FINANCIAL STATEMENTS

December 31, 2008 and 2007 and
Years Ended December 31, 2008, 2007 and 2006

and

Independent Auditors' Report

SEMIRARA MINING CORPORATION
Annual Report 2008

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of SEMIRARA MINING CORPORATION is responsible for all information and representations contained in the financial statements for the years ended December 31, 2008 and 2007. The financial statements have been prepared in conformity with the Philippine Financial Report Standards and reflected amounts are based on the best estimates and informed judgment of the management with an appropriate consideration to materiality.

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

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

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

Singed under oath by the following:

DAVID M. CONSUNJI
Chairman of the Board

VICTOR A. CONSUNJI
President

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

AUDIT COMMITTEE REPORT

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 on reporting, legal and regulatory matters.

The Committee is comprised of three (3) Members of the Board, two of whom are Independent Directors. The Committee Members meet the experience, financial literacy and other qualification requirements of the Securities and Exchange Commission.

In 2008, the Audit Committee had eight (8) meetings, all of which were in-person meetings that included separate sessions with the executive management, independent auditor SyCip Gorres Velayo & Co. (SGV & Co.), internal audit manager, corporate counsel and the Compliance Committee. Meetings were presided by the Committee Chairman and fully attended by all Members.

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

- The Committee recommended to the Board the re-appointment of SGV & Co. as independent auditor for 2008;
- The Committee reviewed and pre-approved SGV & Co.'s audit work scope, fee and terms of engagement for such service;
- The Committee reviewed the quarterly unaudited and annual audited financial statements of Semirara Mining Corporation as of and for the year ended December 31, 2008 with Management and SGV & Co., including the processes affecting financial reporting. 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 reporting process, and that SGV & Co. is responsible for expressing an opinion on the conformity of the Company's audited financial statements with Philippine Financial Reporting Standards;
- The Committee reviewed and discussed audit, internal control and compliance issues with SGV & Co., the Compliance Committee and Internal Audit ensuring that Management responded appropriately in a timely manner. The oversight is done in the context that Management has the responsibility and accountability for addressing internal control gaps and compliance with legal and regulatory matters;
- The Committee reviewed and discussed the internal audit scope and performance ensuring Management provides support to the internal audit function. It monitored the audit initiatives undertaken by Internal Audit. It also noted the nature and level of internal audit work directed toward achieving conformance to ISO standards by the Company's coal mining activity;
- The Committee reviewed and discussed SGV & Co.'s performance, experience, independence and qualifications, and considered the opinion of Management. As a consequence of the Committee's satisfaction with the objectivity, effectiveness and results of SGV's handling of the external audit process, it recommended to the Board the re-appointment of SGV & Co. as the Company's independent auditor for 2009;
- The Committee reviewed and discussed with Management significant risk issues and exposures, ensuring that the Company's enterprisewide risk management system is adequately supported by risk mitigation measures and initiatives. It met and discussed with the functional unit heads concerned and Internal Audit the results of the self-assessment risk review by management of the inherent risks of various business functions in terms of impact, likelihood and control environment, including recommended corrective action if any. The review is done in the context that Management has the primary responsibility for the risk management process.

Based on the reviews and discussions referred to above, and subject to limitations on the Committee's roles and responsibilities referred to above, the Audit Committee recommended to the Board of Directors the inclusion of the Company's audited financial statements as of and for the year ended December 31, 2008 in the Company's Annual Report to the Stockholders and for filing with the Securities and Exchange Commission.

Victor C. Macalincag, Committee Chairman

Federico E. Puno, Member

Victor A. Consunji, Member

March 4, 2009

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Semirara Mining Corporation

We have audited the accompanying financial statements of Semirara Mining Corporation, which comprise the balance sheets as at December 31, 2008 and 2007, and the statements of income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2008, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

INDEPENDENT AUDITORS' REPORT

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Semirara Mining Corporation as of December 31, 2008 and 2007, and its financial performance and its cash flows for each of the three years in the period ended December 31, 2008 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-1
Tax Identification No. 102-082-365
PTR No. 1566411, January 5, 2009, Makati City

March 12, 2009

INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY SCHEDULES

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

We have audited in accordance with Philippine Standards on Auditing, the financial statements of Semirara Mining Corporation included in this Form 17-A and have issued our report thereon dated March 12, 2009. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the Index to Financial Statements and Supplementary Schedules are the responsibility of the Company's management. These schedules are presented for purposes of complying with the Securities Regulation Code Rule 68.1 and SEC Memorandum Circular No. 11, series of 2008 and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state in all material respects, the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Jessie D. Cabaluna

Jessie D. Cabaluna
Partner
CPA Certificate No. 36317
SEC Accreditation No. 0069-AR-1
Tax Identification No. 102-082-365
PTR No. 1566411, January 5, 2009, Makati City

March 12, 2009

BALANCE SHEETS

	December 31	
	2008	2007
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 4 and 28)	₱1,012,409,162	₱1,650,806,337
Receivables - net (Notes 3, 5, 12, 17, and 28)	1,876,671,658	1,251,641,294
Inventories - net (Notes 3 and 6)	1,383,220,166	1,452,670,221
Other current assets (Note 7)	226,110,605	205,987,360
Total Current Assets	4,498,411,591	4,561,105,212
Noncurrent Assets		
Property, plant and equipment - net (Notes 3, 8 and 13)	1,106,064,258	1,904,372,202
Investments and advances (Note 9)	223,231,759	80,871,207
Other noncurrent assets - net (Notes 3 and 10)	283,749,310	12,123,245
Total Noncurrent Assets	1,613,045,327	1,997,366,654
	₱6,111,456,918	₱6,558,471,866
LIABILITIES AND EQUITY		
Current Liabilities		
Trade and other payables (Notes 11, 17 and 28)	₱1,188,163,322	₱682,426,784
Current portion of long-term debt (Notes 8, 13 and 28)	389,233,320	730,171,195
Income tax payable	58,060,461	40,166,543
Customers' deposits (Note 12)	1,206,858	8,867,023
Total Current Liabilities	1,636,663,961	1,461,631,545
Noncurrent Liabilities		
Long-term debt - net of current portion (Notes 8, 13 and 28)	137,065,242	397,581,035
Deferred tax liabilities - net (Notes 3 and 24)	14,125,154	67,603,209
Provision for decommissioning and site rehabilitation (Notes 3 and 14)	13,204,317	12,205,198
Pension liability (Notes 3 and 18)	9,498,998	4,659,224
Total Noncurrent Liabilities	173,893,711	482,048,666
Total Liabilities	1,810,557,672	1,943,680,211
Equity		
Capital stock (Note 15)	296,875,000	296,875,000
Additional paid-in capital	1,576,796,271	1,576,796,271
Retained earnings (Note 16)	2,956,119,235	3,270,011,644
	4,829,790,506	5,143,682,915
Cost of shares held in treasury (Notes 15 and 16)	(528,891,260)	(528,891,260)
Total Equity	4,300,899,246	4,614,791,655
	₱6,111,456,918	₱6,558,471,866

See accompanying Notes to Financial Statements.

STATEMENTS OF INCOME

	Years Ended December 31		
	2008	2007	2006
SALES AND SERVICES (Note 12)	₱8,490,045,380	₱6,466,700,620	₱4,687,694,870
COST OF SALES AND SERVICES (Notes 17 and 19)	6,943,585,844	5,193,989,609	3,713,161,109
GROSS PROFIT	1,546,459,536	1,272,711,011	974,533,761
OPERATING EXPENSES (Notes 17, 18, 20 and 26)	(458,925,813)	(324,382,373)	(133,125,734)
FINANCE COSTS (Notes 17 and 21)	(101,240,084)	(140,251,461)	(213,038,456)
FINANCE REVENUE (Notes 17 and 22)	77,234,983	40,301,348	54,526,586
FOREIGN EXCHANGE GAINS (LOSSES) - net (Note 28)	(82,781,003)	102,964,270	119,964,722
EQUITY IN NET LOSSES OF ASSOCIATES (Note 9)	(1,768,241)	–	–
OTHER INCOME (Note 23)	54,442,772	9,423,888	107,607,836
	(513,037,386)	(311,944,328)	(64,065,046)
INCOME BEFORE INCOME TAX	1,033,422,150	960,766,683	910,468,715
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 24)			
Current	290,501,414	333,672,822	297,259,609
Deferred	(53,478,055)	(6,191,133)	11,966,248
	237,023,359	327,481,689	309,225,857
NET INCOME	₱796,398,791	₱633,284,994	₱601,242,858
Basic / Diluted Earnings Per Share (Note 25)	₱2.87	₱2.28	₱2.16

See accompanying Notes to Financial Statements.

