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

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

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

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

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

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

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

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

- PFRS 8, *Operating Segments,* clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker (CODM). As the Parent Company's CODM does review segments assets and liabilities, the Parent Company has continued to disclose this information in Note 31.

Other amendments resulting from the 2009 Improvements to PFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Parent Company:
- PFRS 2, *Share-based Payment*
- PFRS 5, *Non-current Assets Held for Sale and Discontinued Operation*
- PAS 1, *Presentation of Financial Statements*
- PAS 7, *Statement of Cash Flows*
- PAS 17, *Leases*
- PAS 36, *Impairment of Assets*
- PAS 38, *Intangible Assets*
- PAS 39, *Financial Instruments: Recognition and Measurement*
- Philippine Interpretation IFRIC 9, *Reassessment of Embedded Derivatives*
- Philippine Interpretation IFRIC 16, *Hedge of a Net Investment in a Foreign Operation*

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

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

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

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

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

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

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

- Philippine Interpretation IFRIC 15, *Agreement for Construction of Real Estate*
  This Interpretation, effective for annual periods beginning on or after January 1, 2012, covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The Interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11, *Construction Contracts*, or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion.

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

Improvements to PFRS 2010
The omnibus amendments to PFRS issued in 2010 were issued primarily with a view of removing inconsistencies and clarifying wording. The amendments are effective for annual periods beginning on or after January 1, 2011, except when otherwise stated.

- PFRS 3, *Business Combinations*
  The amendment to PFRS 3 is effective for annual periods beginning on or after July 1, 2010. It clarifies that the amendments to PFRS 7, PAS 32 and PAS 39, *Financial Instruments: Recognition and Measurement*, that eliminate the exemption for contingent consideration, do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of PFRS 3 (as revised in 2008). The amendment will be applied retrospectively.

  The amendment also limits the scope of the measurement choices that only the components of non-controlling interest that are present ownership interests that entitle their holders to a proportionate share to the entity's net assets, in the event of liquidation, shall be measured either at fair value or at present ownership instrument's proportionate share of the acquiree's identifiable net assets. Other components of non-controlling interest are measured at their acquisition date fair value, unless another measurement basis is required by another PFRS. The amendment will be applied prospectively from the date the entity applies revised PFRS 3.

  Further, the amendment requires an entity in a business combination to account for the replacement of the acquiree's share-based payment transactions, whether obliged or voluntarily, such as split between considerations and post-combination expenses. However, if the entity replaces the acquiree's awards that expire as a consequence of the business combination, these are recognized as post-combination expenses. The amendment also specifies the accounting for share-based payment transactions that the acquirer does not exchange for its own awards: if vested - they are part of non-controlling interest and measured at their market-based measure; if vested - they are measured at market-based value as if granted at acquisition date, and allocated between non-controlling interest and post-combination expenses. The amendment will be applied prospectively.

- PFRS 7, *Financial Instruments: Disclosures*
  PFRS 7 emphasizes the interaction between quantitative and qualitative disclosures and the nature and extent of risks associated with financial instruments. The amendment will be applied retrospectively.

- PAS 1, *Presentation of Financial Statements*
  The amendment to PAS 1 clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements. The amendment will be applied retrospectively.

- PAS 27, *Consolidated and Separate Financial Statements*
  The amended standard is effective for annual reporting periods beginning on or after July 1, 2010. It clarifies that the consequential amendments from PAS 27 made to PAS 21, *The Effect of Changes in Foreign Exchange Rates*, PAS 28, *Investments in Associates* and PAS 31, *Interests in Joint Ventures*, apply prospectively for annual periods beginning on or after July 1, 2009 or earlier when PAS 27 is applied earlier. The amendment will be applied retrospectively.

- Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes*
  IFRIC 13 clarifies that when the fair value of award credits is measured based on the value of the awards for which they could be redeemed, the amount of discounts or incentives otherwise granted to customers not participating in the award credit scheme, is to be taken into account. The amendment will be applied retrospectively.

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

Financial Instruments

Date of recognition

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

Initial recognition and measurement 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 Parent 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 Parent Company classifies its financial liabilities as financial liabilities at FVPL or as other financial liabilities. The classification depends on the purpose for which the investments were acquired and whether these are quoted in an active market. Management determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

As of December 31, 2010 and 2009, the Parent Company's financial instruments are in 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 of financial instruments traded in active markets at the reporting date is based on its quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. When current bid and asking prices are not available, the price of the most recent transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction.

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

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

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

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

Financial liabilities
The Parent Company's financial liabilities consist of other financial liabilities at amortized cost.

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

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

Gains and losses are recognized under the "Other income" accounts in the parent company statement of comprehensive income when the liabilities are derecognized or impaired, as well as through the amortization process under the "Finance costs" account.

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

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

Loans and receivables
For loans and receivables carried at amortized cost, the Parent 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 Parent 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 group 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 Parent 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 EIR (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 under "Operating expenses" in the parent company statement of comprehensive income during the period in which it arises. Interest income continues to be recognized based on the original EIR of the asset. Receivables, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery.

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 Parent Company to reduce any differences between loss estimates and actual loss experience.

<u>Derecognition of Financial Assets and Liabilities</u>

Financial Assets

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

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

When the Parent 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 Parent 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 Parent 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.

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

<u>Offsetting Financial Instruments</u>

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

<u>Inventories</u>

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

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

Mining reserves

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

Property, Plant and Equipment

Property, plant and equipment are carried at cost less accumulated depreciation 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 of property, plant and equipment commences once the assets are put into operational use.

Depreciation and amortization of property, plant and equipment and software costs 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:

	Years
Mining equipment	2 to 13
Power plant and buildings	10 to 21
Roads and bridges	17
Software costs	2

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

The EUL and depreciation 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 derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the year the item is derecognized.

Investments and Advances
This account includes investments and advances for future stock subscription in a subsidiary and associates.

The Parent Company's investments in its subsidiary and associates are accounted for using the cost method of accounting. The investments are carried in the parent company statement of financial position at cost less any impairment in value. On acquisition of the investment, the excess of the cost of investment over the investor's share in the net fair value of the investee's identifiable assets, liabilities and contingent liabilities is included in the carrying amount of the investment and not amortized.

A subsidiary is an entity in which the Parent Company, directly or indirectly, holds more than half of the voting power, or exercises control over the operation and management of the subsidiary. An associate is an entity in which the Parent Company has significant influence and which is neither a subsidiary nor a joint venture.

The Parent Company recognizes income from the investment when its right to receive the dividend is established.

Impairment of Nonfinancial Assets
The Parent Company assesses at each reporting date whether there is an indication that its nonfinancial assets (e.g., inventories, property, plant and equipment, investments and advances, and software cost) may be impaired. If any such indication exists, or when an annual impairment testing for an asset is required, the Parent Company makes an estimate of the asset's recoverable amount.

Inventories, Property, plant and equipment and Software cost
An asset's recoverable amount is the higher of an asset's or cash generating unit's fair value less cost to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that largely independent of those from other assets or group of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses of continuing operations are recognized in profit or loss in those expense categories consistent with the function of the impaired asset.

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

For property, plant and equipment, reversal is recognized in profit or loss unless the asset is carried at revalued amount, in which case, the reversal is treated as a revaluation increase. After such reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Investments and advances
The Parent Company determines at each reporting date whether there is any objective evidence that the investments and advances in a subsidiary or associates are impaired. If this is the case, the Parent Company calculates the amount of impairment as being the difference between the fair value and the carrying value of the investee company and recognizes the difference in the profit or loss.

