stock Subscriptions (Note 15)	Unappropriated Retained Earnings (Notes 2 and 16)	Appropriated Retained Earnings (Note 16)	Total	Cost of Shares Held in Treasury (Notes 15 and 16)	Grand Total
At January 1, 2010 (as previously stated)	**₱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**
Effect of PFRS 3	**–**	**–**	**–**	**36,428,819**	**–**	**36,428,819**	**–**	**36,428,819**
At January 1, 2010 (as restated)	**296,875,000**	**1,576,796,271**	**5,402,125,985**	**2,436,667,514**	**700,000,000**	**10,412,464,770**	**(528,891,260)**	**9,883,573,510**
Reissuance of treasury shares	**–**	**764,356,140**	**(1,293,247,400)**	**–**	**–**	**(528,891,260)**	**528,891,260**	**–**
Additional subscriptions through stock rights offering	**59,375,000**	**4,334,375,000**	**(4,108,878,585)**	**–**	**–**	**284,871,415**	**–**	**284,871,415**
Net income for the year	**–**	**–**	**–**	**3,952,708,257**	**–**	**3,952,708,257**	**–**	**3,952,708,257**
Dividends declared	**–**	**–**	**–**	**(1,781,250,000)**	**–**	**(1,781,250,000)**	**–**	**(1,781,250,000)**
At December 31, 2010	**₱356,250,000**	**₱6,675,527,411**	**₱–**	**₱4,608,125,771**	**₱700,000,000**	**₱12,339,903,182**	**₱–**	**₱12,339,903,182**
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 on future stock subscriptions	–	–	5,402,125,985	–	–	5,402,125,985	–	5,402,125,985
Net income for the year (as restated)	–	–	–	1,845,984,707	–	1,845,984,707	–	1,845,984,707
Dividends declared	–	–	–	(1,665,436,428)	–	(1,665,436,428)	–	(1,665,436,428)
At December 31, 2009 (as restated)	₱296,875,000	₱1,576,796,271	₱5,402,125,985	₱2,436,667,514	₱700,000,000	₱10,412,464,770	(₱528,891,260)	₱9,883,573,510
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 declared	–	–	–	(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

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

	Years Ended December 31		
	2010	2009 (As restated*)	2008
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱3,917,546,726**	₱1,909,279,059	₱1,033,422,150
Adjustments for:			
Depreciation and amortization (Notes 8, 10, 19 and 20)	**2,566,427,137**	1,104,933,707	1,159,392,307
Finance costs (Note 21)	**685,906,321**	112,192,664	101,240,084
Provision for doubtful accounts (Notes 5 and 20)	**53,744,668**	–	–
Pension expense (Note 18)	**7,061,014**	3,436,736	4,839,774
Gain on sale of equipment (Notes 8 and 23)	**(6,088,124)**	(40,205,597)	(44,713,500)
Gain on sale of investment (Notes 9 and 23)	**(41,378,255)**	–	–
Finance income (Note 22)	**(57,667,764)**	(52,752,896)	(77,234,983)
Net unrealized foreign exchange losses (gains)	**(67,308,294)**	(168,563,289)	71,788,836
Equity in net losses (earnings) of associates (Note 9)	**(76,825,789)**	39,349,171	1,768,241
Negative goodwill (Note 33)	**–**	(15,666,752)	–
Operating income before changes in working capital	**6,981,417,640**	2,892,002,803	2,250,502,909
Changes in operating assets and liabilities:			
Decrease (increase) in:			
Receivables	**(1,947,398,569)**	524,955,210	(625,030,364)
Inventories	**73,701,971**	(629,152,442)	(7,161,948)
Other current assets	**(337,872,065)**	(688,178,267)	(21,002,963)
Increase in trade and other payables	**2,741,341,447**	1,562,098,344	420,558,669
Cash generated from operations	**7,571,190,424**	3,661,725,648	2,017,866,303
Interest received	**91,726,741**	86,501,617	87,005,291
Interest paid	**(869,829,470)**	(56,051,307)	(88,561,504)
Income taxes paid	**(8,071,333)**	(63,423,038)	(272,607,496)
Net cash provided by operating activities	**6,725,016,362**	3,628,752,920	1,743,702,594
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of equipment	**53,000,798**	762,961,381	1,532,458,450
Additions to property, plant and equipment (Notes 8 and 31)	**(3,007,368,967)**	(2,853,983,593)	(1,704,529,706)
Proceeds from sale of investment	**327,086,632**	–	–
Additions to investments and advances (Note 9)	**(310,229,558)**	(60,550,001)	(144,128,793)
Decrease (increase) in other noncurrent assets (Note 10)	**13,203,852**	615,302,744	(282,366,016)
Advance rental paid	**–**	(150,568,000)	–
Acquisition of a business (Note 33)	**(10,021,631,926)**	(7,104,375,497)	–
Net cash used in investing activities	**(12,945,939,169)**	(8,791,212,966)	(598,566,065)
CASH FLOWS FROM FINANCING ACTIVITIES			
Decrease in short-term loans	**(394,796,377)**	–	–
Net availments of notes payable	**–**	742,144,817	102,496,739
Availments of long-term debt	**11,554,776,302**	1,626,006,970	1,218,495,299
Repayment of long-term debt	**(111,315,951)**	(1,472,869,525)	(1,994,234,542)
Payment of dividends (Note 16)	**(1,781,250,000)**	(1,665,436,428)	(1,110,291,200)
Proceeds from additional issuance of capital stocks	**4,393,750,000**	–	–
Deposit on future stock subscriptions (Note 15)	**(5,402,125,985)**	5,402,125,985	–
Proceeds from sale of shares held in treasury (Note 15)	**1,293,247,400**	–	–
Net cash provided by (used in) financing activities	**9,552,285,389**	4,631,971,819	(1,783,533,704)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**3,331,362,582**	(530,488,227)	(638,397,175)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**481,920,935**	1,012,409,162	1,650,806,337
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	**₱3,813,283,517**	₱481,920,935	₱1,012,409,162

* Certain amounts shown here do not correspond to the 2009 financial statements and reflect adjustments made as detailed in Note 33.

See accompanying Notes to Consolidated Financial Statements.

Supplementary Schedule of Unappropriated Retained Earnings

For the year ended December 31, 2010

Unappropriated Retained Earnings, as adjusted to available for dividend distribution, beginning		**₱2,156,960,424**
Add: Net income actually earned/realized during the year		
Net income during the year closed to Retained Earnings	**₱2,476,189,443**	
Less: Non-actual/unrealized income net of tax		
Unrealized foreign exchange gain - net (except those attributable to Cash and cash equivalents)	**(48,431,806)**	
Accretion on security deposits	**(8,951,261)**	
Reversal of provision for doubtful accounts	**(3,819,367)**	
Add: Non-actual losses		
Depreciation on revaluation increment (after tax)	**40,848,836**	
Accretion on asset retirement obligation	**542,048**	
Amortization of rent expense	**7,679,047**	
Net taxable pension cost	**1,549,958**	
Net income actually earned during the year		**2,465,606,898**
Add (less):		
Reissuance of treasury shares		**528,891,260**
Dividend declarations during the year		**(1,781,250,000)**
Unappropriated Retained Earnings, available for dividend distribution, ending		**₱3,370,208,582**

Notes To Consolidated Financial Statements

1. **Corporate Information**

Semirara Mining Corporation (the Parent Company) was incorporated on February 26, 1980. The Parent Company's registered and principal office address is at 2281 Don Chino Roces Avenue, Makati City, Philippines. The Parent Company is a majority-owned (56.32%) subsidiary of DMCI Holdings, Inc. (DMCI-HI), a publicly listed entity in the Philippines and its ultimate parent company.

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 also 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).

Basis of Consolidation
The consolidated financial statements comprise the financial statements of the Group as at December 31, 2010 and 2009 and for the years then ended (see Note 1). A subsidiary is an entity over which the Parent Company has the power to govern the financial and operating policies of the entity. The subsidiary is fully consolidated from the date of incorporation, being the date on which the Parent Company obtains control, and continues to be consolidated until the date that such control ceases. The results of subsidiaries acquired or disposed of during the year are included in the consolidated statements of comprehensive income from the date of acquisition or up to the date of the disposal, as appropriate.

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

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

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

Changes in Accounting Policies
The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those of the previous financial year except for the following new and amended PFRS and Philippine Interpretations of International Financial Reporting Interpretations Committee (IFRIC) effective as of January 1, 2010.

Notes To Consolidated Financial Statements

New and Amended Standards and Interpretations
- PFRS 2, *Share-based Payment: Group Cash-settled Share-based Payment Transactions* (effective January 1, 2010)
- PFRS 3, *Business Combinations (Revised)* and Philippine Accounting Standards (PAS) 27, *Consolidated and Separate Financial Statements (Amended)* (effective July 1, 2009, including consequential amendments to PFRS 2, PFRS 5, PFRS 7, PAS 7, PAS 21, PAS 28, PAS 31 and PAS 39)
- PAS 39, *Financial Instruments: Recognition and Measurement - Eligible Hedged Items (Amended)* (effective July 1, 2009)
- Philippine Interpretation IFRIC 17, *Distributions of Non-cash Assets to Owners* (effective July 1, 2009)
- Improvements to PFRSs 2008 with respect to PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations*
- Improvements to PFRSs 2009

Standards or interpretations that have been adopted by the Group are described below. However, the adoption of these standards and interpretations did not have an impact on the consolidated financial statements of the Group, unless otherwise stated.

- PFRS 2, *Share-based Payment (Amendment) - Group Cash-settled Share-based Payment Transactions*
  The amendment to PFRS 2 clarified the scope and the accounting for group cash-settled share-based payment transactions.

- PFRS 3 (Revised), *Business Combinations* and PAS 27 (Amended), *Consolidated and Separate Financial Statements*
  PFRS 3 (Revised) introduces significant changes in the accounting for business combinations occurring after becoming effective. Changes affect the valuation of non-controlling interest (NCI), the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs and future reported results.

  PAS 27 (Amended) requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes by PFRS 3 (Revised) and PAS 27 (Amended) affect acquisitions or loss of control of subsidiaries and transactions with NCI after 1 January 2010.

- PAS 39, *Financial Instruments: Recognition and Measurement (Amendment) - Eligible Hedged Items*
  The amendment clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. This also covers the designation of inflation as a hedged risk or portion in particular situations.

- Philippine Interpretation IFRIC 17, *Distributions of Non-cash Assets to Owners*
  This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends.

Improvements to PFRSs
Improvements to PFRSs, an omnibus of amendments to standards, deal primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies but did not have any impact on the financial position or performance of the Group.

Improvements to PFRSs 2009
- PFRS 5 clarifies that the disclosures required in respect of non-current assets and disposal groups classified as held for sale or discontinued operations are only those set out in PFRS 5. The disclosure requirements of other PFRSs only apply if specifically required for such non-current assets or discontinued operations.

- PFRS 8, *Operating Segments*, clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker. As the Group's chief operating decision maker does review segment assets and liabilities, the Group has continued to disclose this information in Note 32.

- PAS 7, *Statement of Cash Flows*, states that only expenditure that results in recognizing an asset can be classified as a cash flow from investing activities. This amendment will impact among others, the presentation in the statement of cash flows of the contingent consideration on the business combination completed in 2010 upon cash settlement.

- PAS 36, *Impairment of Assets*, amendment clarifies that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in PFRS 8 before aggregation for reporting purposes. The amendment has no impact on the Group as the annual impairment test is performed before aggregation.

Other amendments resulting from the 2009 Improvements to PFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Group:
- PFRS 2, *Share-based Payment*
- PAS 1, *Presentation of Financial Statements*
- PAS 17, *Leases*
- PAS 38, *Intangible Assets*
- PAS 39, *Financial Instruments: Recognition and Measurement*
- Philippine Interpretation IFRIC 9, *Reassessment of Embedded Derivatives*
- Philippine Interpretation IFRIC 16, *Hedge of a Net Investment in a Foreign Operation*

<u>Future Changes in Accounting Policies</u>
The Group has not applied the following PFRS and Philippine Interpretations which are not yet effective as of December 31, 2010. This listing is consists of standards and interpretations issued, which the Group reasonably expects to be applicable at a future date. The Group intends to adopt those standards when they become effective. The Group does not expect the adoption of these standards to have a significant impact in the financial statements, unless otherwise stated.