STATEMENTS OF CHANGES IN EQUITY

	Paid-up Capital							
	Common Stock (Note 15)	Additional Paid-in Capital	Total Paid-up Capital	Unappropriated Retained Earnings (Note 16)	Appropriated Retained Earnings (Note 16)	Total	Cost of Shares Held in Treasury (Notes 15 and 16)	Grand Total
For the Year Ended December 31, 2008								
At January 1, 2008	₱296,875,000	₱1,576,796,271	₱1,873,671,271	₱2,270,011,644	₱1,000,000,000	₱3,270,011,644	(₱528,891,260)	₱4,614,791,655
Net income for the year	–	–	–	796,398,791	–	796,398,791	–	796,398,791
Additional appropriations	–	–	–	(500,000,000)	500,000,000	–	–	–
Reversal of appropriations				800,000,000	(800,000,000)	–	–	–
Dividends	–	–	–	(1,110,291,200)	–	(1,110,291,200)	–	(1,110,291,200)
At December 31, 2008	₱296,875,000	₱1,576,796,271	₱1,873,671,271	₱2,256,119,235	₱700,000,000	₱2,956,119,235	(₱528,891,260)	₱4,300,899,246
For the Year Ended December 31, 2007								
At January 1, 2007	₱296,875,000	₱1,576,796,271	₱1,873,671,271	₱1,969,814,010	₱1,000,000,000	₱2,969,814,010	(₱528,891,260)	₱4,314,594,021
Net income for the year	–	–	–	633,284,994	–	633,284,994	–	633,284,994
Dividends	–	–	–	(333,087,360)	–	(333,087,360)	–	(333,087,360)
At December 31, 2007	₱296,875,000	₱1,576,796,271	₱1,873,671,271	₱2,270,011,644	₱1,000,000,000	₱3,270,011,644	(₱528,891,260)	₱4,614,791,655
For the Year Ended December 31, 2006								
At January 1, 2006	₱296,875,000	₱1,576,796,271	₱1,873,671,271	₱1,701,658,512	₱1,000,000,000	₱2,701,658,512	(₱383,633,460)	₱4,191,696,323
Net income for the year	–	–	–	601,242,858	–	601,242,858	–	601,242,858
Dividends	–	–	–	(333,087,360)	–	(333,087,360)	–	(333,087,360)
Acquisition of treasury shares	–	–	–	–	–	–	(145,257,800)	(145,257,800)
At December 31, 2006	₱296,875,000	₱1,576,796,271	₱1,873,671,271	₱1,969,814,010	₱1,000,000,000	₱2,969,814,010	(₱528,891,260)	₱4,314,594,021

See accompanying Notes to Financial Statements.

STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2008	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	₱1,033,422,150	₱960,766,683	₱910,468,715
Adjustments for:			
Depreciation and amortization (Notes 8, 10 and 19)	1,154,232,140	1,651,861,176	1,169,414,380
Finance costs (Note 21)	101,240,084	140,251,461	213,038,456
Finance revenue (Note 22)	(77,234,983)	(40,301,348)	(54,526,586)
Net unrealized foreign exchange loss (gains)	71,788,836	(41,555,757)	(85,679,563)
Gain on sale of equipment (Notes 8 and 23)	(44,713,500)	(5,173,911)	(20,066,758)
Pension expense (Note 18)	4,839,774	8,861,276	10,337,567
Equity in net losses of associates (Note 9)	1,768,241	–	–
Donation of school campus (Note 31)	–	18,164,254	–
Reversal of provision for real property tax (Notes 20 and 24)	–	–	(71,530,122)
Operating income before changes in working capital	2,245,342,742	2,692,873,834	2,071,456,089
Changes in operating assets and liabilities:			
Decrease (increase) in:			
Receivables	(625,030,364)	(543,458,037)	608,232,450
Inventories	(7,161,948)	263,719,356	(307,493,089)
Other current assets	(21,002,963)	(27,266,378)	(245,539,448)
Increase (decrease) in:			
Trade and other payables	433,379,001	203,050,742	(8,784,115)
Customers' deposits	(7,660,165)	(10,028,962)	(31,156,482)
Cash generated from operations	2,017,866,303	2,578,890,555	2,086,715,405
Interest received	78,114,701	34,820,344	51,271,791
Interest paid	(88,561,504)	(116,098,795)	(199,858,017)
Income taxes paid	(272,607,496)	(324,074,439)	(448,669,703)
Net cash provided by operating activities	1,734,812,004	2,173,537,665	1,489,459,476
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to property, plant and equipment (Notes 8 and 31)	(1,643,851,630)	(214,754,775)	(633,924,797)
Proceeds from sale of equipment	1,471,780,374	5,380,800	20,115,000
Decrease (increase) in other noncurrent assets (Note 10)	(273,475,426)	5,684,483	39,195,667
Additions to investments	(144,128,793)	(80,871,207)	–
Proceeds from (placement of) short-term cash investment (Note 17)	–	300,000,000	(300,000,000)
Contribution to the pension plan	–	(56,871,980)	–
Net cash used in investing activities	(589,675,475)	(41,432,679)	(874,614,130)
CASH FLOWS FROM FINANCING ACTIVITIES			
Availments of debt	1,454,216,653	446,857,219	320,460,732
Payment of dividends (Note 16)	(1,110,291,200)	(333,087,360)	(333,087,360)
Repayment of debt	(2,127,459,157)	(1,105,507,731)	(1,278,163,549)
Payment on acquisition of shares held in treasury (Note 15)	–	–	(145,257,800)
Net cash used in financing activities	(1,783,533,704)	(991,737,872)	(1,436,047,977)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(638,397,175)	1,140,367,114	(821,202,631)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	1,650,806,337	510,439,223	1,331,641,854
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	₱1,012,409,162	₱1,650,806,337	₱510,439,223

See accompanying Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS

1. Corporate Information

Semirara Mining Corporation (the Company) was incorporated and domiciled in the Philippines. The Company's registered office address is at 2281 Don Chino Roces Avenue, Makati City. The Company is a majority-owned (56.46%) subsidiary of DMCI Holdings, Inc. (DMCI-HI), a company incorporated in the Philippines.

The 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 therefrom within the purview of Presidential Decree No. 972, *"The Coal Development Act of 1976"*, and any amendments thereto.

As discussed in Note 26, the Company has a Coal Operating Contract with the Department of Energy (DOE) in 1977 (amended in 1981) for the exploration, development, mining and utilization of coal over Semirara Island, Antique pursuant to PD No. 972.

The financial statements of Semirara Mining Corporation as of December 31, 2008 and 2007 and for each of the three years ended December 31, 2008 were authorized for issue by the Audit Committee on March 4, 2009 and by the Board of Directors (BOD) on March 12, 2009.

2. Summary of Significant Accounting policies

Basis of Preparation

The financial statements have been prepared using the historical cost basis. The Company's functional and presentation currency is the Philippine Peso.

Statement of Compliance

The financial statements of the Company have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

Changes in Accounting Policies

The following are the new and amended PFRS and Philippine Interpretations standards that became effective January 1, 2008 but were not applicable to the Company.

Amendment to Philippine Accounting Standards effective 2008

- *Amendments to PAS 39, Financial Instruments: Recognition and Measurement* and *PFRS 7, Financial Instruments: Disclosures - Reclassification of Financial Assets*

Interpretations effective 2008

- Philippine Interpretation IFRIC 11, *PFRS 2 - Group and Treasury Share Transactions*
- Philippine Interpretation IFRIC 12, *Service Concession Arrangements*
- Philippine Interpretation IFRIC 14, *PAS 19, The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting policies (cont'd)

<u>Future Changes in Accounting Policies</u>

The Company has not applied the following PFRS and Philippine Interpretations which are not yet effective as of December 31, 2008:

Standards and interpretations effective for calendar year 2009

- PFRS 8, *Operating Segments*

  This amendment was issued as part of the convergence project with the US Financial Accounting Standards Board. This new standard replaces PAS 14, *Segment Reporting,* and adopts a management approach to segment reporting as required in the US Standard SFAS 131 - *Disclosures about Segments of an Enterprise and Related Information*. The information reported would be that which management uses internally for evaluating the performance of operating segments and allocating resources to those segments. This information may be different from that reported in the balance sheet and statement of income and entities will need to provide explanations and reconciliations of the differences. The adoption of this standard will not result in additional disclosures as the Company has no reportable segments.

- Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes*

  This interpretation requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted, and therefore, part of the fair value of the consideration received is allocated to the award credits and deferred over the period that the award credits are fulfilled. This interpretation will not have an impact on the Company's financial statements as no such schemes currently exist.

- IFRIC 15, *Agreement for the Construction of Real Estate*

  The interpretation, which is to be applied retrospectively, clarifies when or how revenue and related expenses from a sale of a real estate unit should be recognized if an agreement between a developer and a buyer is reached before a construction of the real estate is completed. Furthermore, the interpretation provides guidance on how to determine whether an agreement is within the scope of PAS 11or PAS 18. IFRIC 15 will not have an impact on the financial statements because the Company does not conduct such activity.

- IFRIC 16, *Hedges of a Net Investment in a Foreign Operation*

  The interpretation, which is to be applied prospectively, provides guidance on the accounting for a hedge of a net investment. As such, it provides guidance on identifying the foreign currency risks that qualify for hedge accounting in the hedge of a net investment, where within the group the hedging instruments can be held in the hedge of a net investment and how an entity should determine the amount of foreign currency gain or loss, relating to both the net investment and the hedging instrument, to be recycled on disposal of the net investment. This interpretation will not have an impact on the Company's financial statements as the Company does not have an investment in a foreign operation.

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting policies (cont'd)

Improvements to existing standards effective for calendar year 2009

- PFRS 2, *Share-based Payment (Revised)*

  The amendment to PFRS 2 clarifies the definition of a vesting condition and prescribes the treatment for an award that is effectively cancelled.

- PFRS 3, *Business Combination (Revised)*

  The standard introduces changes in the accounting for business combinations that will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs, and future reported results.

- PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations*

  The amendment provides that when a subsidiary is held for sale, all of its assets and liabilities shall be classified as held for sale under PFRS 5, even when the entity will retain a non-controlling interest in the subsidiary after the sale.

- PAS 1, *Presentation of Financial Statements (Revised)*

  The revised standard requires that the statement of changes in stockholders' equity includes only transactions with owners and all non-owner changes are presented in equity as a single line with details included in a separate statement.

  In addition, the amendment to PAS 1 provides for the introduction of a new statement of comprehensive income that combines all items of income and expense recognized in the statement of income together with 'other comprehensive income'. The revisions specify what is included in other comprehensive income, such as actuarial gains and losses on defined benefit pension plans and changes in the asset revaluation reserve. Entities can choose to present all items in one statement, or to present two linked statements, a separate statement of income and a statement of comprehensive income. The Company is still evaluating whether it will have one or two statements.

- PAS 16, *Property, Plant and Equipment*

  The standard replaces the term 'net selling price' with 'fair value less costs to sell', to be consistent with PFRS 5 and PAS 36, *Impairment of Assets*. Also, items of property, plant and equipment held for rental that are routinely sold in the ordinary course of business after rental, are transferred to inventory when rental ceases and they are held for sale. Proceeds on sale are subsequently shown as revenue.