Revenue Recognition
Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Parent Company and the revenue can be reliably measured regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable. The following specific recognition criteria must also be met before revenue is recognized:

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

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

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

Other income
Other income is derived from selling excess electricity produced by the Parent Company to the neighboring communities. Other income derived from the supply of electricity is recognized based on the actual delivery of electricity, net of adjustments, as agreed upon between the parties.

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

Operating Expenses
Operating expenses are expenses that arise in the course of the ordinary operations of the Parent Company. These usually take the form of an outflow or depletion of assets such as cash and cash equivalents, supplies, and office furniture and equipment. Expenses are recognized in the parent company statement of comprehensive income.

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, interest-bearing loans and borrowings are subsequently measured at amortized cost using EIR method. Gains and losses are recognized in the statement of comprehensive income when the liabilities are derecognized as well as through amortization process.

Pension Expense
The Parent Company has a noncontributory defined benefit retirement plan.

The retirement cost of the Parent 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 parent company statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the reporting date less the fair value of plan assets, together with adjustments for unrecognized actuarial gains or losses and past service costs that shall be recognized in later periods.

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

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

Deferred tax liabilities are recognized for all taxable temporary differences, with certain exceptions. Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits from excess minimum corporate income tax (MCIT) over regular corporate income tax (RCIT) 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.

Deferred tax assets are not recognized when they arise from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of transaction, affects neither the accounting income nor taxable income or loss. Deferred tax liabilities are not provided on nontaxable temporary differences associated with investments in domestic subsidiaries, associates and interests in joint ventures.

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

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

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

Provisions

Provisions are recognized only when the Parent 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 reporting date and adjusted to reflect the current best estimate.

Provision for decommissioning and site rehabilitation

The Parent 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 recognized, the present value of the estimated cost is capitalized by increasing the carrying amount of the related mining assets. Over time, the discounted liability is increased for the change in present value based on the discount rates that reflect current market assessments and the risks specific to the liability. The periodic unwinding of the discount is recognized in the profit and loss as a finance cost.

Additional disturbances or changes in rehabilitation costs will be recognized as additions or charges to the corresponding assets and rehabilitation liability when they occur. For closed sites, changes to estimated costs are recognized immediately in the parent company statement of comprehensive 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 in the cost of coal sales under "Outside Services" on a straight basis over the lease term.

Foreign Currency Transactions
The Parent Company's financial statements are presented in Philippine peso, which is the functional and presentation currency. Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency closing rate at the reporting date. Related transactions that are recognized in the profit or loss are recorded at the weighted average foreign currency rate ruling within the period of the transaction. Exchange gains or losses arising from foreign currency transactions are credited or charged against current operations.

Equity
Capital stock is measured at par value for all shares issued. When the shares are sold at premium, the difference between the proceeds and the par value is credited to "Additional paid-in capital".

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

Deposits on future stock subscriptions represent funds received from stockholders intended for conversion to fixed number of shares. When obligations are payable in fixed number of shares at a determined fixed price these are classified as equity, otherwise, these are classified as liabilities.

Treasury Shares
The Parent Company's own equity instruments which are reacquired (treasury shares) are recognized at cost and deducted from equity. No gain or loss is recognized in the profit or loss on the purchase, sale, issue or cancellation of the Parent Company's own equity instruments. Any difference between the carrying amount and the consideration is recognized as additional paid-in capital.

Operating Segments
The Parent Company's operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. Financial information on business segments is presented in Note 31.

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

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

3. Significant Accounting Judgments and Estimates

The preparation of the parent company financial statements in compliance with PFRS requires the Parent Company to make judgments and estimates that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingent assets and contingent liabilities. The judgments, estimates and assumptions used in the accompanying parent company financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the parent company financial statements. Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effects of any change in estimates are reflected in the parent company financial statements as they become reasonably determinable.

Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Judgment
In the process of applying the Parent 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 parent company financial statements:

Determining functional currency
The Parent 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 Parent Company primarily operates.

Operating lease commitments - the Parent Company as lessee
The Parent Company has entered into various contracts of lease for space, mining and transportation equipment. The Parent Company has determined that all significant risks and benefits of ownership on these properties will be retained by the lessor. In determining the significant risks and benefits of ownership, the Parent Company considered, among others, the significance of the lease term as compared with the estimated useful life of the related asset.

Contingencies
The Parent 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 external legal counsel handling the Parent Company's defense in these matters and is based upon an analysis of potential results. The Parent Company currently believes that these proceedings will not 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 26).

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

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

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

Estimating allowance for impairment losses
The Parent Company maintains an allowance for impairment losses at a level considered adequate to provide for potential uncollectible receivables. The level of this allowance is evaluated by management on the basis of factors that affect the collectibility of the accounts. These factors include, but are not limited to debtors' ability to pay all amounts due according to the contractual terms of the receivables being evaluated. The Parent 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 impairment loss for any period would differ if the Parent Company made different judgments or utilized different estimates. An increase in the allowance for impairment loss would increase the recorded operating expenses and decrease the current assets.

Reversals of provision amounted to ₱5.68 million and ₱3.19 million in 2010 and 2009, respectively. The reversal was recognized under the "Other income" account in the statement of comprehensive income (see Note 23). Receivables, net of allowance for impairment loss amounted to ₱1,517.17 million and ₱963.24 million as of December 31, 2010 and 2009, respectively (see Note 5).

Estimating stock pile inventory quantities
The Parent 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 Parent Company utilized different estimates and this would either increase or decrease the profit for the year. Coal pile inventory as of

December 31, 2010 and 2009 amounted to ₱833.47 million and ₱1,465.46 million, respectively (see Note 6).

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

There were no additional provisions made in 2010 and 2009. Spare parts and supplies of the Parent Company, net of allowance for inventory write-down of ₱53.29 million as of December 31, 2010 and 2009, amounted to ₱894.80 million and ₱527.64 million as of December 31, 2010 and 2009, respectively (see Note 6).

Estimating provision for decommissioning and site rehabilitation costs
The Parent Company is legally required to fulfill certain obligations under its Department of Environment and Natural Resources issued Environmental Compliance Certificate when it abandons depleted mine pits. Significant estimates and assumptions are made in determining the provision for mine rehabilitation as there are numerous factors that will affect the ultimate liability 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 finance costs and noncurrent liabilities. The provision at reporting date represents management's best estimate of the present value of the future rehabilitation costs required. Assumptions used to compute the decommissioning and site rehabilitation costs are reviewed and updated annually.

The discount rate currently applied in the calculation of the net present value of provision is 1.31% to 8.15% and 4.16% to 5.50% in 2010 and 2009, respectively. Rehabilitation expenditure is largely expected to take place in 2027 at the end of the life of the mine.

As of December 31, 2010 and 2009, the provision for decommissioning and site rehabilitation has a carrying value of ₱11.88 million and ₱14.77 million, respectively (see Note 14).

Estimating useful lives of property, plant and equipment and software cost
The Parent Company estimated the useful lives of its property, plant and equipment and software cost based on the period over which the assets are expected to be available for use. The Parent Company reviews annually the EUL of property, plant and equipment and software cost 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, 2010 amounted to ₱3,702.16 million and ₱6.35 million, respectively. The net book values of the property, plant and equipment and software cost as of December 31, 2009 amounted to ₱2,208.27 million and ₱7.54 million, respectively (see Notes 8 and 10).

Estimating impairment for noncurrent nonfinancial assets
The Parent 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 Parent 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.