- PAS 24 (Amended), *Related Party Disclosures*
  The amended standard is effective for annual periods beginning on or after January 1, 2011. It clarified the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government related entities. Early adoption is permitted for either the partial exemption for government-related entities or for the entire standard.

- PAS 32, *Financial Instruments: Presentation (Amendment)- Classification of Rights Issues*
  The amendment to PAS 32 is effective for annual periods beginning on or after February 1, 2010 and amended the definition of a financial liability in order to classify rights issues (and certain options or warrants) as equity instruments in cases where such rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, or to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency.

- PAS 12, *Income Taxes (Amendment) - Deferred Tax: Recovery of Underlying Assets*
  The amendment to PAS 12 is effective for annual periods beginning on or after January 1, 2012. It provides a practical solution to the problem of assessing whether recovery of an asset will be through use or sale. It introduces a presumption that recovery of the carrying amount of an asset will normally be through sale.

- PFRS 7, *Financial Instruments: Disclosures (Amendments) - Transfers of Financial Assets*
  The amendments to PFRS 7 are effective for annual periods beginning on or after 1 July 2011. The amendments will allow users of financial statements to improve their understanding of transfer transactions of financial assets (for example, securitizations), including understanding the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period.

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- PFRS 9, *Financial Instruments: Classification and Measurement*
  PFRS 9 as issued reflects the first phase of the IASB's work on the replacement of PAS 39 and applies to classification and measurement of financial assets as defined in PAS 39. The standard is effective for annual periods beginning on or after January 1, 2013. In subsequent phases, the IASB will address classification and measurement of financial liabilities, hedge accounting and derecognition. The completion of this project is expected in early 2011. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

- Philippine Interpretation IFRIC 14 *(Amendment)*, *Prepayments of a Minimum Funding Requirement*
  The amendment to IFRIC 14 is effective for annual periods beginning on or after January 1, 2011 with retrospective application. The amendment provides guidance on assessing the recoverable amount of a net pension asset. The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset.

- Philippine Interpretation IFRIC 15, *Agreement for Construction of Real Estate*
  This Interpretation, effective for annual periods beginning on or after January 1, 2012, covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The Interpretation requires that revenue on construction of real estate be recognized only upon completion, except 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.

- Philippine Interpretation IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments*
  IFRIC 19 is effective for annual periods beginning on or after July 1, 2010. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognized immediately in profit or loss.

Improvements to PFRSs 2010
Improvements to IFRSs is an omnibus of amendments to PFRSs. The amendments have not been adopted as they become effective for annual periods on or after either July 1, 2010 or January 1, 2011. The amendments listed below, are considered to have a reasonable possible impact on the Group:

- PFRS 3, *Business Combinations*
- PFRS 7, *Financial Instruments: Disclosures*
- PAS 1, *Presentation of Financial Statements*
- PAS 27, *Consolidated and Separate Financial Statements*
- Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes*

The Group, however, expects no impact from the adoption of the amendments on its financial position or performance.

<u>Cash and Cash Equivalents</u>
Cash includes cash on hand and in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less and that are subject to an insignificant risk of changes in value.

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

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

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

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

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

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

Day 1 difference
For transactions other than those related to customers' guaranty and other deposits, where the transaction price in a non-active market is different to the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Group recognizes the difference between the transaction price and fair value (a day 1difference) in the consolidated statement of comprehensive income 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 consolidated statement of comprehensive income when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the 'day 1' difference amount.

Embedded derivatives
An embedded derivative is separated from the host financial or non-financial contract and accounted for as a derivative if all of the following conditions are met:

- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristic of the host contract;
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- the hybrid or combined instrument is not recognized as at FVPL.

As of December 31, 2010 and 2009, the Group has no embedded derivatives.

Financial assets
<u>Loans and Receivables</u>
Loans and receivables are financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. These are not entered into with the intention of immediate or short-term resale and are not designated as AFS financial assets 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", "Receivables" and Security deposits under "Other current assets".

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

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

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

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

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

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

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

Loans and receivables
For loans and receivables carried at amortized cost, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assessed 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 consolidated statement of comprehensive income 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 consolidated statement of comprehensive income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

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

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

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

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

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

When 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 consolidated statement of comprehensive income.

<u>Offsetting of Financial Instruments</u>
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.

<u>Inventories</u>
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.

<u>Exploration and Evaluation Costs</u>
Once the legal right to explore has been acquired, exploration and evaluation expenditure is charged to the consolidated statement of comprehensive income as incurred. These costs include materials and fuel used, surveying costs, drilling costs and payments made to contractors.

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Mining Reserves
Mining reserves are estimates of the amount of coal that can be economically and legally extracted from the Group's mining properties. The Group estimates its mining reserves and mineral resources based on information compiled by appropriately qualified persons relating to the geological data on the size, depth and shape of the coal body, and requires complex geological judgments to interpret the data. The estimation of recoverable reserves is based upon factors such as estimates of foreign exchange rates, commodity prices, future capital requirements, and production costs along with geological assumptions and judgments made in estimating the size and grade of the coal body. Changes in the reserve or resource estimates may impact upon the carrying value of exploration and evaluation assets, mine properties, property, plant and equipment, provision for rehabilitation, recognition of deferred tax assets, and depreciation and amortization charges.

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

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

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

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

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

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

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

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

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

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. When assets are retired, or otherwise disposed of, the cost and the related accumulated depreciation are removed from the accounts. 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 consolidated statement of comprehensive income 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 consolidated statement of comprehensive income reflects the share of the results of the operations of associates. Profit and losses resulting from transactions between the Group and the investee companies are eliminated to the extent of the interest in the investee companies.

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

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

Other Intangible Assets
Other intangible assets include computer software.

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

Internally generated intangible assets are not capitalized and expenditure is reflected in the consolidated statement of comprehensive income in the year in which the expenditure is incurred.

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

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

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

Business Combination and Goodwill
Business combinations prior - 2009
Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs.

The purchase method of accounting involves recognizing identifiable assets and liabilities of the acquired business initially at fair value. If the acquirer's interest in the net fair value of the identifiable assets and liabilities exceeds the cost of the business combination, the acquirer shall (a) reassess the identification and measurement of the acquiree's identifiable assets and liabilities and the measurement of the cost of the combination; and (b) recognize immediately in the consolidated statement of comprehensive income any excess remaining after that reassessment.

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PFRS 3 provides that if the initial accounting for a business combination can be determined only provisionally by the end of the period in which the combination is effected because either the fair values to be assigned to the acquireee's identifiable assets, liabilities or contingent liabilities or the cost of the combination can be determined only provisionally, the acquirer shall account for the combination using those provisional values. The acquirer shall recognize any adjustments to those provisional values as a result of completing the initial accounting within twelve months of the acquisition date as follows: (i) the carrying amount of the identifiable asset, liability or contingent liability that is recognized or adjusted as a result of completing the initial accounting shall be calculated as if its fair value at the acquisition date had been recognized from that date; (ii) goodwill or any gain recognized shall be adjusted by an amount equal to the adjustment to the fair value at the acquisition date of the identifiable asset, liability or contingent liability being recognized or adjusted; and (iii) comparative information presented for the periods before the initial accounting for the combination is complete shall be presented as if the initial accounting has been completed from the acquisition date.

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

An assessment is made at each reporting date whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If any such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If such is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statement of comprehensive income 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 consolidated statement of comprehensive income.

<u>Revenue Recognition</u>
Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that it is acting as principal in all of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognized:

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

Under the terms of arrangements with customers, local sales are billed 80% upon delivery and 20% upon release of coal quality test. Export sales are billed 100% after release of coal quality test. All quality test results are agreed by both the Parent Company and customers. Revenue is recognized upon 100% billing for both local and export sales.

Contract energy sales
These are revenue derived from its primary function of providing and selling electricity to customers of its generated and purchased electricity. Revenue derived from the generation and or supply of electricity is recognized based on the actual energy received by the customer or the actual energy nominated by the customer, net of adjustments, as agreed upon between parties.

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

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

Finance income
Finance income is recognized as interest accrues.

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

Cost of power
Cost of *power* includes expenses directly related to the production and sale of electricity such as cost of coal, fuel, depreciation and other related costs. Cost of coal and fuel are recognized at the time the related coal and fuel inventories are consumed for the production of electricity. Cost of energy also includes electricity purchased from the spot market and the related market fees. It is recognized as expense when the Company receives the electricity and simultaneously sells to its customers.

<u>Operating Expenses</u>
Operating expenses are expenses that arise in the course of the ordinary operations of the Group. These usually take the form of an outflow or depletion of assets such as cash and cash equivalents, supplies, and office furniture and equipment. Expenses are recognized in the consolidated statement of comprehensive income as incurred.

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

Borrowing costs capitalized in the "Property, plant and equipment" account amounted to ₱86.12 million in 2009.

<u>Pension Expense</u>
The Group has a noncontributory defined benefit retirement plan.

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

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

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

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

<u>Income Tax</u>

Current tax

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

Deferred tax

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

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

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

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

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

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

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

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

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

Deferred tax assets and liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

<u>Provisions</u>

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 consolidated statement of comprehensive income as a finance cost. Additional disturbances or changes in rehabilitation costs will be recognized as additions or charges to the corresponding assets and rehabilitation liability when they occur. For closed sites, changes to estimated costs are recognized immediately in the consolidated statement of comprehensive income.

<u>Leases</u>

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

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

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

Group as a lessee

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

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

Notes To Consolidated Financial Statements

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

Operating lease payments are recognized in the cost of coal sales under "Outside Services" on a straight line basis over the lease term.

<u>Foreign Currency Translation</u>
The Group's financial statements are presented in Philippine pesos, which is also the functional currency. Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency closing rate at the reporting date. All differences are taken to the consolidated statement of comprehensive income.

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

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

<u>Treasury Shares</u>
Own equity instruments which are reacquired (treasury shares) are recognized at cost and deducted from equity. No gain or loss is recognized in the consolidated statement of comprehensive income on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration is recognized in additional paid-in capital.

<u>Earnings per Share (EPS)</u>
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.

<u>Segment Reporting</u>
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.

<u>Contingencies</u>
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.

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

3. Significant Accounting Estimates, Judgments and Assumptions

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

<u>Judgment</u>
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).

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

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

The Group's coal sales arrangement with its customers includes reductions of invoice price to take into consideration charges for penalties and bonuses. These price adjustments depend on the estimated quality of the delivered coal. These estimates are based on 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.

Total revenue from coal sales amounted to ₱14.24 billion, ₱11.50 billion and ₱8.49 billion in 2010, 2009 and 2008, respectively (see Note 32).

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

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

In 2010 and 2009, there are reversals of provision amounting to ₱5.68 million and ₱3.19 million, respectively. The reversal was recognized under the "Other income" account in the consolidated statement of comprehensive income. Receivables, net of allowance for impairment loss amounted to ₱3.18 billion and ₱1.25 billion as of December 31, 2010 and 2009, 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 and third-party 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, 2010 and 2009 amounted to ₱846.37 million and ₱1.74 billion, respectively (see Note 6).

Notes To Consolidated Financial Statements

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 2010 and 2009. Spare parts and supplies of the Group, net of allowance for inventory write down of ₱53.29 million, amounted to ₱1.53 billion and ₱1.24 billion as of December 31, 2010 and 2009, 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 and under Section 8 of the LLA upon its termination or cancellation. Significant estimates and assumptions are made in determining the provision for mine and site 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 2.50% to 12.60% and 4.16% to 12.60% in 2010 and 2009, respectively. Rehabilitation expenditure is largely expected to take place in 2027 at the end of the life of the mine.