  PAS7, *Statement of Cash Flows*, is also revised to require cash payments to manufacture or acquire such items to be classified as cash flows from operating activities. The cash receipts from rents and subsequent sales of such assets are also shown as cash flows from operating activities.

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting policies (cont'd)

- PAS 19, *Employee Benefits*

  The standard revises the definition of 'past service costs' to include reductions in benefits related to past services ('negative past service costs') and to exclude reductions in benefits related to future services that arise from plan amendments. Amendments to plans that result in a reduction in benefits related to future services are accounted for as a curtailment. It also revises the definition of 'return on plan assets' to exclude plan administration costs if they have already been included in the actuarial assumptions used to measure the defined benefit obligation. The standard revises the definition of 'short-term' and 'other long term' employee benefits to focus on the point in time at which the liability is due to be settled.

  Further, the standard deletes the reference to the recognition of contingent liabilities to ensure consistency with PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*. PAS 37 does not allow for the recognition of contingent liabilities.

- PAS 20, *Accounting for Government Grants Assistance*

  The standard provides that loans granted with no or low interest rates will not be exempt from the requirement to impute interest. Interest is to be imputed on loans granted with below-market interest rates, thereby being consistent with PAS 39. The difference between the amount received and the discounted amount is accounted for as a government grant.

- PAS 23, *Borrowing Costs*

  The standard has been revised to require capitalization of borrowing costs when such costs relate to a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. In accordance with the transitional requirements of the standard, the Company will adopt this as a prospective change. Accordingly, borrowing costs will be capitalized on qualifying assets with a commencement date after January 1, 2009.

- PAS 27, *Consolidated and Separate Financial Statements*

  The standard provides that when a parent entity accounts for a subsidiary at fair value in accordance with PAS 39 in its separate financial statements, this treatment continues when the subsidiary is subsequently classified as held for sale.

- PAS 28, *Investments in Associates*

  The standard provides that if an associate is accounted for at fair value in accordance with PAS 39 (as it is exempt from the requirements of PAS 28), only the requirement of PAS 28 to disclose the nature and extent of any significant restrictions on the ability of the associate to transfer funds to the entity in the form of cash or repayment of loans applies.

  Further, an investment in an associate is a single asset for the purpose of conducting the impairment test – including any reversal of impairment. Therefore, any impairment is not separately allocated to the goodwill included in the investment balance. Any impairment is reversed if the recoverable amount of the associate increases.

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting policies (cont'd)

- PAS 31, *Interests in Joint Ventures*

  The standard provides that if a joint venture is accounted for at fair value, in accordance with IAS 39 (as it is exempt from the requirements of PAS 31), only the requirements of PAS 31 to disclose the commitments of the venturer and the joint venture, as well as summary financial information about the assets, liabilities, income and expenses will apply.

- PAS 32, *Financial Instruments: Presentation and PAS 1 Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation*

  The revisions provide a limited scope exception for puttable instruments to be classified as equity if they fulfill a number of specified features. The amendments to the standards will have no impact on the financial position or performance of the Company as it has not issued such instruments.

- PAS 36, *Impairment of Assets*

  The amendment addresses the disclosure of estimates used to determine recoverable amount. When discounted cash flows are used to estimate 'fair value less costs to sell', the same disclosure is required as when discounted cash flows are used to estimate 'value in use'.

- PAS 38, *Intangible Assets*

  The amendment addresses the issue on advertising and promotional activities. Expenditure on advertising and promotional activities is recognized as an expense when the entity either has the right to access the goods or has received the services. Advertising and promotional activities now specifically include mail order catalogues.

  The amendment also addresses the issue on the unit of production method of amortization. The standard has been amended to delete references to there being rarely, if ever, persuasive evidence to support an amortization method for finite life intangible assets that results in a lower amount of accumulated amortization than under the straight-line method, thereby effectively allowing the use of the unit of production method.

- PAS 39, *Financial Instruments: Recognition and Measurement - Eligible Hedged Items*

  The amendment addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as hedged item. The Company has concluded that the amendment will have no impact on the financial position or performance of the Company as it has not entered into such hedges.

- PAS 40, *Investment Property*

  The amendment revises the scope (and the scope of IAS 16) such that property that is being constructed or developed for future use as an investment property is classified as investment property. If an entity is unable to determine the fair value of an investment property under construction, but expects to be able to determine its fair value on completion, the investment under construction will be measured at cost until such time as fair value can be determined or construction is complete.

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting policies (cont'd)

- PAS 41, *Agriculture*

  The standard was amended to remove the reference to the use of a pre-tax discount rate to determine fair value, thereby allowing use of either a pre-tax or post-tax discount rate depending on the valuation methodology used. It also removes the prohibition to take into account cash flows resulting from any additional transformations when estimating fair value. Rather, cash flows that are expected to be generated in the 'most relevant market' are taken into account.

<u>Cash and Cash Equivalents</u>

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

<u>Financial Instruments</u>

Date of recognition

The Company recognizes a financial asset or a financial liability on the balance sheet 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 Company classifies its financial assets in the following categories: securities at FVPL, held-to-maturity (HTM) investments, available-for-sale (AFS) financial assets, and loans and receivables. The Company classifies its financial liabilities as financial liabilities at FVPL and other liabilities. The classification depends on the purpose for which the investments were acquired and whether these are quoted in an active market. Management determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

As of December 31, 2008 and 2007, the Company'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 balance sheet 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.

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting policies (cont'd)

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 profit

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 Company recognizes the difference between the transaction price and fair value (a Day 1 profit) in the statement of 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 statement of income when the inputs become observable or when the instrument is derecognized. For each transaction, the Company determines the appropriate method of recognizing the 'Day 1' profit amount.

Loans and Receivables

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

After initial measurement, the loans and receivables are subsequently measured at amortized cost using the effective interest rate method, less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate and transaction costs. The amortization is included in "Interest income" in the statement of income. The Company's loans and receivables consist mainly of receivable from customers and related parties.

Other financial liabilities

Other financial liabilities include interest bearing loans and borrowings. 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.

Gains and losses are recognized under the "Other income" and "Other expense" accounts in the statement of income when the liabilities are derecognized or impaired, as well as through the amortization process under the "Interest expense" account.

2. Summary of Significant Accounting policies (cont'd)

Impairment of Financial Assets

The Company assesses at each balance sheet 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.

Loans and receivables

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

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Company 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 statement of 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 profit or loss, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

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

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting policies (cont'd)

Derecognition of Financial Assets and Liabilities

Financial Assets

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

- the rights to receive cash flows from the asset have expired;
- the Company 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 Company has transferred its rights to receive cash flows from the asset and either: (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Company has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risk and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Company'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 Company could be required to repay.

Financial Liabilities

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

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

Offsetting Financial Instruments

Financial assets and financial liabilities are only offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognized amounts and the Company intends to either settle on a net basis, or to realize the asset and settle the liability simultaneously.

Inventories

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

2. Summary of Significant Accounting policies (cont'd)

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.

Property, Plant and Equipment

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 comprises its purchase price, 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.

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 other direct costs. Equipment in transit includes the acquisition cost of equipment and other direct costs.

Depreciation and amortization of assets commences 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 or over the remaining life of the mine, whichever is shorter, as follows:

Mining equipment	2 to 13 years
Power plant and buildings	10 to 17 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.

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

Mine Exploration and Development Costs

Cost incurred for exploration and development of mining properties are deferred as incurred. These deferred costs are charged to expense when the results of the exploration activities are determined to be negative or not commercially viable. When exploration results are positive or commercially viable, these deferred costs are capitalized under "Mining equipment".

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting policies (cont'd)

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

Investments in Associates

An associate is an entity in which the Company 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 the investee companies are carried in the balance sheet at cost plus post-acquisition changes in the Company's share in the net assets of the investee companies, less any impairment in value. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortized. The statement of income reflects the share of the results of the operations of the investee companies. Profit and losses resulting from transactions between the Company and the investee companies are eliminated to the extent of the interest in the investee companies.

The Company discontinues applying the equity method when their investments in investee companies are reduced to zero. Accordingly, additional losses are not recognized unless the Company has guaranteed certain obligations of the investee companies. When the investee companies subsequently report net income, the Company 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 Company are identical and the investee companies' accounting policies conform to those used by the Company for like transactions and events in similar circumstances.

Intangible Assets

Intangible assets acquired separately are capitalized at cost and these are shown as part of the other noncurrent assets account in the balance sheet. The useful lives of intangible assets with finite lives are assessed at the individual asset level. An intangible asset with finite life is amortized over its useful life. Periods and method of amortization for intangible assets with finite useful lives are reviewed annually or earlier where an indicator of impairment exists.

Software Cost

Costs incurred to acquire computer software (not an integral part of its related hardware) and bring it to its intended use are capitalized as part of intangible assets. These costs are amortized over their estimated useful lives ranging from 3 to 5 years. Costs directly associated with the development of identifiable computer software that generate expected future benefits to the Company are recognized as intangible assets. All other costs of developing and maintaining computer software programs are recognized as expense as incurred.

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

Revenue Recognition

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

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting policies (cont'd)

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.

Rendering of services

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

Interest income

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

Impairment of Non-financial Assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when an annual impairment testing for an asset is required, the group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash generating unit's fair value less cost to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are 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.

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 that 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, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement of income unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase.

Borrowing Costs

Borrowing costs are generally expensed as incurred. Interest on borrowed funds used to finance the construction of building to the extent incurred during the period of construction is capitalized as part of the cost of building. The capitalization of these borrowing costs as part of the cost of building: (a) commences when the expenditures and borrowing costs are being incurred during the construction and related activities necessary to prepare the building for its intended use are in progress; and (b) ceases when substantially all the activities necessary to prepare the property for its intended use are complete. If the carrying amount of the asset exceeds its recoverable amount, an impairment loss is recorded. Capitalized borrowing cost is based on the applicable weighted average borrowing rate.