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

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

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

	2010	2009
Investments and advances (Note 9)	**₱8,000,000,000**	₱7,445,501,480
Property, plant and equipment (Note 8)	**3,702,160,966**	2,208,274,646
Software cost (Note 10)	**6,345,855**	7,536,022
	₱11,708,506,821	₱9,661,312,148

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

In 2010 and 2009, the Parent Company has various deductible temporary differences from which no deferred tax assets have been recognized. Refer to Note 24 for the balances.

Estimating pension and other employee benefits
The determination of the obligation and cost of retirement and other employee benefits is dependent on the selection of certain assumptions used in calculating such amounts. Those assumptions include, among others, discount rates, expected returns on plan assets and salary

increase rates and price for the retirement of pension (see Note 18). Actual results that differ from the Parent 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 Parent 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, 2010 and 2009, the balances of the Parent Company's present value of defined benefit obligation and unrecognized actuarial gain follow (see Note 18):

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

The Parent Company also estimates other employee benefits obligation and expense, including cost of paid leaves based on historical leave availments of employees, subject to the Parent 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, 2010 and 2009 amounted to ₱5.85 million and ₱1.55 million, respectively (see Note 11).

Fair value of financial instruments
Where the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using internal valuation techniques using generally accepted market valuation models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimates are used in establishing fair values. These estimates may include considerations of liquidity, volatility, and correlation. See Note 27 for the related balances.

4. Cash and Cash Equivalents

This account consists of:

	2010	2009
Cash in banks and on hand	**₱1,592,697,270**	₱95,216,360
Cash equivalents	**1,216,638,492**	369,720,484
	₱2,809,335,762	₱464,936,844

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

Total interest income earned on cash and cash equivalents amounted to ₱17.04 million and ₱30.10 million in December 31, 2010 and 2009, respectively (see Note 22).

5. Receivables

This account consists of:

	2010	2009
Trade (Notes 27 and 28)		
Local sales	**₱757,221,337**	₱536,627,734
Export sales	**582,130,762**	414,815,233
Due from related parties (Notes 17, 27 and 28)	**169,332,641**	9,067,242
Others (Notes 27 and 28)	**26,741,970**	26,442,285
	1,535,426,710	986,952,494
Less allowance for doubtful accounts	**18,255,318**	23,711,557
	₱1,517,171,392	₱963,240,937

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

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

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

As at December 31, 2010 and 2009, trade and other receivables with a nominal value of ₱18.26 million and ₱23.71 million were impaired and provided for. Movements in the allowance for impairment of receivables were as follows:

2010

	Trade - Local Sales	Other Receivables	Total
At January 1, 2010	**₱13,569,447**	**₱10,142,110**	**₱23,711,557**
Additional provision	–	**220,865**	**220,865**
Reversals (Note 23)	**(5,677,104)**	–	**(5,677,104)**
At December 31, 2010	**₱7,892,343**	**₱10,362,975**	**₱18,255,318**
Individual impairment	**₱7,892,343**	**₱10,362,975**	**₱18,255,318**

2009

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

6. Inventories

This account consists of:

	2010	2009
Coal inventory at cost	**₱833,466,525**	₱1,465,456,505
Spare parts and supplies at NRV	**894,800,463**	527,640,352
	₱1,728,266,988	₱1,993,096,857

Spare parts and supplies with original cost of ₱948.09 million and ₱580.93 million as of December 31, 2010 and 2009, respectively, were provided with allowance for inventory obsolescence amounting to ₱53.29 million.

The cost of coal inventories recognized as expense in the profit or loss amounted to ₱12,138.27 million and ₱8,561.92 million for the years ended December 31, 2010 and 2009, respectively (see Note 19).

7. Other Current Assets

This account consists of:

	2010	2009
Advances to suppliers	**₱312,134,305**	₱182,964,826
Security deposits - current portion (Notes 10 and 27)	**304,400,611**	270,751,295
Creditable withholding tax	**255,359,159**	149,441,458
Prepaid insurance and others	**10,969,563**	10,052,424
Prepaid rent (Note 10)	**160,711**	21,376,010
	₱883,024,349	₱634,586,013

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

Creditable withholding taxes
Creditable withholding taxes are attributable to taxes withheld by third parties arising from the coal sales and will be applied to future taxes payable.

8. Property, Plant and Equipment

The rollforward analysis of this account follows:

2010

	Mining Equipment	Power Plant and Buildings	Roads and Bridges	Equipment in Transit and Construction in Progress	Total
At Cost					
At January 1	₱10,275,144,960	₱1,601,672,558	₱279,062,950	₱562,119,615	₱12,718,000,083
Additions	2,576,426,085	6,371,816	–	708,798,651	3,291,596,552
Transfers	517,872,050	20,413,973	–	(538,286,023)	–
Disposals	(51,417,938)	–	–	(1,750,087)	(53,168,025)
At December 31	13,318,025,157	1,628,458,347	279,062,950	730,882,156	15,956,428,610
Accumulated Depreciation and Amortization					
At January 1	8,988,242,727	1,242,419,760	279,062,950	–	10,509,725,437
Depreciation and amortization (Note 19)	1,616,677,670	136,872,901	–	–	1,753,550,571
Disposals	(9,008,364)	–	–	–	(9,008,364)
At December 31	10,595,912,033	1,379,292,661	279,062,950	–	12,254,267,644
Net Book Value	₱2,722,113,124	₱249,165,686	₱–	₱730,882,156	₱3,702,160,966

2009

	Mining Equipment	Power Plant and Buildings	Roads and Bridges	Equipment in Transit and Construction in Progress	Total
At Cost					
At January 1	₱8,927,359,286	₱1,449,535,036	₱279,062,950	₱209,605,721	₱10,865,562,993
Additions	2,191,388,044	108,729,048	–	550,587,570	2,850,704,662
Transfers	154,665,202	43,408,474	–	(198,073,676)	–
Disposals	(998,267,572)	–	–	–	(998,267,572)
At December 31	10,275,144,960	1,601,672,558	279,062,950	562,119,615	12,718,000,083
Accumulated Depreciation and Amortization					
At January 1	8,458,905,294	1,021,788,873	278,804,568	–	9,759,498,735
Depreciation and amortization (Note 19)	804,849,221	220,630,887	258,382	–	1,025,738,490
Disposals	(275,511,788)	–	–	–	(275,511,788)
At December 31	8,988,242,727	1,242,419,760	279,062,950	–	10,509,725,437
Net Book Value	₱1,286,902,233	₱359,252,798	₱–	₱562,119,615	₱2,208,274,646

Equipment in transit and construction in progress accounts mostly pertain to purchased mining equipment in transit, as such no borrowing cost was capitalized in 2010 and 2009.

9. Investments and Advances

This account consists of:

	Ownership	2010	2009
SCPC	**100%**	**₱1,250,000**	₱1,250,000
DMCI Power Corporation (DMCI-PC)	**50%**	–	150,000,000
DMCI Mining Corporation (DMCI-MC)	**50%**	–	100,000,000
		1,250,000	251,250,000
Advances for future stock subscription			
SCPC		**7,998,750,000**	7,158,701,480
DMCI-PC		–	35,550,000
		7,998,750,000	7,194,251,480
		₱8,000,000,000	₱7,445,501,480

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

The following table summarizes the significant financial information of the Parent Company's associates as of December 31, 2009:

	DMCI-PC	DMCI-MC
Assets		
Current assets	₱8,901,235	₱225,086,326
Noncurrent assets	541,008,336	21,771,995
	549,909,571	246,858,321
Liabilities		
Current Liabilities	(272,417,744)	(71,034,972)
	₱277,491,827	₱175,823,349
Revenue	₱785,286	₱106,599,488
Net loss	(₱34,717,965)	(₱43,980,377)

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

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

On December 1, 2009, the Parent Company was authorized by the Board of Directors (BOD) to advance an amount of ₱7,158.70 million for purchase of the Power Plant of PSALM through its wholly owned subsidiary in order to meet SCPC's financial obligation under Asset Purchase Agreement (APA) and Land Lease Agreement . As of December 31, 2010, additional advances made by the Parent Company amounted to ₱840.05 million. The said advances were treated as deposit for future stock subscription in SCPC.