As of December 31, 2010 and 2009, the provision for decommissioning and site rehabilitation has a carrying value of ₱14.73 million and ₱17.62 million, respectively (see Note 14).

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, 2010 and 2009 amounted to ₱19.58 billion and ₱18.36 billion, respectively (see Note 8). The net book value of the software cost as of December 31, 2010 and 2009 amounted to ₱6.35 million and ₱7.54 million, respectively (see Note 10).

Estimating impairment for nonfinancial assets
The Group assesses impairment on investments and advances, property, plant and equipment and software cost whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the Group considers important which could trigger an impairment review include the following:

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

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

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

The net book values of the investments and advances, property, plant and equipment and software cost as of December 31, 2010 and 2009 follow:

	2010	2009 (As restated)
Property, plant and equipment (Note 8)	**₱19,584,259,678**	₱18,356,642,013
Investments and advances (Note 9)	**310,229,558**	244,432,588
Software cost (Note 10)	**6,345,855**	7,536,022
	₱19,900,835,091	₱18,608,610,623

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 2010 and 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, 2010 and 2009, the balances of the Group's defined benefit obligation and unrecognized actuarial gains (losses) follow (see Note 18):

	2010	2009
Present value of defined benefit obligation	**₱54,391,181**	₱40,981,694
Unrecognized actuarial gains (losses)	**(5,748,295)**	377,427

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, 2010 and 2009 amounted to ₱5.85 million and ₱1.55 million, respectively.

Notes To Consolidated Financial Statements

4. Cash and Cash Equivalents

This account consists of:

	2010	2009
Cash on hand and in banks	**₱1,976,645,025**	₱112,200,452
Cash equivalents	**1,836,638,492**	369,720,483
	₱3,813,283,517	₱481,920,935

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 prevailing short-term placement rates.

5. Receivables

This account consists of:

	2010	2009
Trade (Notes 28 and 29)		
Electricity sales	**₱1,651,955,469**	₱489,245,876
Local coal sales	**757,221,337**	337,326,286
Export coal sales	**582,130,762**	414,815,233
Due from related parties (Notes 17, 28 and 29)	**120,628,995**	9,067,242
Others (Notes 28 and 29)	**143,142,750**	27,352,040
	3,255,079,313	1,277,806,677
Less allowance for impairment losses	**71,779,121**	23,711,557
	₱3,183,300,192	₱1,254,095,120

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 utilities, spot market and other customers for the sale of contracted energy and spot sales transactions. These are generally on a 30 day credit term and are 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, 2010 and 2009, trade receivables and other receivables with a nominal value of ₱71.78 million and ₱23.71 million were impaired and provided for. Movements in the allowance for impairment of receivables were as follows:

2010

	Local Coal Sales	Electricity Sales	Other Receivables	Total
At January 1, 2010	**₱13,569,447**	**₱–**	**₱10,142,110**	**₱23,711,557**
Provision (Note 20)	–	**53,523,802**	**220,866**	**53,744,668**
Reversals (Note 23)	**(5,677,104)**	–	–	**(5,677,104)**
At December 31, 2010	**₱7,892,343**	**₱53,523,802**	**₱10,362,976**	**₱71,779,121**
Individual impairment	**₱7,892,343**	**₱53,523,802**	**₱10,362,976**	**₱71,779,121**

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

6. Inventories

This account consists of:

	2010	2009 (As restated)
Spare parts and supplies at NRV (Note 33)	**₱1,529,501,990**	₱1,239,244,001
Coal pile inventory at cost (Note 33)	**846,372,800**	1,743,044,519
	₱2,375,874,790	₱2,982,288,520

Spare parts and supplies with original cost of ₱580.93 million as of December 31, 2010 and 2009, were provided with allowance for inventory obsolescence amounting to ₱53.29 million.

The cost of coal inventories recognized as expense in the consolidated statement of comprehensive income amounted to ₱10.14 billion, ₱8.92 billion and ₱6.94 billion for the years ended December 31, 2010, 2009 and 2008, respectively (see Note 19).

Notes To Consolidated Financial Statements

7. Other Current Assets

This account consists of:

	2010	2009
Security deposits - current portion (Note 10)	**₱304,400,611**	₱270,751,295
Advances to suppliers	**312,134,305**	182,964,827
Creditable withholding tax	**235,463,531**	117,455,626
Prepaid insurance and others	**53,836,891**	10,052,424
Prepaid rent (Notes 10 and 30)	**6,183,431**	27,719,441
	₱912,018,769	₱608,943,613

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.

8. Property, Plant and Equipment

The rollforward analysis of this account follows:

2010

	Mining, Tools and Other Equipment	Power Plant and Buildings	Roads and Bridges	Equipment in Transit and Construction in Progress	Total
At Cost					
At January 1	₱10,333,808,195	₱17,757,658,247	₱279,062,950	₱571,185,355	₱28,941,714,747
Additions	2,589,750,052	9,200,188	–	708,798,651	3,307,748,891
Transfers	517,872,050	20,413,973	–	(538,286,023)	–
Transfers from inventory (Note 31)	–	–	–	529,047,775	529,047,775
Disposals (Note 23)	(54,249,706)	(37,750)	–	(1,750,087)	(56,037,543)
At December 31	13,387,180,591	17,787,234,658	279,062,950	1,268,995,671	32,722,473,870
Accumulated Depreciation and Amortization					
At January 1	8,988,247,985	1,317,761,799	279,062,950	–	10,585,072,734
Depreciation and amortization (Notes 19 and 20)	1,629,170,035	933,096,292	–	–	2,562,266,327
Disposals (Note 23)	(9,123,414)	(1,455)	–	–	(9,124,869)
At December 31	10,608,294,606	2,250,856,636	279,062,950		13,138,214,192
Net Book Value	₱2,778,885,985	₱15,536,378,022	₱–	₱1,268,995,671	₱19,584,259,678

2009 (As restated)

	Mining, Tools and Other 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)	58,347,772	16,153,022,222	–	–	16,211,369,994
Additions	2,191,703,508	111,692,515	–	550,587,570	2,853,983,593
Transfers from inventory (Note 31)	154,665,201	43,408,474	–	(189,007,936)	9,065,739
Disposals (Note 23)	(998,267,572)	–	–	–	(998,267,572)
At December 31	10,333,808,195	17,757,658,247	279,062,950	571,185,355	28,941,714,747
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	295,972,926	258,382	–	1,101,085,787
Disposals (Note 23)	(275,511,788)	–	–	–	(275,511,788)
At December 31	8,988,247,985	1,317,761,799	279,062,950	–	10,585,072,734
Net Book Value	₱1,345,560,210	₱16,439,896,448	₱–	₱571,185,355	₱18,356,642,013

Equipment in transit and construction in progress accounts mostly contains purchased mining equipment in transit in 2010 and 2009. Construction in progress also includes capitalized rehabilitation costs for the Unit II of Calaca power plant incurred in 2010, the rehabilitation of which is expected to be completed by early 2011. These are not qualifying assets, as such, no borrowing cost was capitalized in 2010 and 2009.

Notes To Consolidated Financial Statements

9. Investments and Advances

This account consists of:

	2010	2009
Acquisition cost		
At beginning of year	**₱250,000,000**	₱225,000,000
Additions during the year	–	25,000,000
Disposals during the year	**(250,000,000)**	–
	–	250,000,000
Accumulated equity in net earnings		
Balance at beginning of year	**(41,117,412)**	(1,768,241)
Equity in net earnings (losses) during the year	**76,825,789**	(39,349,171)
Disposals during the year	**(35,708,377)**	–
Balance at end of year	–	(41,117,412)
	–	208,882,588
Investment in sinking fund	**310,229,558**	–
Advances for future subscriptions	–	35,550,000
	₱310,229,558	₱244,432,588

The Group's equity in the net assets of associates and the related percentages of ownership as of December 31, 2010 and 2009 are shown below:

	Ownership	2010	2009
DMCI Mining Corporation (DMCI-MC)	**50%**	**₱–**	₱87,911,674
DMCI Power Corporation (DMCI-PC)	**50%**	–	156,520,914
		₱–	₱244,432,588

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 as of December 31, 2009:

	DMCI-PC	DMC-MC
Assets		
Current assets	₱8,901,235	₱225,086,326
Noncurrent assets	541,008,336	21,771,995
	549,909,571	246,858,321
Liabilities		
Current liabilities	(272,417,744)	(71,034,972)
Net assets	₱277,491,827	₱175,823,349
Net loss	(₱34,717,965)	(₱43,980,377)

DMCI-MC
In March 2007, DMCI-MC entered into a 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.

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. (BC) 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.

In March 2010, the Company and Benguet Corp Nickel Mines, Inc, an affiliate of BC, agreed to establish and maintain a Mine Rehabilitation Fund as a reasonable environmental deposit to ensure the availability of funds for its satisfactory compliance with the commitments and performance of activities stipulated in its Environment Protection and Management Program / Annual Environmental Protection and Enhancement Program during a specific project phase.

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. As of December 31, 2009, DMCI-PC has not yet started commercial operations.

On August 11, 2010, DMCI-PC fully paid the balance of ₱1.88 million subscription in DMCI Concepcion Power Corporation, thereby increasing investment cost to ₱2.50 million.

On August 16, 2010, DMCI-PC entered into a Sale and Purchase Agreement (the Agreement) with Del Callar and Partners (the Buyer) for the sale of its ₱2.50 million shares in DMCI Concepcion Power Corporation, representing its entire investment in the said company, and its 300 square meters land located in Concepcion, Iloilo with aggregate book value of ₱58.95 million for a total consideration of ₱80.00 million payable in accordance with the following schedule of payment: ₱1.00 million as earnest money payable on the date of the Agreement, and the balance of ₱79.00 million upon full compliance of the condition set forth in the Agreement.

Disposal of investment in DMCI-MC and DMCI-PC
On December 8, 2010, a Deed of Assignment was made and executed between the Parent Company and DMCI-HI, the former being the "Assignor" and the latter being the "Assignee". The Parent Company offered to assign, transfer and convey all of its rights, ownership and interest over its shares in DMCI-PC and DMCI-MC. The said transaction resulted to a gain on disposal of investment in the amount of ₱41.38 million presented in the consolidated statement of comprehensive income (see Note 23).

SCPC
On July 8, 2009, Power Plant of Power Sector Assets and Liabilities Management Corporation (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.

On December 1, 2009, the Parent Company was authorized by the BOD to advance the amount of ₱7.16 billion for purchase of the PSALM through its wholly owned subsidiary in order to meet SCPC's financial obligation under Asset Purchase Agreement (APA) and Land Lease Agreement (LLA). As of December 31, 2010, additional advances made by the Parent Company amounted to ₱840.05 million. The said advances were treated as deposit on future subscription in SCPC.

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Pursuant to the provision of the 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.

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

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 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 provisions of the Agreement include:

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

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

10. Other Noncurrent Assets

This account consists of:

	2010	2009
Security deposits (Notes 28, 29 and 30)	**₱304,400,811**	₱291,613,096
5% input VAT withheld - net	**150,126,647**	150,126,647
Prepaid rent (Note 30)	**144,204,098**	171,923,539
Software cost - net	**6,345,855**	7,536,022
Environmental guarantee fund	**1,500,000**	1,500,000
Others	**21,594,681**	10,723,944
	628,172,092	633,423,248
Less current portion of		
Security deposits (Note 7)	**304,400,811**	270,751,295
Prepaid rent (Note 7)	**6,183,431**	27,719,441
	310,584,242	298,470,736
	₱317,587,850	₱334,952,512

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.

There were no additional security deposits during the year. As of December 31, 2009, security deposits with a nominal amount of ₱22.20 million were initially recorded at fair value. Movement in the unamortized discount of security deposits follows:

	2010	2009
At January 1	**₱12,956,371**	₱31,279,714
Additions	**–**	2,300,375
Accretion (Note 22)	**(12,787,515)**	(20,623,718)
At December 31	**₱168,856**	₱12,956,371

5% input VAT withheld
As a result of the enactment of Republic Act (RA) No. 9337 effective November 1, 2005 (see Note 24), National Power Corporation (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 (BIR) 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 BIR 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 ₱40.37 million (see Note 20).