Interest expense on loans is recognized using the effective interest method over the term of the loans.

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting policies (cont'd)

Pension Expense

The Company has a noncontributory defined benefit retirement plan.

The retirement cost of the Company 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 balance sheet 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 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 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 Company and are charged against current operations.

The defined benefit asset or liability comprises the present value of the defined benefit obligation less past service costs not yet recognized, if any, and less the fair value of the plan assets out of which the obligations are to be settled directly. 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.

Income Tax

Current Tax

Current income 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 balance sheet date.

Deferred Income tax

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

2. Summary of Significant Accounting policies (cont'd)

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

- where the deferred income 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, carry forward of unused tax credits from excess minimum corporate income tax (MCIT) and unused net operating loss carry over (NOLCO), to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused NOLCO can be utilized 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 balance sheet 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 balance sheet 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 balance sheet date.

<u>Provisions</u>

Provisions are recognized only when the Company 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 balance sheet date and adjusted to reflect the current best estimate.

2. Summary of Significant Accounting policies (cont'd)

Provision for decommissioning and site rehabilitation

The Company 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 recognised, the present value of the estimated cost is capitalised 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 recognised in the income statement 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 statement of income.

Leases

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating lease. Fixed lease payments for noncancellable lease are recognized on a straight line basis over the lease term.

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and 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 the 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 renewal or extension period for scenario (b).

Operating lease payments are recognized as an expense in the statement of income on a straight basis over the lease term.

Foreign Currency Translation

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

Earnings Per Share (EPS)

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

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting policies (cont'd)

Contingencies

Contingent liabilities are not recognized in the 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 financial statements but disclosed when an inflow of economic benefits is probable.

Events After Balance Sheet Date

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

3. Significant Accounting Estimates, Judgments and Assumptions

Judgment

In the process of applying the Company'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 financial statements:

Determining functional currency

The Company, 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 Company primarily operates.

Operating lease commitments - the Company as lessee

The Company has entered into various contract of lease for space and mining and transportation equipment. The Company 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 Company considered, among others, the significance of the lease term as compared with the estimated useful life of the related asset.

Contingencies

The Company 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 Company's defense in these matters and is based upon an analysis of potential results. The Company 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).

Estimates and Assumptions

The key assumptions concerning the future and other sources of estimation uncertainty at the balance sheet 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.

NOTES TO FINANCIAL STATEMENTS

3. Significant Accounting Estimates, Judgments and Assumptions (cont'd)

Revenue recognition

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

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

Estimating allowance for doubtful accounts

The Company maintains an allowance for doubtful accounts 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 Company 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 doubtful accounts for any period would differ if the Company made different judgments or utilized different estimates. An increase in the allowance for doubtful accounts would increase the recorded operating expenses and decrease the current assets.

There were no additional provisions made in 2008 and 2007. Receivables, net of allowance for doubtful accounts of ₱26.90 million as of December 31, 2008 and 2007, amounted to ₱1,876.67 million and ₱1,251.64 million as of December 31, 2008 and 2007, respectively (see Note 5).

Estimating stock pile inventory quantities

The Company estimates the stock pile inventory by conducting a topographic survey which is performed by in house surveyors. The survey is conducted on a monthly basis with a reconfirmatory survey at year end. The process of estimation involves a predefined formula which considers an acceptable margin of error of plus or minus 3%. Thus, an increase or decrease in the estimation threshold for any period would differ if the Company utilized different estimates and this would either increase or decrease the profit for the year. Coal pile inventory as of December 31, 2008 and 2007 amounted to ₱896.73 million and ₱570.81 million, respectively (see Note 6).

Estimating allowance for write down in spare parts and supplies

The Company estimates its allowance for inventory write down in spare parts and supplies based on periodic specific identification. The Company 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 Company made different judgments or utilized different estimates. An increase in the allowance for inventory write down would increase the Company's recorded operating expenses and decrease its current assets.

3. Significant Accounting Estimates, Judgments and Assumptions (cont'd)

There were no additional provisions made in 2008 and 2007. Spare parts and supplies of the Company, net of allowance for inventory write down of ₱53.29 million as of December 31, 2008 and 2007, amounted to ₱486.49 million and ₱881.86 million as of December 31, 2008 and 2007, respectively (see Note 6).

Estimating decommissioning and site rehabilitation costs

The Company is legally required to fulfill certain obligations under its DENR issued ECC when it abandons depleted mine pits. Significant estimates and assumptions are made in determining the provision for mine rehabilitation as there are numerous factors that will affect the ultimate liability payable. 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 recorded production cost and increase noncurrent liabilities. The provision at balance 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 currently applied in the calculation of the net present value of provision is 6.55%. Rehabilitation expenditure is largely expected to take place up to 2012.

As of December 31, 2008 and 2007, the provision for decommissioning and site rehabilitation has a carrying value of ₱13.20 million and ₱12.21 million, respectively (see Note 14).

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

The Company 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 Company 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 values of the property, plant and equipment and software cost as of December 31, 2008 amounted to ₱1,106.06 million and ₱5.37 million, respectively. The net book values of the property, plant and equipment and software cost as of December 31, 2007 amounted to ₱1,904.37 million and ₱1.73 million, respectively (see Notes 8 and 10).

Estimating impairment for nonfinancial assets

The Company assesses impairment on assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the Company 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.

NOTES TO FINANCIAL STATEMENTS

3. Significant Accounting Estimates, Judgments and Assumptions (cont'd)

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

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

The net book values of the property, plant and equipment and software cost as of December 31, 2008 amounted to ₱1,106.06 million and ₱5.37 million, respectively. The net book values of the property, plant and equipment and software cost as of December 31, 2007 amounted to ₱1,904.37 million and ₱1.73 million, respectively (see Notes 8 and 10).

Deferred income tax assets

The Company reviews the carrying amounts of deferred income tax assets at each balance sheet date. Deferred tax assets, including those arising from unutilized tax losses require management to assess the likelihood that the Company 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 Company to realize the net deferred tax assets recorded at the balance sheet date could be impacted.

As of December 31, 2008 and 2007, the Company has deferred tax assets amounting to ₱58.79 million and ₱57.29 million, respectively (see Note 24).

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 Company'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 Company 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, 2008 and 2007, the balances of the Company's net pension liability and unrecognized actuarial gain follow:

	2008	2007
Pension liability (Note 18)	₱9,498,998	₱4,659,224
Unrecognized actuarial gains (Note 18)	27,311,741	32,273,171

3. Significant Accounting Estimates, Judgments and Assumptions (cont'd)

The Company also estimates other employee benefits obligation and expense, including cost of paid leaves based on historical leave availments of employees, subject to the Company'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, 2008 and 2007 amounted to ₱1.40 million and ₱3.34 million, respectively (see Note 11).

4. Cash and Cash Equivalents

This account consists of:

	2008	2007
Cash in banks and on hand	₱26,579,217	₱237,357,196
Cash equivalents	985,829,945	1,413,449,141
	₱1,012,409,162	₱1,650,806,337

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 Company, and earn interest at the respective short-term placement rates.

5. Receivables

This account consists of:

	2008	2007
Trade (Notes 12, 28 and 29)		
Local sales	₱1,766,074,476	₱772,642,764
Export sales	7,344,063	294,296,228
Due from related parties (Notes 17, 28 and 29)	6,607,698	57,920,745
Advances to suppliers	97,621,328	135,825,128
Others (Notes 28 and 29)	25,926,943	17,859,279
	1,903,574,508	1,278,544,144
Less allowance for doubtful accounts	26,902,850	26,902,850
	₱1,876,671,658	₱1,251,641,294

Trade receivables are noninterest-bearing and are generally have 30-45 days' credit terms.

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

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

NOTES TO FINANCIAL STATEMENTS

5. Receivables (cont'd)

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

Details in the Company's allowance for doubtful accounts follow:

	Trade Receivable - Local Sales	Advances to Suppliers	Other Receivables	Total
At January 1, 2008	₱12,056,502	₱–	₱14,846,348	₱26,902,850
Reclassification	4,962,147	1,042,061	(6,004,208)	–
At December 31	₱17,018,649	₱1,042,061	₱8,842,140	₱26,902,850
Individual impairment	₱12,639,582	₱–	₱–	₱12,639,582
Collective impairment	4,379,067	1,042,061	8,842,140	14,263,268

6. Inventories

This account consists of:

	2008	2007
Coal inventory at cost	₱896,734,233	₱570,806,557
Spare parts and supplies at NRV	486,485,933	881,863,664
	₱1,383,220,166	₱1,452,670,221

The cost of spare parts and supplies amounted to ₱539.77 million and ₱935.15 million as of December 31, 2008 and 2007, respectively.

The cost of coal inventories recognized as expense in the statements of income amounted to ₱6,943.59 million, ₱5,193.99 million and ₱3,713.16 million for the years ended December 31, 2008, 2007 and 2006, respectively.

7. Other Current Assets

This account consists of:

	2008	2007
5% input value added tax (VAT) withheld	₱190,500,982	₱190,500,982
Prepaid rent	19,967,673	–
Prepaid insurance and others	14,141,950	13,986,378
Environmental guarantee fund	1,500,000	1,500,000
	₱226,110,605	₱205,987,360

NOTES TO FINANCIAL STATEMENTS

7. Other Current Assets (cont'd)

As a result of the enactment of Republic Act No. 9337 effective November 1, 2005 (see Note 24), NPC started withholding the required 5% input VAT on the VAT exempt coal sales of the Company. On March 7, 2007, the Company obtained a ruling from the Bureau of Internal Revenue which stated that the sale of coal remains exempt from VAT.

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 Company's environmental unit (EU).