Pursuant to the provision of the APA, PSALM agreed to sell and transfer to DMCI-HI on an "as is where is" basis, the Power Plant. The agreed purchase price amounting to $368.87 million was for the 2 x 300-megawatt (MW) Batangas Coal-Fired Thermal Power Plant from PSALM as of December 2, 2009.

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

1. ₱6.62 billion in peso equivalent using the exchange rate of ₱47.13 representing 40% down payment for US$351.00 million purchase price of the Power Plant; and
2. ₱0.49 billion in peso equivalent using the exchange rate of ₱47.20 representing 40% down payment for US$10.39 million advance rental payment for the 25-year lease of the premises underlying the Power Plant and for purchase orders for parts and services for the Power Plant.

Other provisions of the AAA include:

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

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

DMCI-PC
On March 12, 2009, the BOD authorized the Parent Company to make an additional subscription to the unissued capital stock of DMCI-PC equivalent to 25.00 million shares at ₱1.00 par value or a total subscription price of ₱25.00 million payable in cash. As of December 31, 2009, DMCI-PC has not yet started commercial operations.

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

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

DMCI-MC
In March 2007, DMCI-MC entered into a Memorandum of Agreement with Fil-Asian Strategic Resources and Properties Corporation (Fil-Asian) wherein Fil-Asian appointed DMCI-MC to exclusively undertake mining operations in the municipalities of Sta. Cruz and Candelaria, Province of Zambales.

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

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

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

Disposal of Investment in DMCI-MC and DMCI-PC
On December 8, 2010, a Deed of Assignment was made and executed between the Parent Company and DMCI-HI, the former being the "Assignor" and the latter being the "Assignee". The Parent Company offered to assign, transfer and convey all of its rights, ownership and interest over its shares in DMCI-PC and DMCI-MC. The said transaction resulted to a gain on disposal of investment in the amount of ₱77.09 million presented in the "Other Income" account under the statement of comprehensive income (see Note 23).

10. Other Noncurrent Assets

This account consists of:

	2010	2009
Security deposits (Notes 27, 28 and 29)	**₱304,400,611**	₱291,613,096
Software cost – net	**6,345,855**	7,536,022
Prepaid rent	**160,711**	21,536,721
Others	**132,846,993**	163,197,291
	443,754,170	483,883,130
Less current portion of		
Security deposits (Note 7)	**304,400,611**	270,751,295
Prepaid rent (Note 7)	**160,711**	21,376,010
	304,561,322	292,127,305
	₱139,192,848	₱191,755,825

Security deposits represent payments to and held by the lessor as security for the faithful and timely performance by the Parent Company of all its obligations and compliance with all provisions of the Equipment Rental Agreement (ERA). These deposits shall be returned by the lessor to the Parent 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 (see Note 29).

There were no additional security deposits during the year. In 2009 and 2008, security deposits with a nominal amount of ₱22.20 and ₱282.37 million, respectively, were initially recorded at fair value. Movement in the unamortized discount of security deposits follows:

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

The movements in the software cost account follow:

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

Others include the input value added tax (VAT) erroneously withheld by National Power Corporation (NPC), environmental guarantee fund and other deferred charges which are recoverable for more than one year.

5% input VAT withheld
As a result of the enactment of Republic Act (RA) No. 9337 effective November 1, 2005, NPC started withholding the required 5% input VAT on the VAT - exempt coal sales of the Parent Company. On March 7, 2007, the Parent Company obtained a ruling from the Bureau of Internal Revenue (BIR) which stated that the sale of coal remains exempt from VAT. In 2007, the Parent Company filed a total claim for refund of ₱190.50 million from the BIR representing VAT erroneously withheld by NPC from December 2005 to March 2007, which eventually was elevated to the Court of Tax Appeals (CTA). On October 13, 2009, CTA granted the Parent Company's petition for a refund on erroneously withheld VAT on December 2005 sales amounting to ₱11.85 million. The Commissioner of Internal Revenue moved for reconsideration of the CTA's Decision. On November 21, 2009, the Parent Company filed its comment thereon. In its resolution dated July 26, 2010, the CTA granted Parent Company's Motion for Execution dated October 13, 2009, and ordered the issuance of writ of execution. The motion for reconsideration remains pending to date. Management has estimated that the refund will be recovered after three (3) to five (5) years.

Consequently, the claim for tax refund was provided with provision for probable loss amounting to ₱40.37 million (see Note 20).

Environmental guarantee fund
The environmental guarantee fund represents the funds designated to cover all costs attendant to the operation of the multi-partite monitoring team of the Parent Company's environmental unit.

11. Trade and Other Payables

This account consists of:

	2010	2009
Trade	**₱3,117,416,772**	₱1,517,169,390
Payable to Department of Energy (DOE) and local government units (Note 25)	**1,013,039,943**	216,516,873
Due to related parties (Note 17)	**106,974,604**	554,829,485
Accrued expenses and others	**419,207,311**	261,666,073
	₱4,656,638,630	₱2,550,181,821

Trade payables include liabilities amounting to ₱238.23 million (US$5.43 million) and ₱97.58 million (US$2.11 million) as of December 31, 2010 and 2009, respectively, to various foreign suppliers for open account purchases of equipment and equipment parts and supplies. Trade payables are noninterest-bearing and are normally settled on a 30 to 60-day credit terms.

Details of the accrued expenses and other payables account follow:

	2010	2009
Probable legal claims (Note 26)	**₱215,803,423**	₱110,852,446
Withholding and other taxes	**38,787,147**	27,721,884
Bonuses	**31,462,610**	15,581,914
Salaries and wages	**22,967,405**	13,832,843
Real property tax	**18,828,610**	18,828,610
Rental (Note 17)	**15,264,799**	14,923,731
Coal Hauling	**13,034,083**	7,606,638
Interest	**12,258,779**	6,092,943
Professional fees	**6,000,000**	7,401,786
Others	**44,800,455**	38,823,278
	₱419,207,311	₱261,666,073

Others include contracted services, utilities, supplies and other administrative expenses.

The payable to DOE and local government units represents government share in the parent company's gross proceeds and is noninterest bearing and normally settled quarterly. Due to related parties, accrued expenses and other payables are noninterest bearing and are payable within one (1) year.

12. Short-term Loans

Short-term loans represent various unsecured peso-denominated short-term promissory notes from local banks which bear interest ranging from 5.50% to 6.75% per annum, and are payable 30 days from date of issuance and acceptances and trust receipts which are used to facilitate payment for importations of materials, fixed assets and other assets.

There were no outstanding notes payables during the year. As of December 31, 2009, notes payable amounted to ₱793.19 million. Acceptances and trust receipts as of December 31, 2010 and 2009 amounted to ₱449.85 million and ₱51.45 million, respectively.