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

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).

Software Cost
Movements in software cost account follow:

	2010	2009
At Cost		
At January 1	**₱16,112,568**	₱10,102,737
Additions	**2,970,643**	6,009,831
At December 31	**19,083,211**	16,112,568
Accumulated Amortization		
At January 1	**8,576,546**	4,728,626
Amortization (Note 19)	**4,160,810**	3,847,920
At December 31	**12,737,356**	8,576,546
Net Book Value	**₱6,345,855**	₱7,536,022

11. Short-term Loans

Short-term loans 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 and acceptances and trust receipts which are used to facilitate payment for importations of materials, fixed assets and other assets. There are no outstanding notes payable as of December 31, 2010 and amounted to ₱793.19 million during the year 2009. Acceptances and trust receipts as of December 31, 2010 and 2009 amounted to ₱449.85 million and ₱51.45 million, respectively.

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12. Long-term Debt

This account consists of:

	2010	2009
Mortgage payable	₱9,495,157,286	₱–
Bank loans	2,022,817,439	133,257,823
Deferred purchase payment	774,743,549	474,363,625
PSALM (Note 33)	–	9,571,202,577
	12,292,718,274	10,178,824,025
Less current portion of:		
Mortgage payable	1,132,896,820	–
PSALM	–	1,681,081,972
Bank loans	–	133,257,823
	1,132,896,820	1,814,339,795
	₱11,159,821,454	₱8,364,484,230

Details of the bank loans follow:

Loan Type	Date of Availment	Outstanding Balance 2010	2009	Maturity	Interest Rate	Payment Terms	Covenants/Collaterals
		(In Millions)					
Local bank loans							
Loan 1	Various availments in 2010	**₱701.44**	₱–	Various maturities in 2012	1.59% - 2.88% payable in arrears, to be repriced every 90 days	Interest payable in 90 days; not deducted from proceeds of loans and principal repayable in maturity.	Any monies standing to the credit of the borrower's other account with the bank and any securities, deeds, boxes and parcels and their contents and property of any description held in borrower's name
Loan 2	Various availments in 2010	**639.06**	–	Various maturities in 2012	1.95% p.a. payable semi-annually in arrears, to be repriced every 6 months	Interest payable semi-annually in arrears from 2010 to 2011 inclusive of 10% withholding tax payment of interest shall commence on 2011 and every six months thereafter until fully paid at the prevailing rate.	Unsecured loans
Loan 3	October 2010	**₱442.08**	₱–	October 2012	1.90% p.a. for 92 days, to be repriced every 30 to 180 days	Interest shall be payable on the last day of the current interest period or the 90th day of said period whichever occurs earlier and full payment of principal at maturity.	Unsecured loans
Loan 4	October 26, 2010	**240.24**	–	October 26, 2012	1.82% p.a. to be repriced over the rate 180 days	Interest payable starting October 26, 2010 until October 26, 2012 and principal repayable on maturity.	Unsecured loans
Foreign bank loans							
Loan 1	December 14, 2005	–	72.20	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	Various maturities in 2009 and 2010	Based on 6-month USD LIBOR plus 1.5% p.a.	Payable in 10 equal consecutive semi-annual installments, the first of which was due and payable 6 months after the starting point.	Unconditional and irrevocable guarantee issued by DMCI-HI (Note 17)
		₱2,022.82	₱133.26				

(Forward)

The other covenants in loan 1 under the foreign bank loans require the Parent Company 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.

Long-term debt to PSALM and Mortgage Payable
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$199.25 million translated using ₱46.20 peso-dollar closing exchange rate as of December 31, 2009 (see Note 33).

Notes To Consolidated Financial Statements

SCPC recognized an unrealized foreign exchange gain amounting to ₱199.25 million in 2009.

On various dates in the first quarter of 2010, SCPC paid PSALM the 60% deferred balance of the Purchased Assets's Purchase Price, net of the unawarded purchase orders and the financial settlement, to wit (in millions, except for exchange rate):

	January 29, 2010	February 26, 2010	March 5, 2010
Principal	4,507.94	2,345.89	2,386.65
Interest	162.06	39.11	5.10
Total Payments in Pesos	4,670.00	2,385.00	2,391.75
Exchange Rate	46.70	46.15	46.00
Total Payments in US $	100.00	51.68	51.99

As of March 5, 2010, SCPC has fully paid PSALM the Purchase Price of the Purchased Assets and realized a net foreign exchange loss of ₱36.31 million in 2010 and the unrealized foreign exchange gain amounting to ₱199.25 million in 2009.

On May 20, 2010, SCPC entered into a ₱9.60 billion Omnibus Loan Security Agreement ("Agreement") with Banco de Oro Unibank, Inc. (BDO Unibank), Bank of Philippine Islands (BPI) and Philippine National Bank (PNB) as Lenders, the Parent Company as Guarantor, BDO Capital and Investment Corporation as Lead Arranger and Sole Bookrunner, BPI Capital Corporation and PNB Capital and Investment Corp. as Arrangers, and BDO Unibank, Inc., Trust and Investments Group as Security Trustee, Facility Agent and Paying Agent.

Breakdown of the syndicated loan is as follows:

BDO Unibank	₱6,000,000,000
BPI	2,000,000,000
PNB	1,600,000,000
	₱9,600,000,000

The Agreement was entered into to finance the payments made to PSALM pursuant to the APA and LLA, and ongoing plant rehabilitation and capital expenditures.

Details of the loan follow:

a. Interest: At a floating rate per annum equivalent to the three (3) months Philippine Dealing System Treasury-Fixing (PDST-F) benchmark yield for treasury securities as published on the PDEx page of Bloomberg (or such successor electronic service provider at approximately 11:30 a.m. (Manila Time) on the banking day immediately preceding the date of initial borrowing or start of each interest period, as applicable, plus a spread of 175 basis points.

b. Repayment: The principal amount shall be payable in twenty-five equal consecutive quarterly installments commencing on the twelfth month from the initial borrowing date. Final repayment date is seven (7) years after initial borrowing.

The loan was drawn in full on May 20, 2010. Capitalized debt issuance cost amounted to ₱110.04 million and is amortized using the effective interest rate method over the loan's term. Amortization of debt issuance cost recognized as part of "Finance Cost" account in the consolidated statement of comprehensive income amounted to ₱5.20 million.

Rollforward of the capitalized debt issuance cost follows:

At January 1, 2010	₱–
Additions	110,042,257
Amortization	(5,199,543)
At December 31, 2010	₱104,842,714

As security for the prompt and full payment by the Company, this loan was collateralized by all monies in the Collateral Accounts, supply receivables, proceeds of any asset and business continuity insurance, project agreements and first-ranking mortgage on present and future real assets. Further, 67% of issued and outstanding shares in the Company owned by the Parent Company were also pledged on this loan.

In a special meeting of the BOD held on March 9, 2010, the BOD authorized SCPC to establish, maintain, and operate trust and investment management accounts with Banco de Oro Unibank, Inc., - Trust and Investment Group. The Omnibus Agreement provided that the Security Trustee shall invest and reinvest the monies on deposit in Collateral Accounts. All investments made shall be in the name of the Security Trustee and for the benefit of the Collateral Accounts. BDO Unibank, Inc., - Trust and Investment Group made an investment in Sinking Fund amounting ₱310.23 million as of December 31, 2010.

Deferred purchase payment
On November 16, 2009, the Parent Company entered into a Deferred Payment Sale and Purchase Agreement with Marubeni 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.

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:

	2010	2009 (As restated)
Trade	**₱3,681,704,251**	₱1,683,028,961
Payable to Department of Energy (DOE) and local government units (Note 26)	**1,013,039,943**	216,516,873
Accrued expenses and other payables	**456,436,860**	744,932,140
Due to related parties (Note 17)	**200,090,262**	609,143,593
	₱5,351,271,316	₱3,253,621,567

Notes To Consolidated Financial Statements

Trade payables include liabilities amounting to ₱530.31 million (US$12.09 million) and ₱56.79 million (US$1.23 million) as of December 31, 2010 and 2009, 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:

	2010	2009
Probable legal claims (Note 27)	**₱215,803,423**	₱110,852,446
Withholding and other taxes	**38,787,147**	337,686,607
Bonus	**31,462,610**	15,581,914
Real property tax	**18,828,610**	18,828,610
Rental	**15,264,799**	14,923,732
Coal hauling	**13,034,083**	7,606,638
Interest	**11,960,348**	201,857,395
Professional fees	**6,000,000**	7,401,786
Salaries and wages	**22,967,405**	13,832,843
Others	**82,328,435**	16,360,169
	₱456,436,860	₱744,932,140

Accrued interest arising from the acquisition of the Power Plant from PSALM amounted to ₱164.88 million as of December 31, 2009 (see Note 33). Others include accruals on contracted services, utilities, supplies and other administrative expenses.

14. Provision for Decommissioning and Site Rehabilitation

The rollforward analysis of this account follows:

	2010	2009
At January 1	**₱17,621,980**	₱13,204,317
Addition	**–**	2,848,842
Adjustment	**(3,663,984)**	407,828
Accretion of interest (Note 21)	**774,354**	1,160,993
At December 31	**₱14,732,350**	₱17,621,980

15. Capital Stock

The details of the Group's capital stock follow:

	2010	2009
Common stock - ₱1 per value		
Authorized - 1,000,000,000 shares	**₱1,000,000,000**	₱1,000,000,000
Issued shares	**356,250,000**	296,875,000

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

The number of shares held in treasury is 19,302,200 amounting to ₱528.89 million as of December 31, 2009 and 2008. On April 8, 2010, the Company reissued all of its treasury shares to Dacon Corporation (Dacon) at ₱67 per share or a total of ₱1.29 billion. The excess of the proceeds over the total cost of the treasury is included under additional paid-in capital in the amount of ₱764.36 million.

Deposit on Future Stock Subscriptions
On December 1, 2009, DMCI-HI and Dacon advanced deposits on future subscriptions which aggregated to ₱5.40 billion. These advances were used in the reissuance of treasury shares on April 8, 2010 and stock rights offering on June 10, 2010.

Stock Rights Offering
On June 10, 2010, the Parent Company offered for subscription 59,375,000 Rights Shares to eligible existing common shareholders at the Offer Price of ₱74 per share. The Rights Shares was issued from the Parent Company's authorized but unissued shares of stock. Each eligible stockholder was entitled to subscribe to one Rights Share for every five Common Shares held as of the Record Date at an Offer Price of ₱74 per Rights Share. Net proceeds from the stock rights offering amounted to about ₱4.39 billion. The amount representing excess of offer price over the par value of the share offering amounting to about ₱4.33 billion was credited to additional paid-in capital for the year ended December 31, 2010.

16. Retained Earnings

Cash Dividends
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 30, 2009, the BOD authorized the Parent Company to declare and distribute cash dividends of ₱6.00 per share or ₱1.67 billion to stockholders of record as of April 30, 2009. The said cash dividends were paid on May 15, 2009.

On April 27, 2010, the BOD authorized the Parent Company to declare and distribute cash dividends of ₱6.00 per share or ₱1.78 billion to stockholders of record as of May 27, 2010. The said cash dividends were paid on June 23, 2010.