8. Property, Plant and Equipment

The rollforward analysis of this account follows:

	2008				
	Mining Equipment	Power Plant and Buildings	Roads and Bridges	Equipment in Transit and Construction in Progress	Total
At Cost					
At January 1	₱8,930,642,580	₱1,425,618,757	₱279,062,950	₱207,937,003	₱10,843,261,290
Additions	1,551,863,209	23,916,279	–	128,750,218	1,704,529,706
Transfers	127,081,500	–	–	(127,081,500)	–
Disposals	(1,682,228,003)	–	–	–	(1,682,228,003)
At December 31	8,927,359,286	1,449,535,036	279,062,950	209,605,721	10,865,562,993
Accumulated Depreciation and Amortization					
At January 1	7,770,695,515	904,267,126	263,926,447	–	8,938,889,088
Depreciation and amortization (Note 19)	943,370,908	117,521,747	14,878,121	–	1,075,770,776
Disposals	(255,161,129)	–	–	–	(255,161,129)
At December 31	8,458,905,294	1,021,788,873	278,804,568	–	9,759,498,735
Net Book Value	₱468,453,992	₱427,746,163	₱258,382	₱209,605,721	₱1,106,064,258

8. **Property, Plant and Equipment (cont'd)**

	2007				
	Mining Equipment	Power Plant and Buildings	Roads and Bridges	Construction in Progress	Total
At Cost					
At January 1	₱8,619,912,796	₱1,258,757,324	₱278,332,951	₱396,180,421	₱10,553,183,492
Additions	185,027,159	4,345,770	–	163,923,264	353,296,193
Transfers	168,424,567	183,012,116	729,999	(352,166,682)	–
Disposals	(42,721,942)	(20,496,453)	–	–	(63,218,395)
At December 31	8,930,642,580	1,425,618,757	279,062,950	207,937,003	10,843,261,290
Accumulated Depreciation and Amortization					
At January 1	6,367,951,032	841,600,758	248,369,393	–	7,457,921,183
Depreciation and amortization (Note 19)	1,445,259,536	64,998,567	15,557,054	–	1,525,815,157
Disposals	(42,515,053)	(2,332,199)	–	–	(44,847,252)
At December 31	7,770,695,515	904,267,126	263,926,447	–	8,938,889,088
Net Book Value	₱1,159,947,065	₱521,351,631	₱15,136,503	₱207,937,003	₱1,904,372,202

Certain mining equipment have been pledged as collaterals to secure the indebtedness of the Company to a local bank (Note 13).

9. **Investments and Advances**

This account consists of:

	Ownership	2008	2007
Cost			
DMCI Mining Corporation (DMCI-MC)	50%	₱100,000,000	₱43,294,790
DMCI Power Corporation (DMCI-PC)	50%	125,000,000	37,576,417
		225,000,000	80,871,207
Equity in net losses		(1,768,241)	–
		₱223,231,759	₱80,871,207

On February 18, 2008, the Company entered into a 50%-50% venture with DMCI-HI, for the following investments:

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

NOTES TO FINANCIAL STATEMENTS

9. Investments and Advances (cont'd)

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

	2008	2007
Assets		
DMCI-PC	₱218,236,826	₱37,520,230
DMCI-MC	346,504,106	145,884,555
	564,740,932	183,404,785
Liabilities		
DMCI-PC	₱3,581,265	₱1,948,046
DMCI-MC	126,435,142	82,324,527
	130,016,407	84,272,573
Net assets		
DMCI-PC	214,655,561	35,572,184
DMCI-MC	220,068,964	63,560,028
	₱434,724,525	₱99,132,212

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 Company to exclusively undertake mining operations in the municipalities of Sta. Cruz and Candelaria, Province of Zambales. The profits of the mining operations will be split equally between the parties. The annual work program shall aim to accomplish five (5) million tons of ore in five (5) years. This agreement shall terminate upon the Company's extraction of five (5) million tons of laterite from the property, or the expiration of five (5) years from the date of the execution of this agreement, whichever comes first.

10. Other Noncurrent Assets

This account consists of:

	2008	2007
Security deposits (Note 28)	₱251,086,303	₱–
Prepaid rent - noncurrent	11,130,778	–
Software cost - net	5,374,111	1,730,482
Others	16,158,118	10,392,763
	₱283,749,310	₱12,123,245

Security deposits represent payments to and held by the lessor as security for the faithful and timely performance by the Company of all its obligations and compliance with all provisions of the equipment rental agreement (see Note 30). These deposits shall be returned by the lessor to the Company 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.

10. Other Noncurrent Assets (cont'd)

As of December 31, 2008, security deposits with a nominal amount of ₱282.37 million were recorded at amortized cost amounting to ₱248.09 million. Interest income recognized from these deposits amounted to ₱2.99 million for the year ended December 31, 2008. The unamortized discount amounted to ₱31.29 million.

The movements in the software cost account follow:

	2008	2007
At Cost		
At January 1	₱4,609,747	₱4,259,950
Additions	5,492,990	349,797
At December 31	10,102,737	4,609,747
Accumulated Amortization		
At January 1	2,879,265	853,031
Amortization	1,849,361	2,026,234
At December 31	4,728,626	2,879,265
Net Book Value	₱5,374,111	₱1,730,482

11. Trade and Other Payables

This account consists of:

	2008	2007
Trade	₱966,531,831	₱518,162,244
Accrued expenses and other payables	123,135,493	97,785,184
Payable to DOE and local government units (Note 26)	52,734,125	53,558,600
Due to related parties (Note 17)	45,761,873	12,920,756
	₱1,188,163,322	₱682,426,784

Trade payables include liabilities amounting to ₱203.63 million (US$4.28 million) and ₱68.91 million (US$1.67 million) as of December 31, 2008 and 2007, 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 a 30 to 60-day credit terms.

NOTES TO FINANCIAL STATEMENTS

11. Trade and Other Payables (cont'd)

Details of the accrued expenses and other payables account follow:

	2008	2007
Interest	₱64,012,231	₱52,332,770
Withholding taxes	23,020,711	22,050,957
Coal handling costs	18,339,067	4,503,466
Salaries and wages	3,134,031	2,806,773
Professional fees	1,261,786	1,261,786
Others	13,367,667	14,829,432
	₱123,135,493	₱97,785,184

12. Customers' Deposits

The deposits are due to the following customers:

	2008	2007
Good Found Cement Corporation	₱1,206,858	₱–
Steag State Power Inc. (SSP)	–	6,691,962
National Power Corporation (NPC)	–	1,441,678
Phil. Phosphate Fertilizer Corp (PPFC)	–	733,383
	₱1,206,858	₱8,867,023

These deposits represent advances from customers that are applied against future coal deliveries which occur within one year from the dates the deposits are made. The deliveries are in accordance with the existing coal supply agreements (CSA) and/or memorandum of agreements (MOA) with these customers.

NPC

The Company has a CSA with NPC, a major customer, dated May 19, 1995, whereby the Company agreed to sell and NPC agreed to buy from the Company the local coal requirements of its 2 x 300 megawatt coal-fired power plants at Calaca, Batangas (Calaca I & II).

The CSA is effective for 15 years up to May 2010. Subsequent amendments have been made to the CSA in 2001 and 2002 and the most relevant among those amendments included the following:

a) NPC to be entitled to an additional 3% discount in the event that its aggregate lifting in any given year exceeds 1,100,000 MT up to 2,400,000 MT of coal. Discount computation shall start on the month its aggregate lifting exceeds 1,100,000 MT of coal;

b) maintenance by the Company, at its own expense, of a minimum coal running inventory of at least 100,000 MT that meets the applicable coal specifications set forth in the second amendment of the CSA and ready in all aspects for loading and delivery to Calaca I and Calaca II;

12. Customers' Deposits (cont'd)

c) limitation in the coal's sulfur content to 1.0% in compliance with the Clean Air Act and reduction in its ash specification to 20% to minimize coal handling problems;

d) inclusion of certain bases of NPC's exercise of its rights to reject and/or stop coal deliveries by the Company to NPC, consequences of coal rejection in terms of title and risk of loss to coal delivered, relief from payment by NPC, and removal of delivered coal from NPC premises; and remedies for the Company in the event NPC exercises such rights;

e) changes in (i) the pricing periods to a 3-month period which shall commence respectively at the beginning of a calendar quarter namely: January 1, April 1, July 1, and October 1; and (ii) the computation of the base price of the Company's coal delivery including the determination of the initial and final base prices, to consider the volatile foreign exchange situation and the price of all NPC imported coal for Calaca plant during the pricing period; and

f) changes in the computation of the adjustment for penalty or bonus from the base price per MT.

In 2003, the supplemental agreement (The Agreement) to the CSA has been finalized. The Agreement provided for, among others, the services to be undertaken by the Company for the coal handling operations at Calaca, Batangas as a result of the extension of coal delivery from C&F Discharge Port to C&F Silo with the cost of ₱66 per MT plus value added tax.

The services to be undertaken by the Company in order to extend its delivery service from discharge port to silos includes coal unloading and handling; repairs and maintenance of coal handling facilities; stevedoring services; support activities and coal yard management; and tree planting, marine life protection program and environmental programs to enhance image of NPC power plants. The Company recognized a loss of ₱11.09 million in 2008 and an income of ₱23.40 million and ₱25.98 million in 2007 and 2006, respectively, from this handling operation.

The Company's receivables from NPC amounted to ₱1,210.71 million and ₱471.65 million as of December 31, 2008 and 2007, respectively.

Solid and SSP

The Company has existing MOAs with Solid and SSP. These MOAs cover coal deliveries aggregating to 20,000 MT in 2007 and 36,000 MT in 2006 with an estimated base price of ₱2,900.00 per MT for SSP and ₱1,800.00 per MT for Solid.