13. Long-term Debt

This account consists of:

	2010	2009
Bank loans	**₱2,022,817,439**	₱133,257,823
Deferred purchase payment	**774,743,549**	474,363,625
	2,797,560,988	607,621,448
Less current portion of:		
Bank loans	–	133,257,823
	₱2,797,560,988	₱474,363,625

Bank Loans

Details of the bank loans follow:

Loan Type	Date of Availment	Outstanding Balance 2010	2009	Maturity	Interest Rate	Payment Terms	Covenants/Collaterals
		(In Millions)					
Local bank loans							
Loan 1	Various availments in 2010	**₱701.44**	–	Various maturities in 2012	1.59% - 2.88% payable in arrears, to be repriced every 90 days	Interest payable in 90 days; not deducted from proceeds of loans and principal repayable in maturity.	Any monies standing to the credit of the borrower's other account with the bank and any securities, deeds, boxes and parcels and their contents and property of any description held in borrower's name
Loan 2	Various availments in 2010	**639.06**	–	Various maturities in 2012	1.95% p.a. payable semi-annually in arrears, to be repriced every 6 months	Interest payable semi-annually in arrears from 2010 to 2011 inclusive of 10% withholding tax payment of interest shall commence in 2011 and every six months thereafter until fully paid at the prevailing rate.	Unsecured loans
Loan 3	October 2010	**442.08**	–	October 2012	1.90% p.a. for 92 days, to be repriced every 30 to 180 days	Interest shall be payable on the last day of the current interest period or the 90th day of said period whichever occurs earlier and full payment of principal at maturity.	Unsecured loans
Loan 4	October 26, 2010	**240.24**	–	October 26, 2012	1.82% p.a. to be repriced over the rate 180 days	Interest payable starting October 26, 2010 until October 26, 2012 and principal repayable on maturity.	Unsecured loans
Foreign bank loans							
Loan 1	December 14, 2005	–	₱72.20	November 30, 2010	Based on SIBOR plus 1.95% p.a.	Repriceable and payable in 16 equal quarterly installments to commence 2 months after the draw down dates.	Unconditional and irrevocable guarantee issued by Komatsu Asia and Pacific Pte Ltd. and other covenants
Other loans	Various availments in 2004 and 2005	–	61.06	Various maturities in 2009 and 2010	Based on 6-month USD LIBOR plus 1.5% p.a.	Payable in 10 equal consecutive semi-annual installments, the first of which was due and payable 6 months after the starting point.	Unconditional and irrevocable guarantee issued by DMCI-HI (Note 17)
		₱2,022.82	₱133.26				

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

Deferred purchase payment

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

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

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

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

14. Provision for Decommissioning and Site Rehabilitation

The rollforward analysis of this account follows:

	2010	2009
At January 1	**₱14,773,138**	₱13,204,317
Adjustment	**(3,663,984)**	407,828
Accretion of interest (Note 21)	**774,354**	1,160,993
At December 31	**₱11,883,508**	₱14,773,138

Due to changes in the estimated amount and timing of cash flows for the rehabilitation of the mine site, the Parent Company had made changes in the provision for decommissioning and site rehabilitation. In accordance with the provisions of IFRIC 1, the adjustments were included in the parent company's statement of comprehensive income for the years 2010 and 2009.

15. Capital Stock

The details of the Parent Company's capital stock follow:

	2010	2009
Common stock - ₱1 par value		
Authorized - 1,000,000,000 shares	**₱1,000,000,000**	₱1,000,000,000
Issued and outstanding - 356,250,000 shares in 2010 and 296,875,000 shares in 2009	**356,250,000**	296,875,000

Stock Rights Offering

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

Deposits on Future Stock Subscriptions
On December 1, 2009, DMCI-HI and Dacon Corporation (Dacon) advanced an amount for future stock subscription which aggregated to ₱5.40 billion. Part of these advances was used in the reissuance of treasury shares on April 8, 2010.

Shares Held in Treasury
On July 7, 2005, the BOD approved the buyback of Parent Company shares aggregating 40.00 million shares which begun on August 15, 2005 until December 31, 2005. On January 11, 2006, the BOD approved to extend its buyback program for a period of 60 days starting January 12, 2006 under the same terms and conditions as resolved by the BOD last July 7, 2005, provided that the total number of shares to be reacquired shall in no case exceed 15 million shares.

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

16. Retained Earnings

Cash Dividends
On April 27, 2010, the BOD authorized the Parent Company to declare and distribute cash dividends of ₱6.00 per share or ₱1,781.25 million to stockholders of record as of May 27, 2010. The said cash dividends were paid on June 23, 2010.

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

Restrictions
On April 4, 2005, the BOD authorized the restriction in the amount of ₱1.00 billion out of the Parent Company's retained earnings for future capital expenditures and investment diversification program of the Parent 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 ₱528.89 million as of December 31, 2009.

17. Related Party Transactions

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

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

a. Continuing Indemnity Agreement dated September 3, 1998 with DMCI-HI and certain related parties whereby the Parent 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 Parent 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 Parent 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 2005 and 2006 were still guaranteed by DMCI-HI. Guarantee fees incurred amounted to ₱0.30 million and ₱2.62 million for the years ended December 31, 2010 and 2009 respectively. These are included under finance costs in the statement of comprehensive income. (see Note 21);

b. DMC-Construction Equipment Resources, Inc. (DMC-CERI), an affiliate, had transactions with the Parent Company for services rendered relating to the Parent Company's coal operations. These included services for the confirmatory drilling for coal reserve evaluation of identified potential areas, exploratory drilling of other minerals within Semirara Island, dewatering well drilling along cut-off wall of Panian mine and fresh water well drilling for industrial and domestic supply under an agreement. Expenses incurred for said services amounted to ₱59.17 million and ₱166.22 million for the years ended December 31, 2010 and 2009, respectively. These are included under Cost of coal sales - Outside services (see Note 19). DMC-CERI also provides to the Parent Company marine vessels for use in the delivery of coal to its various customers. The coal freight billing is on a per metric ton basis plus demurrage charges when delay will be incurred in the loading and unloading of coal cargoes. Expenses (at gross amount) incurred for these services amounted to ₱507.86 million and ₱500.75 million for the years ended December 31, 2010 and 2009, respectively, and are included under Cost of sales - Shipping, hauling and shiploading costs (see Note 19). The reported expense of the Parent Company is net of freight payment by NPC (billing is cost & freight). Land lease rental with DMC-CERI amounting to ₱13.74 and ₱13.44 million was accrued during the years December 31, 2010 and 2009, respectively (see Note 11).

c. M&S Company, Inc. rents out various equipment used in the Parent Company's operations. Also, M&S Company supplies the rough lumber used by the Parent Company in its various projects and the seedlings to be planted on the areas surrounding the pit, in compliance with the agreement between the Parent Company and DENR. Rough lumbers were purchased on December 31, 2009 amounting to ₱39.01 million. The related rental expense amounted to ₱91.49 million for the years ended December 31, 2010 and 2009. This is included in Cost of coal sales under "Production overhead" (see Note 19).

d. D.M. Consunji, Inc. (DMCI) had transactions with the Parent Company representing equipment rental and other transactions such as transfer of equipment, hauling and retrofitting services. The related expenses amounted to ₱63.07 million and ₱69.01 million for the years ended December 31, 2010 and 2009, respectively. These are included in Cost of coal sales under "Outside services" (see Note 19).

e. DMC Urban Property Developers, Inc. (UPDI) had transactions with the Parent Company representing long-term lease on office space and other transactions rendered to the Parent Company necessary for the coal operations. Office rental expense amounted to ₱6.97 million and ₱7.78 million in 2010 and 2009, respectively. These are included in Cost of coal sales under "Outside services" (see Note 19)

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

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

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

	2010	2009
Due from related parties (Note 5)		
Under common control	**₱169,308,944**	₱9,043,545
Others	**23,697**	23,697
	169,332,641	9,067,242
Due to related parties (Note 11)		
Stockholders	**298,431**	30,887,889
Under common control	**35,439,785**	162,398,119
Others	**71,236,388**	361,543,477
	106,974,604	554,829,485
	₱62,358,037	(₱545,762,243)

The Parent Company has not recorded any impairment losses on its receivables relating to amounts owned by related companies for the years ended December 31, 2010 and 2009.