Restrictions
On April 4, 2005, the BOD authorized the restriction in the amount of ₱1.00 billion out of the Parent Company'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:

Notes To Consolidated Financial Statements

a. 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 loans were fully paid. The loans contracted in 2004 and 2005 were still guaranteed by DMCI-HI. Guarantee fees incurred amounted to ₱0.30 million, ₱2.62 million and ₱7.91 million in 2010, 2009 and 2008, respectively. These are included under finance costs in the consolidated statement of comprehensive income (see Note 21);

b. 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 ₱59.17 million, ₱166.22 million and ₱117.72 million for the years ended 2010, 2009, and 2008, respectively. These are included under Cost of coal sales - Outside services (see Note 19);

   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 ₱507.86 million, ₱500.75 million and ₱246.94 million in 2010, 2009 and 2008, respectively, and are included under Cost of coal sales - Shipping, hauling and shiploading costs (see Note 19). The reported expense of the Group is net of freight payment by NPC (billing is cost and freight);

   Land lease rental with DMC-CERI amounting to ₱13.74 million and ₱13.44 million were accrued during the periods ended December 31, 2010 and 2009, respectively (see Note 13) .

c. M&S Company, Inc., an affiliate, rents out various equipment 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 Department of Environment and Natural Resources (DENR). Rough lumbers purchased amounted to ₱39.01 million and ₱50.99 million for the years ended December 31, 2009, and 2008, respectively. The related rental expense amounted to ₱91.49 million for the years ended December 31, 2010, 2009 and 2008. This is included under Cost of coal sales - Production Overhead for the year (see Note 19).

d. D.M. Consunji, Inc. (DMCI), an affiliate under common control of DMCI-HI, 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 ₱63.07 million, ₱69.01 million and ₱17.21 million for the years ended December 31, 2010, 2009 and 2008, respectively. These are included under Cost of coal sales - Outside Services (see Note 19).

e. DMC Urban Property Developers, Inc. (UPDI), an affiliate, 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 ₱6.97 million, ₱7.78 million and ₱1.84 million for the years ended December 31, 2010, 2009 and 2008, respectively. These are included in Cost of coal sales under "Outside services" (see Note 19).

f. 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.

g. Wire Rope Corporation of the Philippines, an affiliate, had transactions with the Parent Company representing supply of cable wires. The related expenses amounted to ₱10.4 million as of December 31, 2010. This is included in Cost of coal sales under "Materials and supplies" (see Note 19).

h. DMCI was engaged by the Company in the ongoing rehabilitation of the power plant. Billings of DMCI was charged to "Construction in progress" account.

   DMCI also had transactions with the Company representing equipment rental and other transactions such as transfer of equipment, and hauling services. The related expenses amounted to ₱1.46 million for the period ended December 31, 2010. Equipment rentals amounted to ₱2.85 million for the year ended December 31, 2010. These are charged in the current year's result of operation (see Notes 19 and 20).

i. SCPC's accounting and administrative functions are handled by the DMCI-PC, an affiliated party under common control of DMCI-HI, including the Company's payroll starting June 2010. DMCI-PC charges management fees for the services it rendered. Management fees amounted to ₱216.46 million for the period ended December 31, 2010 (see Note 20). Compensation of SCPC's key management personnel is paid by the said related party. Hence, the disclosure of compensation required under PAS 24, Related Party Disclosures, for key management personnel is included in the financial statements of DMCI-PC.

   In January 2011, SCPC entered into an Operation and Management contract with DMCI-PC for the latter to render management, rehabilitation, operation and maintenance services to SCPC for a fee equal to the actual cost of services plus a mutually agreed mark-up of 5%.

j. At a special meeting held on December 1, 2009, the BOD of DMCI-HI approved the assignment to SCPC of DMCI-HI's rights and obligations under the APA and LLA for an amount equal to at least all costs incurred by DMCI-HI during or relating to its participation in the bidding and acquisition process for the Purchased Assets.

The following table summarizes the total amount of transactions due to or from related parties as of December 31, 2010 and 2009:

	2010	2009
Due from related parties (see Note 5)		
Under common control of DMCI-HI	**₱120,605,298**	₱9,043,545
Others	**23,697**	23,697
	120,628,995	9,067,242
Due to related parties (see Note 13)		
Stockholders	**298,431**	85,231,045
Under common control of DMCI-HI	**128,336,654**	162,389,000
Others	**71,455,177**	361,523,548
	200,090,262	609,143,593
	(₱79,461,267)	(₱600,076,351)

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 through examining the financial position of the related party and the market in which the related party operates.

Compensation of key management personnel of the Parent Company by benefit type follows:

	2010	2009	2008
Short-term employee benefits	**₱101,960,815**	₱61,966,888	₱20,153,150
Post employment benefits	**2,738,299**	1,268,462	1,456,793
	₱104,699,114	₱63,235,350	₱21,609,943

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.

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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 consolidated statement of comprehensive income:

	2010	2009	2008
Current service cost	**₱4,762,273**	₱3,876,679	₱4,536,956
Interest cost on benefit obligation	**4,405,532**	3,734,738	2,212,513
Expected return on plan asset	**(1,635,383)**	(1,500,491)	–
Actuarial gain recognized	**–**	(1,663,057)	(1,909,695)
	₱7,532,422	₱4,447,869	₱4,839,774

The above pension expense is included under Personnel costs in operating expenses (see Note 20).

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

	2010	2009
Present value of defined benefit obligation	**₱54,391,181**	₱40,981,694
Fair value of plan assets	**28,646,138**	28,423,387
Excess of present value of defined benefit obligation over fair value of plan assets	**25,745,043**	12,558,307
Unrecognized actuarial gain (losses)	**(5,748,295)**	377,427
	₱19,996,748	₱12,935,734

Movements in the present value of defined benefit obligation follow:

	2010	2009
Balance at the beginning of year	**₱40,981,694**	₱39,107,208
Current service cost	**4,762,273**	3,876,679
Interest cost on benefit obligation	**4,405,532**	3,734,738
Actuarial loss (gain)	**7,047,090**	(5,736,931)
Benefits paid from plan assets	**(2,334,000)**	–
Benefits paid - direct payments from book reserves	**(471,408)**	–
Balance at end of year	**₱54,391,181**	₱40,981,694

Movements in the fair value of plan assets follow:

	2010	2009
Balance at beginning of the year	**₱28,423,387**	₱25,008,190
Expected return on plan assets	**1,635,383**	1,500,491
Actuarial gain from plan assets	**921,368**	1,914,706
Benefits paid	**(2,334,000)**	–
Balance at end of year	**₱28,646,138**	₱28,423,387
Actual return	**₱2,556,751**	₱3,415,197

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.

The assumptions used to determine pension benefits of the Group for the years ended December 31, 2010, 2009 and 2008 follow:

	2010	2009	2008
Discount rate	**8.10%**	10.75%	9.55%
Salary increase rate	**3.00%**	3.00%	3.00%
Expected rate of return on plan assets	**6.00%**	5.75%	6.00%

The amounts for the current and previous four periods follow:

	2010	2009	2008	2007	2006
Present value of defined benefit obligation	**₱54,391,181**	₱40,981,694	₱39,107,208	₱27,760,518	₱52,669,928
Fair value of plan assets	**28,646,138**	28,423,387	25,008,190	55,374,465	–
Unfunded obligation	**25,745,043**	12,558,307	14,099,018	(27,613,947)	52,669,928
Experience adjustments on plan liabilities	**–**	(5,651,794)	(12,320,619)	(37,166,703)	14,502,816
Experience adjustments on plan assets	**–**	(31,911,761)	1,545,486	–	–

As of December 31, 2010, the Group does not expect any contribution to the pension fund in 2011.

19. Cost of Sales and Services

Cost of coal sales consists of:

	2010	2009	2008
Outside services (Note 17)	**₱2,850,632,130**	₱2,306,385,701	₱688,021,318
Fuel and lubricants	**2,359,629,271**	1,895,994,109	1,870,250,075
Materials and supplies (Note 17)	**1,870,463,292**	2,469,067,063	2,289,843,994
Depreciation and amortization (Notes 8 and 10)	**1,672,138,597**	1,021,208,696	1,154,232,140
Shipping, hauling and shiploading costs (Note 17)	**507,859,761**	525,769,005	380,577,351
Production overhead (Note 17)	**456,460,542**	336,768,444	295,817,464
Direct labor	**419,119,803**	366,772,235	264,843,502
	₱10,136,303,396	₱8,921,965,253	₱6,943,585,844

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Cost of power sales consists of:

	2010	2009
Coal	**₱2,956,897,728**	₱172,809,840
Spot purchases	**1,773,351,388**	154,852,467
Depreciation and amortization (Notes 8 and 10)	**794,013,317**	75,338,855
Diesel	**99,855,348**	2,620,572
Bunker	**67,731,908**	7,169,892
Lube	**37,938,217**	2,264,229
Market fees	**24,022,888**	1,265,307
Coal handling expense	**13,596,690**	3,387,368
	₱5,767,407,484	₱419,708,530

Spot purchases pertain to the cost of electricity acquired from the spot market. This is recognized as expense when the Company receives the electricity and simultaneously sells to its customers.

On December 4, 2009, SCPC received from the Philippine Electricity Market Corporation the electronic certificate which evidenced 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 requirements in the WESM as spot sales and purchase power directly from the spot market should the need arises. In addition, the SCPC, as a requirement for being a direct member of WESM, has to pay market fees based on the total energy traded in the market. In 2010 and 2009, SCPC purchased power from the spot market in the amount of ₱1.77 billion and ₱154.85 million, respectively.

20. Operating Expenses

This account consists of:

	2010	2009	2008
Government share (Note 26)	**₱1,310,029,153**	₱450,151,548	₱253,381,663
Provision for billing dispute (Note 27)	**383,293,921**	–	–
Personnel costs (Notes 17 and 18)	**335,103,976**	140,485,645	87,214,869
Management fees (Note 17)	**216,458,717**	–	–
Depreciation	**100,275,223**	8,386,156	6,442,988
Professional fees	**65,796,354**	28,373,909	15,511,658
Insurance and bonds	**57,083,139**	11,273,086	5,913,058
Provision for doubtful accounts (Note 5)	**53,744,668**	–	–
Transportation and travel	**33,561,854**	17,871,246	12,134,020
Entertainment, amusement and recreation	**18,855,526**	9,251,477	7,628,340
Taxes and licenses	**13,521,082**	2,729,342	3,568,231
Provision for impairment loss (Note 10)	**–**	40,374,335	–
Office expenses and others	**202,369,133**	40,685,288	67,130,986
	₱2,790,092,746	₱749,582,032	₱458,925,813

Office expenses and others pertain to various expenses such as advertising, utilities, supplies and repairs and maintenance expenses.

21. Finance Costs

The finance costs are incurred from the following financial liabilities:

	2010	2009	2008
Interest on:			
Bank loans	**₱652,152,869**	₱100,651,973	₱70,134,901
Acceptances and letters of credits, other short-term borrowings and accretion of interest on ARO (Notes 12, and 14)	**33,753,452**	11,540,691	31,105,183
	₱685,906,321	₱112,192,664	₱101,240,084

22. Finance Income

Finance income is derived from following sources:

	2010	2009	2008
Interest on:			
Cash in banks	**₱25,628,932**	₱1,514,481	₱4,892,729
Short term placements and temporary investments	**15,668,969**	28,604,294	69,348,852
Accretion on security deposits (Notes 10)	**12,787,515**	20,623,718	2,993,402
Others	**3,582,348**	2,010,403	–
	₱57,667,764	₱52,752,896	₱77,234,983

23. Other Income

This account consists of:

	2010	2009	2008
Gain on sale of investments (Note 9)	**₱41,378,255**	₱–	₱–
Gain on sale of equipment (Note 8)	**6,088,124**	40,205,597	44,713,500
Reversal of allowance for doubtful accounts (Note 5)	**5,677,104**	3,191,293	–
Recoveries from insurance claims	**5,069,284**	18,173,051	9,729,272
Negative goodwill (Note 33)	**–**	15,666,754	–
Miscellaneous	**7,214,245**	30,698,527	–
	₱65,427,012	₱107,935,222	₱54,442,772

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24. Income Tax

The reconciliation of the provision for income tax computed at the statutory income tax rate to the provision for income tax shown in the statements of comprehensive income follows:

	2010	2009	2008
Statutory income tax rate	**30.00%**	30.00%	35.00%
Adjustments for:			
Equity in net losses (earnings)	**(0.59)**	0.62	0.06
Gain on divestment	**(0.32)**	–	–
Unrecognized deferred tax assets	**0.30**	3.35	–
Derecognized deferred tax assets	**0.60**	–	–
Additional deductible expense from adopt-a-school program	–	–	(0.25)
Interest income already subjected to final tax at a lower rate - net of nondeductible interest expense	**(0.11)**	(0.19)	(1.25)
Nondeductible interest expense	**0.11**	0.16	1.06
Nondeductible expense	**0.25**	–	–
Tax-exempt income	**(31.14)**	(30.62)	(11.46)
Change in tax rate	–	–	(0.22)
Effective income tax rate	**(0.90%)**	3.32%	22.94%

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

	2010	2009
Deferred tax assets on:		
Accrual of expenses	**₱–**	₱23,626,528
Deferred tax liabilities on:		
Incremental cost of property, plant and equipment	**7,846,603**	25,353,248
Net unrealized foreign exchange gains	**20,192,488**	66,990,976
Unamortized prepaid rent	**48,214**	3,339,233
	28,087,305	95,683,457
Net deferred tax liabilities	**₱28,087,305**	₱72,056,929

In 2010 and 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:

	2010	2009
Allowance for doubtful accounts	**₱71,779,121**	₱23,711,557
Provision for probable loss	**40,374,335**	40,374,335
NOLCO	–	395,743
Allowance for inventory write down	**53,286,925**	53,286,925
Pension costs	**19,996,748**	12,935,734
Provision for decommissioning and site rehabilitation	**14,732,350**	17,621,980
Unamortized discount on security deposits	**168,856**	12,956,371
	₱200,338,335	₱161,282,645

Unrecognized NOLCO for 2010 and 2009 will expire on 2013 and 2012, respectively.