13. Long-term Debt

This account consists of:

	2008	2007
Bank loans	₱515,017,314	₱877,078,302
Acceptances and trust receipts payable	11,281,248	250,673,928
	526,298,562	1,127,752,230
Less current portion of:		
Bank loans	377,952,072	479,497,267
Acceptances and trust receipts payable	11,281,248	250,673,928
	389,233,320	730,171,195
	₱137,065,242	₱397,581,035

13. Long-term Debt (cont'd)

Details of the obligations follow:

Loan Type	Date of Availment	Outstanding Balance 2008	2007	Maturity	Interest Rate	Payment Terms	Covenants/ Collaterals
Local bank loans							
Loan 1	September 30, 2005	₱57.32	₱120.67	October 5, 2009	9% fixed p.a.	Payable in 48 equal monthly installments commencing on November 5, 2005	Secured by collaterals on mining equipment (Note 8)
Other loans	Various in 2008	102.50	258.35	Various in 2008 and 2009	8% fixed p.a.	Various	None
Foreign bank loans							
Loan 1	December 14, 2005	148.53	193.54	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	206.67	304.52	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)
		515.02	877.08				
Various Letters of Credits	Various dates of availments	11.28	250.67	Various maturities in 2008 and 2009	Interest ranging from 8% to 11% p.a.	Payable within 1 year	None
		₱526.30	₱1,127.75				

The other covenants in loan 1 under the foreign bank loans require the Company to seek prior written notice to the lender in respect of any financial indebtedness for loans or credit extended by the Company 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.

NOTES TO FINANCIAL STATEMENTS

14. Provision for Decommissioning and Site Rehabilitation

The rollforward analysis of this account follows:

	2008	2007
At January 1	₱12,205,198	₱11,138,611
Accretion of interest	999,119	1,066,587
At December 31	₱13,204,317	₱12,205,198

15. Capital Stock

The details of the Company's capital stock follow:

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

Cost of Shares Held in Treasury

On July 7, 2005, the BOD approved the buy back of Company 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 buy back 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.

A reconciliation of the movement of the treasury shares follows:

	2008		2007		2006	
	Shares	Amount	Shares	Amount	Shares	Amount
At January 1	19,302,200	(₱528,891,260)	19,302,200	(₱528,891,260)	13,802,700	(₱383,633,460)
Acquisitions	–	–	–	–	5,499,500	(145,257,800)
At December 31	19,302,200	(₱528,891,260)	19,302,200	(₱528,891,260)	19,302,200	(₱528,891,260)

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 26, 2007 and March 6, 2006, the BOD approved and declared cash dividends of ₱1.20 per share or ₱333.09 million to stockholders of record as of April 12, 2007 and March 26, 2006. The said cash dividends were paid on April 30, 2007 and April 20, 2006, respectively.

16. Retained Earnings (cont'd)

Restrictions

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

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 for the years ended December 31, 2008, 2007 and 2006.

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. In the regular course of business, the Company's significant transactions with related parties include the following:

a. In November 2006, the Company placed a short-term cash investment in DMCI-HI for a period of 180 days amounting to ₱300.00 million which bear interest at a rate of 11% per annum. Interest income earned in 2007 and 2006 amounted to ₱8.05 million and ₱3.25 million, respectively. On March 22, 2007, the short-term cash investment was terminated (see Note 22);

b. Continuing Indemnity Agreement dated September 3, 1998 with DMCI-HI and certain related parties whereby the Company, 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 Company'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 Company further agreed to pay a fixed interest rate per annum on all sums or monies paid by DMCI-HI and related parties by reason of or in connection with the said corporate guarantees, letters of credit, credit facilities or REM; real properties of this affiliate were already freed from lien effective at the time when these old equipment loan were fully paid. The loans contracted in 2004 and 2005 were still guaranteed by DMCI-HI. Guarantee fees incurred amounted to ₱5.20 million, ₱8.07 million and ₱12.29 million for the years ended December 31, 2008, 2007 and 2006, respectively. These are included under finance costs in the statements of income (see Note 21);

c. DMC-Construction Equipment Resources, Inc. (DMC-CERI), an affiliate, has transactions with the Company for services rendered relating to the 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 ₱25.25 million, ₱20.12 million and ₱24.48 million for the years ended December 31, 2008, 2007, and 2006, respectively. These are included under Cost of sales - Outside services (see Note 19);

17. Related Party Transactions (cont'd)

d. DMC-CERI also provides to the 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 ₱299.52 million, ₱468.10 million and ₱308.93 million for the years ended December 31, 2008, 2007 and 2006, respectively, and are included under Cost of sales - Shipping, hauling and shiploading costs (see Note 19). The reported expense of the company is net of freight payment by NPC (billing is C&F);

e. DMC Urban Property Developers, Inc. (UPDI), M&S Co., DMC-CERI and D.M. Consunji, Inc. (DMCI) had transactions with the Company representing equipment rental, long-term lease on office space and other transactions, such as transfer of equipment, materials, supplies and labor services rendered to the Company necessary for the coal operations. Equipment rental expense incurred amounted to ₱142.20 million, ₱103.79 million and ₱103.15 million in 2008, 2007 and 2006, respectively. Office rental expense amounted to ₱14.48 million, ₱3.35 million and ₱2.67 million in 2008, 2007 and 2006, respectively. Transfer of materials and supplies amounted to ₱0.59 million, ₱11.21 million and ₱10.84 million for the years ended December 31, 2008, 2007 and 2006, respectively (covering steel structures and construction materials and parts for various projects). These expenses are included under Cost of sales - Production overhead (see Note 19);

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

g. CSA with DMCI-PC was entered in September 4, 2007 whereby the Company agreed to sell and DMCI-PC agreed to purchase coal annually for a period of fifteen (15) years from May 3, 2009 to May 4, 2024.

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

The following table summarizes the total amount of transactions that have been entered into with related parties for the relevant financial year:

	Amounts due from related parties	Amounts due to related parties
2008	₱6,607,698	₱45,761,873
2007	57,920,745	12,920,756

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

	2008	2007	2006
Short-term employee benefits	₱20,013,150	₱17,584,535	₱9,010,375
Post employment benefits	1,942,391	2,138,923	843,467
	₱21,955,541	₱19,723,458	₱9,853,842

There are no agreements between the Company 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 Company's pension plan.

18. Pension Plan

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

The following table summarizes the components of pension expense in the statements of income:

	2008	2007	2006
Current service cost	₱4,536,956	₱4,202,052	₱8,788,614
Interest cost on benefit obligation	2,212,513	4,659,224	2,573,489
Actuarial gain recognized	(1,909,695)	–	(1,024,536)
	₱4,839,774	₱8,861,276	₱10,337,567

The pension liability recognized in the balance sheets follows:

	2008	2007
Present value of defined benefit obligation	₱39,107,208	₱27,760,518
Fair value of plan assets	56,919,951	55,374,465
Excess of fair value of plan assets over present value of defined benefit obligation	(17,812,743)	(27,613,947)
Unrecognized actuarial gain	27,311,741	32,273,171
	₱9,498,998	₱4,659,224

Movements in the present value of defined benefit obligation follow:

	2008	2007
At January 1	₱27,760,518	₱57,379,603
Current service cost	4,536,956	4,202,052
Interest cost on benefit obligation	2,212,513	4,659,224
Benefits paid	–	(1,497,515)
Actuarial loss (gain)	4,597,221	(36,982,846)
At December 31	₱39,107,208	₱27,760,518

Movements in the fair value of plan assets follow:

	2008	2007
Balance at beginning of year	₱55,374,465	₱–
Contributions	–	56,871,980
Benefits paid	–	(1,497,515)
Actuarial gain from plan assets	1,545,486	–
Balance at end of year	₱56,919,951	₱55,374,465

The Company's plan assets consist mainly of cash.

18. Pension Plan (cont'd)

The rollforward of unrecognized actuarial gain (loss) follows:

	2008	2007	2006
At January 1	₱32,273,171	(₱4,709,675)	₱18,937,011
Additional actuarial gain (loss) from plan obligations	(4,597,221)	36,982,846	(22,622,150)
Actuarial gain from plan assets	1,545,486	–	–
Actuarial gain recognized	(1,909,695)	–	(1,024,536)
At December 31	₱27,311,741	₱32,273,171	(₱4,709,675)

Actual return on plan assets amounted to ₱1.55 million for the year ended December 31, 2008. 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 Company for the years ended December 31, 2008, 2007 and 2006 follow:

	2008	2007	2006
Discount rate	9.55%	7.97%	8.12%
Salary increase rate	3.00%	10.00%	6.00%
Expected rate of return on plan assets	6.00%	2.00%	0.00%

The amounts for the current and previous two periods follow:

	2008	2007	2006
Present value of defined benefit obligation	₱39,107,208	₱27,760,518	₱52,669,928
Fair value of plan assets	56,919,951	55,374,465	–
Unfunded obligation	(17,812,743)	(27,613,947)	52,669,928
Experience adjustments on plan liabilities	(12,320,619)	(37,166,703)	14,502,816
Experience adjustments on plan assets	1,545,486	–	–

The Company expects to contribute about ₱4.54 million into the pension fund for the annual period ending December 31, 2009.

NOTES TO FINANCIAL STATEMENTS

19. Cost of Sales and Services

This account consists of:

	2008	2007	2006
Materials and supplies (Note 17)	₱2,289,843,994	₱1,304,615,144	₱670,710,940
Fuel and lubricants	1,870,250,075	1,161,726,775	1,068,281,359
Depreciation and amortization (Notes 8 and 10)	1,154,232,140	1,651,861,176	1,169,414,380
Outside services (Note 17)	688,021,318	345,638,871	268,620,540
Shipping, hauling and shiploading costs (Note 17)	380,577,351	253,282,342	159,130,227
Production overhead	295,817,464	232,361,367	222,425,015
Direct labor	264,843,502	244,503,934	154,578,648
	₱6,943,585,844	₱5,193,989,609	₱3,713,161,109

20. Operating Expenses

This account consists of:

	2008	2007	2006
Government share (Note 26)	₱253,381,663	₱191,290,056	₱138,272,655
Personnel costs (Notes 17 and 18)	87,214,869	67,852,077	23,804,340
Wharfage fees	34,036,568	–	–
Professional fees	15,511,658	15,187,397	7,285,341
Transportation and travel	12,134,020	10,260,915	8,015,437
Entertainment, amusement and recreation	7,628,340	7,018,849	8,678,867
Taxes and licenses	3,568,231	1,017,989	1,752,898
Reversal of provision for real property tax (Note 27)	–	–	(71,530,122)
Office expenses and others	45,450,464	31,755,090	16,846,318
	₱458,925,813	₱324,382,373	₱133,125,734

The provision that was previously recognized for a pending claim amounting to ₱71.53 million was reversed in 2006. The management strongly believes that there will be no material outflow of Company's resources relative to said claim due to claimant's inaction after the Company apprised claimant of the basis of the Company's legal position.