Outstanding balances as of December 31, 2010 and 2009, which are unsecured and interest free, are all due within one year. This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

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

	2010	2009
Short-term employee benefits	**₱101,960,815**	₱61,966,888
Post employee benefits	**2,738,299**	1,268,462
	₱104,699,114	₱63,235,350

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

18. Pension Plan

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

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

	2010	2009
Current service cost	**₱4,762,273**	₱3,876,679
Interest cost on benefit obligation	**4,405,532**	3,734,738
Expected return on plan assets	**(1,635,383)**	(1,500,491)
Actuarial gain recognized	**–**	(1,663,057)
	₱7,532,422	₱4,447,869

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

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

Movements in the present value of defined benefit obligation follow:

	2010	2009
Balance at the beginning of the year	**₱40,981,694**	₱39,107,208
Current service cost	**4,762,273**	3,876,679
Interest cost on benefit obligation	**4,405,532**	3,734,738
Benefits paid - from plan assets	**(2,334,000)**	–
Benefits paid - direct payments from book reserve	**(471,408)**	–
Actuarial loss (gain)	**7,047,090**	(5,736,931)
At December 31	**₱54,391,181**	₱40,981,694

Movements in the fair value of plan assets follow:

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

The Parent Company's plan assets consist mainly of cash.

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

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

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

The amounts for the current and previous four periods follow:

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

The Parent Company does not expect any contribution into the pension fund for the annual period ending December 31, 2011.

19. Cost of Coal Sales

The cost of coal sales consists of:

	2010	2009
Materials and supplies (Note 17)	**₱3,667,640,277**	₱2,634,792,929
Outside services (Note 17)	**3,188,413,423**	2,290,521,563
Fuel and lubricants	**2,639,229,932**	1,895,994,109
Depreciation and amortization (Notes 8 and 10)	**1,663,657,419**	1,037,072,834
Production overhead (Note 17)	**510,548,135**	366,772,234
Direct labor	**468,782,763**	336,768,444
Cost of coal	**12,138,271,949**	8,561,922,113
Shipping, hauling and shiploading costs (Note 17)	**507,859,761**	525,769,005
	₱12,646,131,710	₱9,087,691,118

20. Operating Expenses

This account consists of:

	2010	2009
Government share (Note 25)	**₱1,310,029,153**	₱450,151,548
Personnel costs (Notes 17 and 18)	**253,620,056**	125,274,137
Transportation and travel	**94,302,737**	17,804,483
Professional fees	**51,409,670**	27,011,721
Taxes and licenses	**19,932,126**	2,715,877
Entertainment, amusement and recreation	**8,517,996**	9,007,338
Provision for probable loss (Note 10)	**–**	40,374,335
Office and other expenses	**70,189,855**	50,899,051
	₱1,808,001,593	₱723,238,490

Office and other expenses include rental, utilities, repairs and other administrative expenses.

21. Finance Costs

The finance costs are incurred from the following financial liabilities:

	2010	2009
Bank loans	**₱161,519,069**	₱21,896,881
Acceptances and letters of credits, other short-term borrowings and accretion of interest on provision for decommissioning and site rehabilitation	**33,753,452**	11,540,691
	₱195,272,521	₱33,437,572

22. Finance Income

Finance income is derived from the following sources:

	2010	2009
Interest on:		
Short term placements and temporary investments	**₱14,241,945**	₱28,604,294
Cash in banks	**2,802,926**	1,497,884
Accretion on security deposits (Note 10)	**12,787,515**	20,623,718
Others	**188,678**	2,010,403
	₱30,021,064	₱52,736,299

23. Other Income

This account consists of:

	2010	2009
Gain on sale of investments (Note 9)	**₱77,086,632**	₱–
Gain on sale of equipment (Note 8)	**6,088,124**	40,205,597
Reversal of allowance for doubtful accounts - net (Note 5)	**5,677,104**	3,191,293
Recoveries from insurance claims	**5,069,284**	18,173,051
Miscellaneous (Note 31)	**7,214,245**	30,194,181
	₱101,135,389	₱91,764,122

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 parent company statements of comprehensive income follows:

	2010	2009
Statutory income tax rate	**30.00%**	30.00%
Adjustments for:		
Gain on sale of investments	**(0.84)**	–
Interest income subjected to final tax at a lower rate - net of nondeductible interest expense	**(0.01)**	(0.04)
Changes in unrecognized DTA	**(0.19)**	3.51
Tax-exempt income	**(29.55)**	(31.98)
Nondeductible expense	**0.40**	–
Effective income tax rate	**(0.19%)**	1.49%

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

	2010	2009
Deferred income tax liabilities on:		
Net unrealized foreign exchange gains	**₱20,192,488**	₱7,217,334
Incremental cost of property, plant and equipment	**7,846,604**	25,353,249
Unamortized prepaid rent	**48,213**	3,339,233
Net deferred income tax liabilities	**₱28,087,305**	₱35,909,816

The Parent Company had the following deductible temporary differences that are available for offset against future taxable income or tax payable for which deferred tax assets have not been recognized:

	2010	2009
Provision for probable losses	**₱40,374,335**	₱40,374,335
Allowance for inventory write down	**53,286,925**	53,286,925
Pension costs	**19,996,748**	12,935,734
Allowance for doubtful accounts	**18,255,318**	23,711,556
Provision for decommissioning and site rehabilitation	**11,883,508**	14,773,138
Unamortized discount on security deposits	**168,856**	12,956,370
	₱143,965,690	₱158,038,058

The R.A. No. 9337 that was enacted into law in 2005 amended various provisions in the existing 1997 National Internal Revenue Code. Among the reforms introduced by the said R.A. was the reduction of the income tax rate from 35% to 30% beginning January 1, 2009. It further provides that nondeductible interest expense shall be reduced from 42% to 33% of interest income subjected to final tax beginning January 1, 2009.

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

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

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

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

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

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

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

25. Coal Operating Contract with DOE

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

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

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

In return for the mining rights granted to the Parent Company, the Government is entitled to receive annual royalty payments consisting of the balance of the gross income after deducting operating expenses, operator's fee and special allowance. The Parent Company's provision for DOE's share (including accrued interest computed at 14% per annum on outstanding balance) under this contract and to the different local government units in the province of Antique, under the provisions of the Local Government Code of 1991, amounted to ₱1,310.03 million and ₱450.15 million for the year ended December 31, 2010 and 2009, respectively (see Note 20). The liabilities, amounting to ₱1,013.04 million and ₱216.52 million are included under the "Trade and other payables" account in the parent company statements of financial position (see Note 11).

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

26. Contingencies and Commitments

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

27. Financial Risk Management Objectives and Policies

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

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

The main risks arising from the Parent 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.

The sensitivity analyses have been prepared on the following basis:

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

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

Price risk

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

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

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

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

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

	2010	2009
Domestic market	**29.24%**	24.91%
Export market	**57.36**	50.66
as a percentage of total coal sales volume		

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

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

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

Interest Rate Risk
The Parent Company's exposure to the risk of changes in market interest rates relates primarily to the Parent Company's long-term obligations with floating interest rates. The Parent Company's policy is to manage its interest cost using a mix of fixed and variable rate debts. The Parent 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 Parent Company's financial instruments that are exposed to cash flow (floating rate instrument) and fair value (fixed rate instrument) interest rate risks and are presented by maturity profile.