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. It further provides that nondeductible interest expense shall be reduced from 42% to 33% of interest income subjected to final tax beginning January 1, 2009.

Board of Investments (BOI) Incentives
The Parent Company
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.

SCPC
On April 19, 2010, SCPC was registered with the BOI as New Operator of the 600-MW Calaca Coal-Fired Power Plant on a Non-Pioneer Status 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. SCPC shall enjoy income tax holiday for four (4) years from April 2011 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration. The ITH incentives shall be limited to the revenue generated from the sales of electricity of the 600 MW Batangas Coal-Fired Thermal Power Plant.

b. For the first five (5) years from the date of registration, SCPC shall be allowed an additional deduction from taxable income of 50% of the wages corresponding to the increment in the number of direct labor for skilled and unskilled workers in the year of availment as against the previous year if the project meets the prescribed ratio of capital equipment to the number of workers set by the BOI of $10,000 to one worker and provided that this incentive shall not be availed of simultaneously with the ITH.

c. 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.

d. Importation of consigned equipment for a period of ten (10) years from the date of registration, subject to the posting of re-export bond.

On January 7, 2011, BOI approved SCPC's request for an earlier application of the ITH to be effective January 1, 2010.

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25. Basic/Diluted Earnings Per Share

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

	2010	2009	2008
Net income	**₱3,952,708,257**	₱1,845,984,707	₱796,398,791
Divided by the weighted average number of common shares outstanding	**326,684,867**	277,572,800	277,572,800
Basic / diluted earnings per share	**₱12.10**	₱6.65	₱2.87

For the years ended December 31, 2010, 2009 and 2008, 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 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 ₱1.31 billion, ₱450.15 million and ₱253.38 million in 2010, 2009 and 2008, respectively. The liabilities, amounting to ₱1.01 billion and ₱216.52 million as of December 31, 2010 and 2009 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

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

Provisions of the LLA include that SCPC has the option to buy the Option Assets upon issuance of an Option Existence Notice (OEN) by the lessor. Option assets are parcels of land that form part of the leased premises which the lessor offers for sale to the lessee.

On July 12, 2010, PSALM issued an Option Existence Notice and granted SCPC the "Option" to purchase parcels of land (Optioned Assets) that form part of the leased premises. SCPC availed the "Option" and paid the Option Price amounting to US$0.32 million or a peso equivalent of ₱14.72 million exercisable within one year from the issuance of the Option Existence Notice.

SCPC was also required to deliver and submit to the lessor a performace security amounting to ₱34.83 million in the form of Stand-by Letter of Credits (SBLC). The performance security shall be maintained by SCPC in full force and effect continuously without any interruption until the Performance Security expiration date. The Performance Security initially must be effective for the period of one year from the date of issue, to be replaced prior to expiration every year thereafter and shall at all times remain valid.

In the event that the lessor issues an OEN and SCPC buy the option assets in consideration for the grant of the option, the land purchase price should be equivalent to the highest of the following and or amounts: (i) assessment of the Provincial Assessors of Batangas Province; (ii) the assessment of the Municipal or City Assessor having jurisdiction over the particular portion of the leased premises; (iii) the zonal valuation of Bureau of Internal Revenue or, (iv) $21.00 per square meter. Valuation basis for 1 to 3 shall be based on the receipt of PSALM of the option to exercise notice. The exchange rate to be used should be the Philippine Dealing Exchange rate at the date of receipt of PSALM of the option to exercise notice.

As of December 31, 2010, SCPC has not yet exercised the land lease option but has the intention to purchase the Option Asset before the expiration of the OEN.

Transition supply contracts
The APA included a number of Transition Supply Contracts (TSC) to distribution utilities and large load customers located in close proximity to the Purchased Assets. The volume of energy demand for each of the customers is reflected in their respective TSC. The electricity pricing in the said TSC is tied to the 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. Assignment of Sun Power Corporation's TSC was not accepted by the Company at the closing date due to anticipated loss once accepted. Assigned TSC were renewed on various dates in 2010, except for High Street Corporation.

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.

Provision for billing disputes
On October 20, 2010, SCPC filed a Petition for dispute resolution ("Petition") before the Energy Regulatory Commission (ERC) against NPC and PSALM involving over-nominations made by NPC during the billing period January to June 2010 beyond the 169,000 kW MERALCO allocation of the Company, as provided under the Schedule W of the APA.

In its Petition, SCPC sought to recover the cost of energy (a) sourced by SCPC from WESM in order to meet NPC's nominations beyond the 169,000 kW MERALCO contracted demand, or (b) procured by NPC from the WESM representing energy nominated by NPC in excess of the 169,000 kW limit set in Schedule W, cost of which was charged by PSALM against SCPC. In relation to this, NPC withheld the payments of MERALCO and remitted to SCPC the collections net of the cost of the outsourced energy.

SCPC has likewise sought to recover interest on the withheld MERALCO payments collected by PSALM that is unpaid to SCPC as of due date, to be charged at the rate of 11% computed from the date of the SCPC's extrajudicial demand until full payment by PSALM.

During the preliminary conference scheduled on November 25, 2010, the ERC's hearing officer directed the parties to explore the possibility of settling the dispute amicably. As the parties failed to arrive at a compromise during the prescribed period, hearings resumed with the conduct of preliminary conference of February 23, 2011, without prejudice to the result of any further discussions between the parties for amicable settlement. The ERC set the next hearing for the presentation of witnesses on March 22 and 23, 2011.

SCPC made a provision for the total amount withheld by NPC, which amounted to ₱383.29 million (see Note 20). Though a provision has already been made, SCPC has not waived its right to collect the said amount in case the outcome of the dispute resolution would be a favorable settlement for SCPC. The provision will be reversed and an income would be recognized in the "Other income" account upon collection of the said receivable.

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28. Financial Risk Management Objectives and Policies

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

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

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

The sensitivity analyses have been prepared on the following basis:

- Price risk – movement in one-year historical coal prices
- Interest rate risk – market interest rate on unsecured bank loans
- Foreign currency risk – yearly movement in the foreign exchange rates

The assumption used in calculating the sensitivity analyses of the relevant income statement item is the effect of the assumed changes in respective market risks. This is based on the financial assets and financial liabilities held at December 31, 2010 and 2009.

Price risk
Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The price that the Parent Company can charge for its coal is directly and indirectly related to the price of coal in the world coal market. In addition, as the Parent Company is not subject to domestic competition in the Philippines, the pricing of all of its coal sales is linked to the price of imported coal. World thermal coal prices are affected by numerous factors outside the Parent Company's control, including the demand from customers which is influenced by their overall performance and demand for electricity. Prices are also affected by changes in the world supply of coal and may be affected by the price of alternative fuel supplies, availability of shipping vessels as well as shipping costs. As the coal price is reset on a periodic basis under coal supply agreements, this may increase its exposure to short-term coal price volatility.

There can be no assurance that world coal prices will be sustained or that domestic and international competitors will not seek to replace the Parent Company in its relationship with its key customers by offering higher quality, better prices or larger guaranteed supply volumes, any of which would have a materially adverse effect on the Parent Company's profits.

To mitigate this risk, the Parent Company continues to improve the quality of its coal and diversify its market from power industry , cement industry, other local industries and export market. This will allow flexibility in the distribution of coal to its target customers in such manner that minimum target average price of its coal sales across all its customers will still be achieved (i.e. domestic vs local). Also, .in order to mitigate any negative impact resulting from price changes, it is the Parent Company's policy to set minimum contracted volume for customers with long term supply contracts for each given period (within the duration of the contract) and pricing is negotiated on a monthly basis to even out the impact of any fluctuation in coal prices, thus, protecting its target margin. The excess volumes are allocated to spot sales which may command different price than those contracted already since the latter shall follow pricing formula per contract. Nevertheless, on certain cases temporary adjustments on coal prices with reference to customers following a certain pricing formula are requested in order to recover at least the cost of coal if the resulting price is abnormally low vis-à-vis cost of production (i.e. abnormal rise in cost of fuel, forex).

Below are the details of the Parent Company's coal sales to the domestic market (excluding those to the power-generating companies) and to the export market:

	2010	2009
Domestic market	**29.24%**	24.91%
Export market	**57.36**	50.66

as a percentage of total coal sales volume

The following table shows the effect on income before income tax should the change in the prices of coal occur based on the inventory of the Parent Company as of December 31, 2010 and 2009 with all other variables held constant. The change in coal prices is based on 1-year historical price movements.

Based on ending coal inventory	**Effect on income before income tax**	
Change in coal price	**2010**	2009
Increase by 10%	**₱114,971,049**	₱198,624,209
Decrease by 10%	**(114,971,049)**	(198,624,209)

Based on coal sales volume	**Effect on income before income tax**	
Change in coal price	**2010**	2009
Increase by 10%	**₱1,674,330,035**	₱ 1,160,544,622
Decrease by 10%	**(1,674,330,035)**	(1,160,544,622)

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.

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	Interest	**Within 1 year**	**1-2 years**	**2-3 years**	**3-4 years**	**More than 4 years**	**Carrying Value**
				(In Thousands)			
Cash equivalents	**2.00% to 4.50%**	**₱1,216,638**	**₱–**	**₱–**	**₱–**	**₱–**	**₱1,216,638**
Local bank loans at floating rate							
$16.0 million loan (USD)	**1.59-2.88% payable in arrears, to be repriced every 90 days**	**₱–**	**₱701,440**	**₱–**	**₱–**	**₱–**	**₱701,440**
$14.58 million loan (USD)	**1.95% p.a. payable semi-annually in arrears, to be repriced every 6 months**	**–**	**639,057**	**–**	**–**	**–**	**639,057**
$10.08 million loan (USD)	**1.90 p.a. for 92 days, to be repriced every 30 to 180 days**	**–**	**442,081**	**–**	**–**	**–**	**442,081**
$5.48 million loan (USD)	**1.82% p.a., to be repriced every 3 months**	**–**	**240,239**	**–**	**–**	**–**	**240,239**
Deferred purchase payment	**4% p.a. over the rate 180 days**	**–**	**774,743**	**–**	**–**	**–**	**774,743**
Mortgage payable at floating rate	**PDST-F benchmark yield for 3-month treasury securities +1.75%**	**1,129,585**	**1,508,877**	**1,514,248**	**1,521,153**	**3,821,294**	**9,495,157**
		₱1,129,585	**₱4,306,437**	**₱1,514,248**	**₱1,521,153**	**₱3,821,294**	**₱12,292,717**

2009

	Interest	Within 1 year	1-2 years	2-3 years	3-4 years	More than 4 years	Carrying Value
				(In Thousands)			
Cash equivalents	5.25% to 6.5%	₱369,720	₱–	₱–	₱–	₱–	₱369,720
Notes payable	5.5-6.75% fixed p.a.	₱793,191	₱–	₱–	₱–	₱–	₱793,191
Long-term debts							
PSALM	11% fixed rate	1,681,081	1,315,020	1,315,020	1,315,020	3,945,060	9,571,201
Foreign bank loans at floating rate							
$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

Notes To Consolidated Financial Statements

The following table demonstrates the sensitivity of the Group's profit before tax to a reasonably possible change in interest rates on December 31, 2010 and 2009, with all variables held constant, through the impact on floating rate borrowings.