NOTES TO FINANCIAL STATEMENTS

21. Finance Costs

The finance costs are incurred from the following financial liabilities:

	2008	2007	2006
Interest on:			
Bank loans	₱70,134,901	₱124,272,283	₱115,834,669
Acceptances and letters of credits, other short-term borrowings and accretion of interest on ARO	31,105,183	15,274,663	73,229,501
Purchase contracts	–	704,515	23,974,286
	₱101,240,084	₱140,251,461	₱213,038,456

22. Finance Revenue

Finance revenue is derived from following sources:

	2008	2007	2006
Interest on:			
Short term placements and temporary investments (Note 17)	₱69,348,852	₱39,098,278	₱52,847,520
Cash in banks	4,892,729	1,203,070	1,679,066
Accretion on security deposits	2,993,402	–	–
	₱77,234,983	₱40,301,348	₱54,526,586

23. Other Income

This account consists of:

	2008	2007	2006
Gain on sale of equipment	₱44,713,500	₱5,173,911	₱20,066,758
Recoveries from insurance claims	9,729,272	4,249,977	70,205,364
Miscellaneous	–	–	17,335,714
	₱54,442,772	₱9,423,888	₱107,607,836

NOTES TO FINANCIAL STATEMENTS

24. Income Taxes

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

	2008	2007	2006
Statutory income tax rate	35.00%	35.00%	35.00%
Adjustments for:			
Additional deductible expense from adopt-a-school program	(0.25)	(0.38)	(0.04)
Interest income already subjected to final tax at a lower rate - net of nondeductible interest expense	(0.19)	(0.54)	(1.00)
Equity in net losses of associates	0.06	–	–
Tax-exempt income	(11.46)	–	–
Change in tax rate	(0.22)	–	–
Effective income tax rate	22.94%	34.08%	33.96%

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

	2008	2007
Deferred income tax assets on:		
Pension costs	₱15,742,603	₱18,368,825
Allowance for inventory write down	15,986,077	18,650,424
Unamortized discount on security deposits	9,383,914	–
Allowance for doubtful accounts	8,070,855	9,415,997
Accrual of expenses	5,645,154	6,586,014
Provision for decommissioning and site rehabilitation	3,961,295	4,271,819
	58,789,898	57,293,079
Deferred income tax liabilities on:		
Incremental cost of property, plant and Equipment	46,951,572	80,363,926
Net unrealized foreign exchange gains	16,633,945	44,532,362
Unamortized prepaid rent	9,329,535	–
	72,915,052	124,896,288
Net deferred income tax liabilities	(₱14,125,154)	(₱67,603,209)

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

24. Income Taxes (cont'd)

Board of Investments (BOI) Incentives

On September 26, 2008, the Board of Investments ("BOI") issued in favor of the 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 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 MT representing the Company's average sales volume for the past three (3) years prior to the expansion shall be used.

   The 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.

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

25. Basic / Diluted Earnings Per Share

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

	2008	2007	2006
Net income	₱796,398,791	₱633,284,994	₱601,242,858
Divided by the weighted average number of common shares outstanding	277,572,800	277,572,800	278,289,067
Basic / diluted earnings per share	₱2.87	₱2.28	₱2.16

For the years ended December 31, 2008, 2007 and 2006, there were no outstanding dilutive potential common shares.

26. Coal Operating Contract with DOE

The Company has a Coal Operating Contract with DOE dated July 11, 1977, as amended on January 16, 1981, for the exploration, development, mining and utilization of coal over Semirara Island, Antique under the terms and conditions provided therein and pursuant to the provisions of Presidential Decree No. 972, otherwise known as the Coal Development Act of 1976. The contract is for a maximum period of 35 years (inclusive of the developmental stage and renewals) up to July 2012. The contract also provides for the manner and basis of sharing the gross proceeds from coal production between the Company and DOE. The 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 ₱253.38 million and ₱191.29 million as of December 31, 2008 and 2007, respectively (see Note 20). The liabilities, amounting to ₱52.73 million and ₱53.56 million are included under the "Trade and other payables" account in the balance sheets (see Note 11).

In 2002, DOE, through the Energy Resources Development Bureau, approved the exclusion of coal produced and used solely by the Company to feed its power plant in determining the amount due to DOE.

27. Contingencies

The Company is contingently liable for lawsuits or claims filed by third parties which are either pending decision by the courts or are under negotiation, the outcomes of which are not presently determinable. In the opinion of management and its legal counsel, the eventual liability under these lawsuits or claims, if any, will not have a material effect on the financial statements. 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 these lawsuits, claims and assessments.

28. Financial Risk Management Objectives and Policies

The Company's financial liabilities comprise bank loans, trade payables, purchase contracts and loans. The main purpose of these financial liabilities is to raise finance for the Company's operations. The Company has various financial assets such as trade receivables and cash and cash equivalents, which arise directly from operations.

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

Interest Rate Risk

The Company's exposure to the risk of changes in market interest rates relates primarily to the Company's long-term obligations with floating interest rates. The Company's policy is to manage its interest cost using a mix of fixed and variable rate debts. The Company'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 Company'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.

28. Financial Risk Management Objectives and Policies (cont'd)

2008

	Within 1 year	1-2 years	2-3 years	3-4 years	More than 4 years	Fair Value
	(In Thousands)					
Cash equivalents						
Interest Rates						
5.25% to 6.5%	₱1,012,409	₱–	₱–	₱–	₱–	₱1,012,409
Long-term debts						
Fixed Rate						
Local bank loan 9% interest rate	₱57,315	₱–	₱–	₱–	₱–	₱57,315
Various local bank loans 8% interest rate	102,497	–	–	–	–	102,497
Various letters of credit 8-11% interest rate	11,281	–	–	–	–	11,281
Floating Rate						
$15.14 million loan (USD) 6 month USD LIBOR plus 1.5% per annum	143,875	62,800	–	–	–	206,675
$6.64 million loan (USD) 3 month SIBOR plus 1.95% per annum	74,265	74,265	–	–	–	148,530
	₱389,233	₱137,065	₱–	₱–	₱–	₱526,298

28. Financial Risk Management Objectives and Policies (cont'd)

2007

	Within 1 year	1-2 years	2-3 years	3-4 years	More than 4 years	Fair Value
	(In Thousands)					
Cash equivalents						
Interest Rates						
5.25% to 6.5%	₱1,650,806	₱–	₱–	₱–	₱–	₱1,650,806
Long-term debts						
Fixed Rate						
Local bank loan 9% interest rate	₱63,358	₱57,315	₱–	₱–	₱–	₱120,673
Various local bank loans 8% interest rate	226,644	31,704	–	–	–	258,348
Various letters of credit 8-11% interest rate	250,674	–	–	–	–	250,674
Floating Rate						
$15.14 million loan (USD) 6 month USD LIBOR plus 1.5% per annum	124,982	124,982	54,554	–	–	304,518
$6.64 million loan (USD) 3 month SIBOR plus 1.95% per annum	64,513	64,513	64,513	–	–	193,539
	₱730,171	₱278,514	₱119,067	₱–	₱–	₱1,127,752

The following table demonstrates the sensitivity of the Company's profit before tax and equity to a reasonably possible change in interest rates on December 31, 2008 and 2007, with all variables held constant, through the impact on floating rate borrowings.

2008

	Change in basis points +100 basis points	
	Effect on income before income tax	Effect on equity
	(In hundred thousands)	
Company - floating rate borrowings	(₱3,555)	(₱2,311)

28. Financial Risk Management Objectives and Policies (cont'd)

	Change in basis points -100 basis points	
	Effect on income before income tax	Effect on equity
	(In hundred thousands)	
Company - floating rate borrowings	₱3,555	₱2,311

2007

	Change in basis points +100 basis points	
	Effect on income before income tax	Effect on equity
	(In thousands)	
Company - floating rate borrowings	(₱4,992)	(₱3,245)

	Change in basis points -100 basis points	
	Effect on income before income tax	Effect on equity
	(In thousands)	
Company - floating rate borrowings	₱4,992	₱3,245

Liquidity Risk

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

NOTES TO FINANCIAL STATEMENTS

28. Financial Risk Management Objectives and Policies (cont'd)

The tables below summarize the maturity profile of the Company's financial liabilities as of December 31, 2008 and 2007 based on undiscounted contractual payments.