<u>2010</u>

	Interest	Within 1 year	1-2 years	2-3 years	3-4 years	More than 4 years	Carrying Value
				(In Thousands)			
Cash equivalents	**2% to 4.5%**	**₱1,216,638**	**₱–**	**₱–**	**₱–**	**₱–**	**₱1,216,638**
Foreign long-term debt at floating rate							
$16.0 million loan (USD)	**1.59%-2.88% payable in arrears, to be repriced every 90 days**	**₱–**	**₱701,440**	**₱–**	**₱–**	**₱–**	**701,440**
$14.58 million loan (USD)	**1.95% p.a. payable semi-annually in arrears, to be repriced every 6 months**	**–**	**639,057**	**–**	**–**	**–**	**639,057**
$10.08 million loan (USD)	**1.90% p.a. for 92 days, to be repriced every 30 to 180 days**	**–**	**442,081**	**–**	**–**	**–**	**442,081**
$5.48 million loan (USD)	**1.82% p.a. to be repriced every 3 months**	**–**	**240,239**	**–**	**–**	**–**	**240,239**
Deferred purchase payment at floating rate	**4.00% p.a. over the rate 180 days**	**–**	**774,744**	**–**	**–**	**–**	**774,744**
		₱–	**₱2,797,561**	**₱–**	**₱–**	**₱–**	**₱2,797,561**

<u>2009</u>

	Interest	Within 1 year	1-2 years	2-3 years	3-4 years	More than 4 years	Carrying Value
				(In Thousands)			
Cash equivalents	5.25% to 6.5%	₱369,720	₱–	₱–	₱–	₱–	₱369,720
Notes Payable							
Various local bank loans	5.50%-6.75% fixed p.a.	₱793,191	₱–	₱–	₱–	₱–	₱793,191
Foreign long-term debt at floating rate							
$15.14 million loan (USD)	6-month USD LIBOR plus 1.50% per annum	61,055	–	–	–	–	61,055
$6.64 million loan (USD)	3-month SIBOR plus 1.95% p.a.	72,202	–	–	–	–	72,202
Deferred purchase payment at floating rate	4.00% p.a. over the rate 180 days	–	474,364	–	–	–	474,364
Short-term loans	8.00%-11.00% interest rate plus 1.95% per annum	51,450	–	–	–	–	51,450
		₱977,898	₱474,364	₱–	₱–	₱–	₱1,452,262

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

	Effect on Profit Before Tax			
Basis points (in hundred thousands)	**2010**		2009	
+100	**(₱27,976)**	**(US$638.13)**	(₱6,076)	(US$131.52)
-100	**27,976**	**638.13**	6,076	131.52

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

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

Liquidity Risk
Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Parent Company's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans. The Parent 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. A significant part of the Parent Company's financial assets that are held to meet the cash outflows include cash equivalents and accounts receivables. Although accounts receivables are contractually collectible on a short-term basis, the Parent Company expects continuous cash inflows through continuous production and sale of coal and power generation. In addition, although the Parent Company's short-term investments are collectible at a short notice, the deposit base is stable over the long term as deposit rollovers and new deposits can offset cash outflows.

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

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

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

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

2010

	Less than 6 months	6-12 months	1-2 years	2-3 years	More than 3 years	Total – Gross (in ₱)
Assets:						
Cash and cash equivalents	₱2,803,944,398	₱–	₱–	₱–	₱–	₱2,803,944,398
Receivables						
Trade						
Local sales	749,328,994	–	–	–	–	749,328,994
Export sales	582,130,762	–	–	–	–	582,130,762
Due from related parties	169,332,641	–	–	–	–	169,332,641
Others	16,378,995	–	–	–	–	16,378,995
Security deposits	304,400,611	–	–	–	–	304,400,611
Environmental guarantee fund	–	–	–	–	1,500,000	1,500,000
	₱4,625,516,401	₱–	₱–	₱–	₱1,500,000	₱4,627,016,401
Liabilities:						
Trade and other payables						
Trade	₱3,117,416,772	₱–	₱–	₱–	₱–	₱3,117,416,772
Payable to DOE and local government units	1,013,039,943	–	–	–	–	1,013,039,943
Due to related parties	106,974,604	–	–	–	–	106,974,604
Accrued expenses and other payables	145,788,131	–	–	–	–	145,788,131
Short-term loans	449,845,179	–	–	–	–	449,845,179
Long term debt at floating rate						
$16.0 million loan (USD) with interest payable in arrears, to be repriced every 90 days	–	–	714,934,072	–	–	714,934,072
$14.58 million loan (USD) with interest payable semi-annually in arrears, to be repriced every six (6) months	–	–	651,305,249	–	–	651,305,249
$10.08 million loan (USD) with interest payable in arrears, to be repriced every 30 to 180 days	–	–	490,537,511	–	–	490,537,511
$5.48 million loan (USD) with interest payable in arrears, to be repriced every three (3) months	–	–	244,279,517	–	–	244,279,517
$17.62 million deferred purchase payment at 4% interest p.a. over the rate 180 days BBA LIBOR on 2 business days prior to 1st day of interest period	–	–	775,376,956	–	–	775,376,956
	₱4,833,064,629	₱–	₱2,876,433,305	₱–	₱–	₱7,709,497,934
Liquidity gap	(₱207,548,228)	₱–	(₱2,876,433,305)	₱–	₱1,500,000	(₱3,082,481,533)

2009

	Less than 6 months	6-12 months	1-2 years	2-3 years	More than 3 years	Total – Gross (in ₱)
Assets:						
Cash and cash equivalents	₱460,222,691	₱–	₱–	₱–	₱–	₱460,222,691
Receivables						
Trade						
Local sales	523,058,287	–	–	–	–	523,058,287
Export sales	414,815,233	–	–	–	–	414,815,233
Due from related parties	9,067,242	–	–	–	–	9,067,242
Others	16,300,175	–	–	–	–	16,300,175
Security deposits	–	–	291,613,096	–	–	291,613,096
Environmental guarantee fund	–	–	–	–	1,500,000	1,500,000
	₱1,423,463,628	₱–	₱291,613,096	₱–	₱1,500,000	₱1,716,576,724
Liabilities:						
Trade and other payables						
Trade	₱1,517,169,390	₱–	₱–	₱–	₱–	₱1,517,169,390
Payable to DOE and local government units	216,516,873	–	–	–	–	216,516,873
Due to related parties	554,829,485	–	–	–	–	554,829,485
Accrued expenses and other payables	104,263,133	–	–	–	–	104,263,133
Notes payable						
Various local bank loans 5.5-8% interest rate	793,191,385	–	–	–	–	793,191,385
Short-term loans	53,894,054	–	–	–	–	53,894,054
Long term debt at floating rate						
$15.14 million loan (USD) 6 months USD Libor plus 1.5% per annum	61,971,207	–	–	–	–	61,971,207
$6.64 million loan (USD) 3 months SIBOR plus 1.95% per annum	73,610,394	–	–	–	–	73,610,394
$4.63 million deferred purchase payment at 4% p.a over the rate 180 days BBA LIBOR on 2 business days prior to 1st day of interest period	–	–	512,312,715	–	–	512,312,715
	₱3,375,445,921	₱–	₱512,312,715	₱–	₱–	₱3,887,758,636
Liquidity gap	(₱1,951,982,293)	₱–	(₱220,699,619)	₱–	₱1,500,000	(₱2,171,181,912)

Foreign Currency Risk
The Parent Company's foreign currency risk results primarily from movements of the Philippine Peso (₱) against the US$. Majority of revenues are generated in Peso, however, substantially all of capital expenditures are in US$. Approximately 40.78% and 45.47% of debts as of December 31, 2010 and 2009, respectively, were denominated in US$.