	Effect on Profit Before Tax			
Basis points (in hundred thousands)	**2010**		2009	
+100	**(₱122,934)**	**(US$638)**	(₱6,076)	(US$131.52)
-100	**122,934**	**638**	6,076	131.52

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.

There was no effect on the equity other than those affecting the profit before tax.

Liquidity risk

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

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

- It has available lines of credit that it can access to answer anticipated shortfall in sales and collection of receivables resulting from timing differences in programmed inflows and outflows.
- It has very diverse funding sources.
- It has internal control processes and contingency plans for managing liquidity risk. Cash flow reports and forecasts are reviewed on a weekly basis in order to quickly address liquidity concerns. Outstanding trade receivables are closely monitored to avoid past due collectibles.

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

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

2010

	Less than 6 months	6-12months	1-2 years	2-3 years	More than 3 years	Total
Assets						
Cash and cash equivalents	**₱3,804,596,734**	**₱–**	**₱–**	**₱–**	**₱–**	**₱3,804,596,734**
Receivables						
Trade						
Electricity sales	**1,598,431,667**	–	–	–	–	**1,598,431,667**
Local coal sales	**749,328,994**	–	–	–	–	**749,328,994**
Export coal sales	**582,130,762**	–	–	–	–	**582,130,762**
Due from related parties	**120,628,995**	–	–	–	–	**120,628,995**
Others	**132,779,774**	–	–	–	–	**132,779,774**
Security deposits	**304,400,611**	–	–	–	–	**304,400,611**
Environmental guarantee fund	–	–	–	–	**1,500,000**	**1,500,000**
	₱7,292,297,537	**₱–**	**₱–**	**₱–**	**₱1,500,000**	**₱7,293,797,537**
Liabilities						
Trade and other payables						
Trade	**₱3,681,704,251**	**₱–**	**₱–**	**₱–**	**₱–**	**₱3,681,704,251**
Payable to DOE and local government units	**1,013,039,943**	–	–	–	–	**1,013,039,943**
Accrued expenses and other payables	**183,017,680**	–	–	–	–	**183,017,680**
Due to related parties	**200,090,262**	–	–	–	–	**200,090,262**
Short-term loans	**449,845,179**	–	–	–	–	**449,845,179**
Long-term debt at floating rate						
$16.00 million loan (USD) with interest payable in arrears, to be repriced every 90 days	–	–	**714,934,072**	–	–	**714,934,072**
$14.58 million loan(USD) with interest payable semi-annually in arrears, to be repriced every six (6) months	–	–	**651,305,249**	–	–	**651,305,249**
$10.08 million loan (USD) with interest payable in arrears, to be repriced every 30 to 180 days	–	–	**490,537,511**	–	–	**490,537,511**
$5.48 million loan (USD) with interest payable in arrears, to be repriced every three (3) months	–	–	**244,279,517**	–	–	**244,279,517**
$17.62 million deferred purchase payment at 4% interest p.a. over the rate 180 days	–	–	**775,376,956**	–	–	**775,376,956**
₱9.60 billion mortgage payable at PDST-F benchmark yield for 3-month treasury securities +1.75%	**493,510,409**	**889,111,096**	**1,752,277,703**	**1,709,598,558**	**5,653,301,175**	**10,497,798,941**
	₱6,021,207,724	**₱889,111,096**	**₱4,628,711,008**	**₱1,709,598,558**	**₱5,653,301,175**	**₱18,901,929,561**
	₱1,271,089,813	**(₱889,111,096)**	**(₱4,628,711,008)**	**(₱1,709,598,558)**	**(₱5,651,801,175)**	**(₱11,608,132,024)**

Notes To Consolidated Financial Statements

2009

	Less 6 months	6-12 months	1-2 years	2-3 years	More than 3 years	Total
Assets						
Cash and cash equivalents	₱473,963,567	₱–	₱–	₱–	₱–	₱473,963,567
Receivables						
Trade						
Electricity sales	489,245,876	–	–	–	–	489,245,876
Local coal sales	323,756,839	–	–	–	–	323,756,839
Export coal sales	414,815,233	–	–	–	–	414,815,233
Due from related parties	9,067,242	–	–	–	–	9,067,242
Others	17,209,930	–	–	–	–	17,209,930
Security deposits	–	–	291,613,096	–	–	291,613,096
Environmental guarantee fund	–	–	–	–	1,500,000	1,500,000
	₱1,728,058,687	₱–	₱291,613,296	₱–	₱1,500,000	₱2,021,171,783
Liabilities						
Trade and other payables						
Trade	₱1,683,028,961	₱–	₱–	₱–	₱–	₱1,683,028,961
Payable to DOE and local government units	216,516,873	–	–	–	–	216,516,873
Accrued expenses and other payables	277,564,477	–	–	–	–	277,564,477
Due to related parties	609,143,593	–	–	–	–	609,143,593
Notes payable	793,191,385	–	–	–	–	793,191,385
Long-term debt						
Fixed Rate						
$361,481,091 payable to PSALM, 11% compounded semi-annually	–	2,219,990,177	2,160,460,368	2,015,658,130	6,586,856,371	12,982,965,046
Various letters of credit 8-11% interest rate	53,894,054	–	–	–	–	53,894,054
Floating Rate						
$15.14 million loan (USD) 6 months USD Libor plus 1.5% per annum	61,971,207	–	–	–	–	61,971,207
$6.64 million loan(USD) 3 months SIBOR plus 1.95% per annum	73,610,394	–	–	–	–	73,610,394
$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		–	512,312,715	–	–	512,312,715
	₱3,768,920,944	₱2,219,990,177	₱2,672,773,083	₱2,015,658,130	₱6,586,856,371	₱17,264,198,705
	(₱2,040,862,257)	(₱2,219,990,177)	(₱2,381,159,787)	(₱2,015,658,130)	(₱6,585,356,371)	(₱15,243,026,922)

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 23.44% and 89.44% of debts as of December 31, 2010 and 2009, respectively, were denominated in US$.

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

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

	December 31, 2010		December 31, 2009	
	U.S. Dollar	**Peso Equivalent**	U.S. Dollar	Peso Equivalent
Assets				
Cash and cash equivalents	**$47,358,433**	**₱2,076,193,708**	$6,388,441	₱295,145,974
Trade receivables	**12,857,285**	**563,663,362**	8,919,899	412,099,334
Liabilities				
Trade payables	**(10,304,844)**	**(451,764,348)**	(2,094,555)	(96,768,441)
Long-term debt (including current portion)	**(68,142,585)**	**(2,987,370,926)**	(213,400,753)	(9,859,114,789)
Net foreign currency denominated (liabilities)	**($18,231,711)**	**(₱799,278,204)**	($200,186,968)	(₱9,248,637,922)

The spot exchange rates used in 2010 and 2009 were ₱43.84 to US$1 and ₱46.20 to US$1, respectively.

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

	Increase (decrease) in profit before tax	
Reasonably possible change in the Philippine peso-US dollar exchange rate	**2010**	2009
₱2	**(₱36,463,422)**	(₱400,373,936)
(₱2)	**36,463,422**	400,373,936

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

The Group recognized ₱199.49 million and ₱47.70 million net foreign exchange gain for the years ended December 31, 2010 and 2009, 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, thus, there is no requirement for collateral. 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.

Notes To Consolidated Financial Statements

The credit risk is concentrated to the following markets:

	2010	2009
Trade		
Electricity sales	**52.19%**	38.56%
Local sales	**24.47**	26.59
Export sales	**19.01**	32.70
Other receivables	**4.33**	2.15
Total	**100.00%**	100.00%

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

	Gross Maximum Exposure	
	2010	2009
Cash and cash equivalents	**₱3,804,596,734**	₱473,963,567
Receivables		
Trade		
Electricity sales	**1,598,431,667**	489,245,876
Local coal sales	**749,328,994**	323,756,839
Export coal sales	**582,130,762**	414,815,233
Due from related parties	**120,628,995**	9,067,242
Others	**132,779,773**	17,209,930
Security deposits	**304,400,611**	291,613,096
Environmental guarantee fund	**1,500,000**	1,500,000
Total credit risk exposure	**₱7,293,797,536**	₱2,021,171,783

As of December 31, 2010 and 2009, the credit quality per class of financial assets is as follows:

2010

	Neither Past Due nor Impaired		Substandard	Past due or Individually	
	Grade A	**Grade B**	**Grade**	**Impaired**	**Total**
Cash and cash equivalents	**₱3,813,283,517**	**₱–**	**₱–**	**₱–**	**₱3,813,283,517**
Trade					
Electricity sales	**1,598,182,785**	**–**	**–**	**53,772,684**	**1,651,955,469**
Local coal sales	**296,162,508**	**347,712,843**	**–**	**113,345,986**	**757,221,337**
Export coal sales	**582,130,762**	**–**	**–**	**–**	**582,130,762**
Due from related parties	**120,628,995**	**–**	**–**	**–**	**120,628,995**
Others	**–**	**117,130,838**	**–**	**26,011,912**	**143,142,750**
Security deposits	**304,400,611**	**–**	**–**	**–**	**304,400,611**
Environmental guarantee fund	**1,500,000**	**–**	**–**	**–**	**1,500,000**
Total	**₱6,716,289,178**	**₱464,843,681**	**₱–**	**₱193,130,582**	**₱7,374,263,441**

2009

	Neither Past Due nor Impaired		Substandard	Past due or Individually	
	Grade A	Grade B	Grade	Impaired	Total
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	27,352,040
Security deposits	291,613,096	–	–	–	291,613,096
Environmental guarantee fund	1,500,000	–	–	–	1,500,000
Total	₱1,733,030,734	₱148,200,102	₱–	₱171,609,872	₱2,052,840,708

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. These financial assets are classified as Grade A due to the counterparties' low probability of insolvency. Due from related parties are considered Grade A due to the Group's positive collection experience. Security deposits are classified as Grade A since these are to be refunded by the lessor at the end of lease term as stipulated in the lease contract. Environmental guarantee fund is assessed as Grade A since this is deposited in a reputable bank, which has a low probability of insolvency.

Included under Grade A are accounts considered to be of high value and are covered with coal supply and power supply contracts. 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.

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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. Substandard grade accounts are accounts which have probability of impairment based on historical trend. These accounts show propensity to default in payment despite regular follow-up actions and extended payment terms.

In the Group's assessment, there are no financial assets that will fall under the category "Substandard grade" due to the following reasons:
- Electricity and local coal sales - transactions are entered into with reputable and creditworthy companies
- Export coal sales - covered by irrevocable letter of credit at sight from a reputable bank acceptable to the Parent Company

As of December 31, 2010 and 2009, the aging analysis of the Group's receivables presented per class is as follows:

2010

	Past Due but not Impaired		Impaired Financial	
	<45 days	45-135 days	Assets	Total
Receivables				
Trade - local coal sales	**₱91,602,243**	**₱ 13,851,400**	**₱7,892,343**	**₱113,345,986**
Trade - export coal sales	–	–		
Electricity Sales	**248,882**	–	**53,523,802**	**53,772,684**
Others	**6,606,976**	**9,041,960**	**10,362,976**	**26,011,912**
Total	**₱98,458,101**	**₱22,893,360**	**₱71,779,121**	**₱193,130,582**

2009

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

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 Parent Company 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, 2010 and 2009:

	2010	2009
Total paid-up capital	**₱7,031,777,411**	₱1,873,671,271
Deposit on future subscription	–	5,402,125,985
Retained earnings – unappropriated	**4,608,125,771**	2,436,667,514
Retained earnings – appropriated	**700,000,000**	700,000,000
Cost of shares held in treasury	–	(528,891,260)
	₱12,339,903,182	₱9,883,573,510

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, 2010 and 2009.