2008

	Within 1 year	1-2 years	2-3 years	3-4 years	Total - Gross (In US$)	Total - Gross (in PHP)
Liabilities:						
Trade and other payables	₱1,188,163,322	₱–	₱–	₱–		₱1,188,163,322
Floating Rate						
US$15.14 million loan 6 month USD LIBOR Plus 1.5% per annum	$3,029,936	$1,322,369	$–	$–	$4,352,305	₱206,821,534
US$6.64 million loan 3 month SIBOR Plus 1.95% per annum	$1,565,141	$1,563,820	$–	$–	$3,128,961	148,688,227
Various letters of credits and suppliers debt with various interest rates	₱11,281,248	₱–	₱–	₱–		11,281,248
Fixed Rate						
₱234.58 million promissory note 9.00% per annum	₱59,705,710	₱–	₱–	₱–		59,705,710
Various local loans	₱103,203,383	₱–	₱–	₱–		103,203,383
					$7,481,266	₱1,717,863,424

28. Financial Risk Management Objectives and Policies (cont'd)

2007

	Within 1 year	1-2 years	2-3 years	3-4 years	Total – Gross (In US$)	Total - Gross (in PHP)
Liabilities:						
Trade and other payables	₱682,426,784	₱–	₱–	₱–		₱682,426,784
Floating Rate						
US$15.14 million loan 6 month USD LIBOR Plus 1.5% per annum	$3,035,319	$3,033,560	$1,322,908	$–	$7,391,787	₱305,132,967
US$6.64 million loan 3 month SIBOR Plus 1.95% per annum	$1,569,594	$1,567,456	$1,564,605	$–	$4,701,655	194,084,318
Various letters of credits and suppliers debt with various interest rates	₱255,821,417	₱–	₱–	₱–		255,821,417
Fixed Rate						
₱234.58 million promissory note 9.00% per annum	₱71,646,852	₱59,705,677	₱–	₱–		131,352,529
Various local loans	₱233,219,567	₱32,032,847	₱–	₱–		265,252,414
					$12,093,442	₱1,834,070,429

Foreign Currency Risk

The Company's foreign exchange risk results primarily from movements of the Philippine Peso (₱) against the US$. Majority of revenues are generated in Pesos, however, substantially all of capital expenditures are in US$. Approximately 30.16% and 29.17% of debts as of December 31, 2008 and 2007, respectively, were denominated in US$.

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

28. Financial Risk Management Objectives and Policies (cont'd)

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

	December 31, 2008		December 31, 2007	
	U.S. Dollar	Peso Equivalent	U.S. Dollar	Peso Equivalent
Assets				
Cash and cash equivalents	$828,243	₱39,358,107	$9,473,323	₱391,058,773
Trade receivables	154,547	7,344,063	7,129,269	294,296,224
Liabilities				
Trade payables	(4,285,231)	(203,634,180)	(1,669,348)	(68,910,685)
Long-term debt (including current portion)	(7,475,029)	(355,213,366)	(12,065,361)	(498,058,102)
Net foreign currency denominated assets (liabilities)	($10,777,470)	(₱512,145,376)	$2,867,883	₱118,386,210

The spot exchange rates used in 2008 and 2007 were ₱47.52 to US$1 and ₱41.28 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 Company's income before tax (due to changes in the fair value of monetary assets and liabilities) on December 31, 2008 and 2007.

Reasonably possible change in foreign exchange rate for every five units of Philippine Peso	Increase (decrease) in profit before tax 2008	Increase (decrease) in profit before tax 2007
₱5	(₱53,887,350)	₱14,339,415
(₱5)	53,887,350	(14,339,415)

There is no impact on the Company's equity other than those already affecting net income.

The Company recognized ₱82.78 million foreign exchange loss for the year ended December 31, 2008 and ₱102.96 million foreign exchange gain for the year ended December 31, 2007, arising from the translation of the Company's cash and cash equivalents, trade receivables, accounts payable and other payables and long-term debt.

Credit Risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Company trades only with recognized, creditworthy third parties. It is the Company's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. The Company 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 Company's approval, hence, mitigating the risk on collection. In addition, receivable balances are monitored on an ongoing basis with the result that the Company's exposure to bad debts is not significant.

28. Financial Risk Management Objectives and Policies (cont'd)

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

The credit risk is concentrated to the following markets:

	2008	2007
Trade		
Local sales	98.15%	71.22%
Export sales	0.41	27.13
Other receivables	1.44	1.65
Total	100.00%	100.00%

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

	Gross Maximum Exposure	
	2008	2007
Cash and cash equivalents	₱1,012,409,162	₱1,650,806,337
Receivables		
Trade		
Local sales	1,766,074,476	772,642,764
Export sales	7,344,063	294,296,228
Due from related parties	6,607,698	57,920,745
Advances to suppliers	97,621,328	135,825,128
Others	25,926,943	17,859,279
Security deposits	251,086,303	–
Total credit risk exposure	₱3,167,069,973	₱2,929,350,481

28. Financial Risk Management Objectives and Policies (cont'd)

As of December 31, 2008 and 2007, the credit quality per class of financial assets is as follows:

2008

	Neither past due nor impaired		Past due or Individually	
	Grade A	Grade B	Impaired	Total
Cash and cash equivalents	₱1,012,409,162	₱–	₱–	₱1,012,409,162
Trade				
Local sales	763,031,999	72,668,132	930,374,345	1,766,074,476
Export sales	7,344,063	–	–	7,344,063
Due from related parties	6,607,698	–	–	6,607,698
Advances to suppliers	96,579,267	–	1,042,061	97,621,328
Others	–	4,180,958	21,745,985	25,926,943
Security deposits	251,086,303	–	–	251,086,303
Total	₱2,137,058,492	₱76,849,090	₱953,162,391	₱3,167,069,973

2007

	Neither past due nor impaired		Past due or Individually	
	Grade A	Grade B	Impaired	Total
Cash and cash equivalents	₱1,650,806,337	₱–	₱–	₱1,650,806,337
Trade				
Local sales	369,520,739	90,726,026	312,395,999	772,642,764
Export sales	294,296,228	–	–	294,296,228
Due from related parties	57,920,745	–	–	57,920,745
Advances to suppliers	135,825,128	–	-	135,825,128
Others	–	862,912	16,996,367	17,859,279
Total	₱2,508,369,177	₱91,588,938	₱329,392,366	₱2,929,350,481

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

Grade A accounts are accounts considered to be high value and are covered with coal supply agreements, for trade receivables. The counterparties have a very remote likelihood of default and have consistently exhibited good paying habits. Grade B accounts active accounts with minimal to regular instances of payment default, due to collection issues. These accounts are typically not impaired as the counterparties generally respond to credit actions and update their payments accordingly.

28. Financial Risk Management Objectives and Policies (cont'd)

As of December 31, 2008 and 2007, the aging analysis of the Company's receivables presented per class is as follows:

2008

	Past due but not impaired		Impaired Financial Assets	Total
	<45 days	45-135 days		
Receivables				
Trade - local sales	₱877,327,836	₱36,027,859	₱17,018,649	₱930,374,344
Advances to suppliers	–	–	1,042,061	1,042,061
Others	3,119,218	9,784,628	8,842,140	21,745,986
Total	₱880,447,054	₱45,812,487	₱26,902,850	₱953,162,391

2007

	Past due but not impaired		Impaired Financial Assets	Total
	<45 days	45-135 days		
Receivables				
Trade - local sales	₱272,704,089	₱27,635,408	₱12,056,502	₱312,395,999
Others	2,150,019	–	14,846,348	16,996,367
Total	₱274,854,108	₱27,635,408	₱26,902,850	₱329,392,366

Capital Management

The primary objective of the Company'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 Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders or issue new shares. There were no changes made in the Company's capital management objectives, policies or processes.

The following table shows the component of the Company's capital as of December 31:

	2008	2007
Total paid-up capital	₱1,873,671,271	₱1,873,671,271
Retained earnings - unappropriated	2,256,119,235	2,270,011,644
Retained earnings - appropriated	700,000,000	1,000,000,000
Cost of shares held in treasury	(528,891,260)	(528,891,260)
	₱4,300,899,246	₱4,614,791,655

29. Fair Values

The following tables set forth the carrying values and estimated fair values of the Company's financial assets and liabilities recognized as of December 31, 2008 and 2007.

	2008		2007	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets				
Loans and receivables				
Cash in banks	₱1,012,409,162	₱1,012,409,162	₱1,650,806,337	₱1,650,806,337
Trade				
Local sales	1,749,055,827	1,749,055,827	760,586,262	760,586,262
Export sales	7,344,063	7,344,063	294,296,228	294,296,228
Due from related parties	6,607,698	6,607,698	57,920,745	57,920,745
Advances to suppliers	96,579,267	96,579,267	135,825,128	135,825,128
Others	17,084,803	17,084,803	3,012,931	3,012,931
Security deposits	251,086,303	255,940,292	–	–
Total	₱3,140,167,123	₱3,145,021,112	₱2,902,447,631	₱2,902,447,631
Financial Liabilities				
Other financial liabilities				
Long-term debt	₱526,298,562	₱533,900,484	₱1,127,752,230	₱1,140,342,375
Trade and other payables				
Trade payables	895,274,617	895,274,617	518,162,244	518,162,244
Accrued expenses and other payables	194,392,707	194,392,707	97,785,184	97,785,184
Payable to DOE and local government units	52,734,125	52,734,125	53,558,600	53,558,600
Due to related parties	45,761,873	45,761,873	12,920,756	12,920,756
Total	₱1,714,461,884	₱1,722,063,806	₱1,810,179,014	₱1,822,769,159

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

Financial Assets

Due to the short-term nature of the transactions, the fair value of cash and cash equivalents, receivables approximate the amount of consideration at the time of initial recognition.

Financial Liabilities

Trade and other payables

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

29. Fair Values

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.

30. Lease Commitments

In 2008, the Company entered into various Equipment Rental Agreement (the Agreement) wth Banco de Oro Rental, Inc. (the Lessor) for the rental of various equipment 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 Company to pay security deposit which shall be held by the Lessor as security for the faithful and timely performance by the Company of all its obligations. Upon termination of the Agreement, the Lessor shall return to the Company 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 Company.

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

Not later than one year	₱688,927,075
After one year but not more than 2 years	356,388,690
	₱1,045,315,765

31. Note to Cash Flow Statements

Supplemental disclosure of noncash investing and financing activities follows:

	2008	2007	2006
Acquisition of conventional and other mining equipment on account (Notes 11 and 13)	₱60,678,076	₱138,891,215	₱873,275,980
Donation of school campus	–	18,164,254	–

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

This page has been intentionally left blank

SEMIRARA MINING CORPORATION

2F DMCI Plaza, 2281 Chino Roces Avenue Extension
Makati City, Philippines 1231
Tel: +632 867-3379 **Fax:** +632 816-7185