	2010		2009	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets				
Loans and receivables:				
Cash and cash equivalents	**₱3,813,283,517**	**₱3,813,283,517**	₱481,920,935	₱481,920,935
Trade				
Electricity sales	**1,598,431,667**	**1,598,431,667**	489,245,876	489,245,576
Local sales	**749,328,994**	**749,328,994**	323,756,839	323,756,839
Export sales	**582,130,762**	**582,130,762**	414,815,233	414,815,233
Due from related parties	**120,628,995**	**120,628,995**	9,067,242	9,067,242
Others	**132,779,773**	**132,779,773**	17,209,930	17,209,930
Security deposits	**304,400,611**	**304,400,611**	291,613,096	296,438,346
Environmental guarantee fund	**1,500,000**	**1,500,000**	1,500,000	1,500,000
Total	**₱7,302,484,319**	**₱7,300,984,319**	₱2,029,129,151	₱2,033,954,101
Financial Liabilities				
Other financial liabilities:				
Notes payable	**₱449,845,179**	**₱449,845,179**	₱844,641,556	₱844,641,556
Long-term debt	**12,292,718,274**	**12,292,718,274**	10,178,824,025	10,858,249,006
Trade and other payables				
Trade payables	**3,681,704,251**	**3,681,704,251**	1,683,028,961	1,683,028,961
Payable to DOE and local government units	**1,013,039,943**	**1,013,039,943**	216,516,873	216,516,873
Accrued expenses and other payables	**202,980,678**	**202,980,678**	296,136,784	296,136,784
Due to related parties	**200,090,262**	**200,090,262**	609,143,593	609,143,593
Total	**₱17,840,378,587**	**₱17,840,378,587**	₱13,828,291,792	₱14,507,716,773

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.

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.

Notes To Consolidated Financial Statements

Long-term debt
Floating rate loans
The carrying values approximated the fair value because of recent and regular repricing (quarterly) based on market conditions.

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

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

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

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

30. Lease Commitments

Equipment Rental Agreement
On various dates in 2010 and 2009, 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, 2010 and 2009, the future minimum lease payments under this operating lease are as follows:

	2010	2009
Within one year	**₱67,535,097**	₱648,771,220
After one year but not more than 2 years	–	14,364,414
	₱67,535,097	₱663,135,634

Land lease agreement
As discussed in Note 33, the Group entered into a Land Lease Agreement with PSALM for the lease of land in 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. On July 12, 2010, PSALM issued an Option Existence Notice and granted the Company the "Option" to purchase parcels of land (Optioned Assets) that form part of the leased premises. The Company availed of the "Option" and paid the Option Price amounting to US$0.32 million or a peso equivalent of ₱14.72 million exercisable within one year from the issuance of the Option Existence Notice.

31. Note to Consolidated Statements of Cash Flow

Supplemental disclosure of noncash investing and financing activities follows:

	2010	2009	2008
Transfers from inventory	**₱529,047,775**	₱9,065,739	₱–
Acquisition of conventional and other mining equipment on account (Notes 12 and 13)	**300,379,924**	474,363,625	639,570,147
Acquisition of business (Note 33)	–	9,571,202,577	–
Assignment of APA and LLA (Note 33)	–	54,343,156	–

As of December 31, 2010 and 2009, total cost incurred in the rehabilitation of the power plant and other facilities under construction amounted to ₱529.05 million and ₱9.07 million, respectively. These were initially recognized as part of the inventories and were capitalized in the "Construction in progress" account upon issuance (see Note 8).

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; and
- 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.

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

Notes To Consolidated Financial Statements

2010

	In thousands			
			Adjustments	
	Mining	**Power**	**and Eliminations**	**Consolidated**
Revenue				
Sales to external customers	**₱14,242,225**	**₱8,655,624**	**₱–**	**₱22,897,849**
Inter-segment sales	**2,511,722**	**2,330**	**(2,514,052)**	**–**
Equity in net earnings (loss) of an associate	**89,175**	**(12,349)**	**–**	**76,826**
	16,843,122	**8,645,605**	**(2,514,052)**	**22,974,675**
Cost of sale	**(10,973,993)**	**(4,975,609)**	**45,891**	**(15,903,711)**
Depreciation	**(1,672,139)**	**(794,128)**	**2,466,267**	**–**
Gross profit	**4,196,990**	**2,875,868**	**(1,894)**	**7,070,964**
Operating expenses	**(1,808,002)**	**(982,091)**	**–**	**(2,790,093)**
Operating profit	**2,388,988**	**1,893,777**	**(1,894)**	**4,280,871**
Other income				**65,427**
Finance income				**57,668**
Foreign exchange gain				**199,488**
Finance costs				**(685,906)**
Provision for income tax				**35,162**
Net income	**₱2,529,656**	**₱1,424,948**	**(₱1,894)**	**₱3,952,710**
Operating assets	**₱18,779,152**	**₱20,111,124**	**(₱8,703,952)**	**₱30,186,324**
Investments and advances	**–**	**310,230**	**–**	**310,230**
	₱18,779,152	**₱20,421,354**	**(₱8,703,952)**	**₱30,496,554**
Operating liabilities	**₱4,688,519**	**₱1,425,708**	**(₱728,226)**	**₱5,386,001**
Long-term debt				**12,742,563**
Deferred tax liability				**28,087**
	₱4,688,519	**₱1,425,708**	**(₱728,226)**	**₱18,156,651**
Other disclosures				
Capital expenditure	**₱3,291,597**	**₱16,152**	**₱–**	**₱3,307,749**
Investment in associates	–	–	–	–

2009

	In thousands			
			Adjustments	
	Mining	Power	and Eliminations	Consolidated
Revenue				
Sales to external customers	₱11,500,193	₱443,493	₱–	₱4,943,686
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)	(945,990)	(9,341,674)
Depreciation	(1,037,073)	(75,339)	1,112,412	–
Gross profit	2,565,551	6,685	(9,573)	2,562,663
Operating expenses	(723,238)	(25,656)	(688)	(749,582)
Operating profit	1,842,313	(18,971)	(10,261)	1,813,081
Other income				107,935
Finance income				52,753
Foreign exchange gain				47,703
Finance costs				(112,193)
Provision for income tax				(63,294)
Net income	₱1,773,983	₱82,263	(₱10,261)	₱1,845,985
Operating assets	₱13,615,842	₱17,776,293	(₱7,373,293)	₱24,018,842
Investments and advances	87,912	156,521	–	244,433
	₱13,703,754	₱17,932,814	(₱7,373,293)	₱24,263,275
Operating liabilities	₱2,577,891	₱905,620	(₱199,332)	₱3,284,179
Long-term debt				11,023,466
Deferred tax liability				72,057
	₱2,577,891	₱905,620	(₱199,332)	₱14,379,702
Other disclosures				
Capital expenditure	₱2,853,553	₱16,211,800	₱–	₱19,065,353
Investment in associates	87,912	156,521	–	244,433

Notes To Consolidated Financial Statements

2008

	In thousands			
	Mining	Power	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)
	8,499,947	(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	1,549,918	(11,670)	6,443	1,544,691
Operating expenses	(458,926)	–	–	(458,926)
Operating profit	1,090,992	(11,670)	6,443	1,085,765
Other income				54,443
Finance income				77,235
Finance costs				(101,240)
Foreign exchange gain (loss)				(82,781)
Provision for income tax				(237,023)
Net income	₱808,069	(₱11,670)	₱–	₱796,399
Operating assets	₱5,888,226	₱–	₱–	₱5,888,226
Investments and advances	109,902	113,330	–	223,232
	₱5,998,128	₱113,330	₱–	₱6,111,458
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

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 ₱28.09 million, ₱72.06 million and ₱14.13 million in 2010, 2009 and 2008, 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, 2010, 2009 and 2008 reviewed by the management follows:

	2010	2009	2008
Revenue			
Local coal sale	**₱5,315,636,853**	₱7,252,952,002	₱6,648,580,099
Export coal sale	**8,926,587,776**	4,247,240,809	1,841,465,281
	₱14,242,224,629	₱11,500,192,811	₱8,490,045,380

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 ₱2.37 billion and ₱4.47 billion for the year ended December 31, 2010 and for the nine months period ended December 31, 2009, respectively.

33. Business Combination

On July 8, 2009, 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.

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 acquisition of 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, 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, 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:

a. ₱6.62 billion in peso equivalent using the exchange rate of ₱47.12 representing 40% down payment for US$351.0 million purchase price of the Power Plant; and
b. ₱0.49 billion in peso equivalent using the exchange rate of ₱47.20 representing 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.

Notes To Consolidated Financial Statements

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.

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, ₱47.13, versus the ₱47.20 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 Balance 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 Balance.

The fair value of the identifiable assets and liabilities as at the date of acquisition were (amounts in thousands):

	Fair value recognized on acquisition (Restated)	Provisional values previously recognized
Property, plant and equipment (Note 8)	**₱16,211,370**	₱15,697,026
Materials and supplies (Note 6)	**618,340**	720,931
Coal (Note 6)	**273,936**	273,936
Prepaid rent (Note 10)	**150,568**	150,568
Fuel and diesel (Note 6)	**86,705**	86,705
Net assets acquired	**17,340,919**	16,929,166
Negative goodwill arising on acquisition	**(15,667)**	–
Net assets acquired	**₱17,325,252**	₱16,929,166

Total consideration transferred relating to the acquisition follows (amounts in thousands):

Cash consideration	**₱7,107,375**	₱7,104,375
Payable to PSALM (Note 12)	**9,770,448**	9,770,448
Transaction cost (Note 20)	**450,429**	54,343
Total cost	**₱17,325,252**	₱16,929,166

The net assets recognized in the consolidated financial statements as of December 31, 2009 were based on a provisional assessment of fair value as the Group had sought an independent valuation for the property, plant and equipment. The results of this valuation had not been received at the date the 2009 consolidated financial statements were approved for issue by management.

The valuation of the property, plant and equipment and materials and supplies was completed in April 2010 and showed that the fair value at the date of acquisition was ₱16.21 billion, an increase of ₱514.34 million compared with the provisional value.

The 2009 comparative information has been restated to reflect this adjustment. There was recognition of negative goodwill arising on the acquisition of ₱15.67 million. The decreased depreciation charge on the buildings from the acquisition date to December 31, 2009 was 20.76 million.

34. Other Matters

a. Electric Power Industry Reform Act (EPIRA)

In June 2001, the Congress of the Philippines approved and passed into law R.A. 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. Prior to June 2002, concerned government agencies were to establish a WESM, ensure the unbundling of transmission and distribution wheeling rates and remove existing cross subsidies provided by industrial and commercial users to residential customers. The WESM was officially launched on June 23, 2006 and began commercial operations for Luzon. The 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 Transmission Company (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 TRANSCO, 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 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 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.

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.

Notes To Consolidated Financial Statements

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.

b. Clean Air Act

On November 25, 2000, the Implementing Rules and Regulations (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 IRR. 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.

c. Contract for the Fly Ash of the Power Plant

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

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

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

35. Approval of Financial Statements

The consolidated financial statements of Semirara Mining Corporation and Subsidiary as at December 31, 2010 and 2009 and for each of the three years in the period ended December 31, 2010 were endorsed for approval by the Audit Committee on February 21, 2011 and were authorized for issue by the Executive Committee of the BOD on March 7, 2011.

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