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

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

	December 31, 2010		December 31, 2009	
	U.S. Dollar	**Peso Equivalent**	U.S. Dollar	Peso Equivalent
Assets				
Cash and cash equivalents	**\$47,314,167**	**₱2,074,253,081**	\$6,388,441	₱295,145,974
Trade receivables	**13,278,530**	**582,130,762**	8,919,899	412,099,333
Liabilities				
Trade payables	**(5,434,046)**	**(238,228,589)**	(2,112,195)	(97,583,413)
Short-term loans	**(10,621,067)**	**(449,845,177)**	(1,113,640)	(51,450,171)
Long-term debt (including current portion)	**(63,812,979)**	**(2,797,560,988)**	(13,151,979)	(607,621,448)
Net foreign currency denominated liabilities	**(\$19,275,395)**	**(₱829,250,911)**	(\$1,069,474)	₱(49,409,725)

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

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

Reasonably possible change in foreign exchange rate for every two units of Philippine Peso	Increase (decrease) in profit before tax	
	2010	2009
₱2	**(₱38,550,790)**	(₱2,138,948)
(₱2)	**38,550,790**	2,138,948

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

The Parent Company recognized ₱235.80 million foreign exchange gain and ₱152.25 million foreign exchange loss for the year ended December 31, 2010 and 2009, respectively, arising from the translation of the Parent Company's cash and cash equivalents, trade receivables, trade 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 Parent Company trades only with recognized, creditworthy third parties. It is the Parent Company's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. The Parent 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 Parent Company's approval, hence, mitigating the risk on collection. In addition, receivable balances are monitored on an ongoing basis with the result that the Parent Company's exposure to bad debts is not significant.

The Parent 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 Parent Company, which comprise cash and cash equivalents, due from related parties, security deposits, and environmental guarantee fund, the Parent 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 Parent Company transacts only with institutions and entities that have proven track record in financial soundness.

The credit risk is concentrated to the following markets:

	2010	2009
Trade		
Local sales	**55.61%**	54.92%
Export sales	**43.20**	43.55
Other receivables	**1.19**	1.53
Total	**100.00%**	100.00%

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

	Gross Maximum Exposure	
	2010	2009
Cash and cash equivalents	**₱2,809,335,762**	₱464,936,844
Receivables		
Trade		
Local sales	**749,328,994**	523,058,287
Export sales	**582,130,762**	414,815,233
Due from related parties	**169,332,641**	9,067,242
Others	**16,002,039**	14,610,313
Security deposits	**304,400,611**	291,613,296
Environmental guarantee fund	**1,500,000**	1,500,000
Total credit risk exposure	**₱4,632,030,809**	₱1,719,601,215

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

2010

	Neither Past Due nor Impaired		Substandard	Past due or Individually	
	Grade A	Grade B	Grade	Impaired	Total
Cash and cash equivalents	₱2,809,335,762	₱–	₱–	₱–	₱2,809,335,762
Trade					
Local sales	296,162,509	347,712,843	–	113,345,985	757,221,337
Export sales	582,130,762	–	–	–	582,130,762
Due from related parties	169,332,641	–	–	–	169,332,641
Others	–	730,058	–	26,011,912	26,741,970
Security deposits	304,400,611	–	–	–	304,400,611
Environmental guarantee fund	1,500,000	–	–	–	1,500,000
Total	₱4,162,862,285	₱348,442,901	₱–	₱139,357,897	₱4,650,663,083

2009

	Neither Past Due nor Impaired		Substandard	Past due or Individually	
	Grade A	Grade	Grade	Impaired	Total
Cash and cash equivalents	₱464,936,844	₱–	₱–	₱–	₱464,936,844
Trade					
Local sales	321,562,131	6,635,675	–	208,429,928	536,627,734
Export sales	414,815,233	–	–	–	414,815,233
Due from related parties	9,067,242	–	–	–	9,067,242
Others	–	2,912,825	–	23,529,460	26,442,285
Security deposits	291,613,296	–	–	–	291,613,296
Environmental guarantee fund	1,500,000	–	–	–	1,500,000
Total	₱1,503,494,746	₱9,548,500	₱–	₱231,959,388	₱1,745,002,634

Cash and cash equivalents are short-term placements and working cash fund placed, invested or deposited in foreign and local banks belonging to top ten (10) banks in the Philippines in terms of resources and profitability. These financial assets are classified as Grade A due to the counterparties' low probability of insolvency.

Grade A trade receivables are considered to be of high value and are secured with coal supply agreements. The counterparties have a very remote likelihood of default and have consistently exhibited good paying habits.

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

Grade B trade and other receivables are active accounts with minimal to regular instances of payment default, due to collection issues. These accounts are typically not impaired as the counterparties generally respond to the Parent Company's collection efforts and update their payments accordingly.

Substandard grade are accounts which have probability of impairment based on historical trend or customer's current unfavorable operating conditions. In the Parent Company's assessment, there are no financial assets that will fall under this category due to the following reasons:

- Local sales – transactions were entered with reputable and creditworthy companies.
- Export sales – covered by irrevocable letter of credit at sight from a reputable bank acceptable to the Parent Company.

The Parent Company determines financial assets as impaired when probability of recoverability is remote and in consideration of lapse in period which the asset is expected to be recovered.

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

2010

	Past Due but not Impaired		**Impaired Financial**	
	<45 days	**45-135 days**	**Assets**	**Total**
Receivables				
Trade - local sales	**₱91,602,242**	**₱13,851,400**	**₱7,892,343**	**₱113,345,985**
Others	**6,606,977**	**9,041,960**	**10,362,975**	**26,011,912**
Total	**₱98,209,219**	**₱22,893,360**	**₱18,255,318**	**₱139,357,897**

2009

	Past Due but not Impaired		Impaired Financial	
	<45 days	45-135 days	Assets	Total
Receivables				
Trade - local sales	₱191,846,565	₱3,013,916	₱13,569,447	₱208,429,928
Others	1,914,484	11,472,866	10,142,110	23,529,460
Total	₱193,761,049	₱14,486,782	₱23,711,557	₱231,959,388

Capital Management

The primary objective of the Parent 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 Parent 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 Parent Company may adjust the dividend payment to shareholders or issue new shares. There were no changes made in the Parent Company's capital management objectives, policies or processes.

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

	2010	2009
Total paid-up capital	**₱7,031,777,411**	₱7,275,797,256
Retained earnings - unappropriated	**3,083,362,536**	2,388,423,093
Retained earnings - appropriated	**700,000,000**	700,000,000
Cost of shares held in treasury	–	(528,891,260)
	₱10,815,139,947	₱9,835,329,089

28. Fair Values

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

	2010		2009	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Financial Assets				
Cash and cash equivalents	**₱2,809,335,762**	**₱2,809,335,762**	₱464,936,844	₱464,936,844
Trade:				
Local sales	**749,328,994**	**749,328,994**	523,058,287	523,058,287
Export sales	**582,130,762**	**582,130,762**	414,815,233	414,815,233
Due from related parties	**169,332,641**	**169,332,641**	9,067,242	9,067,242
Others	**16,378,995**	**16,378,995**	16,300,175	16,300,175
Security deposits	**304,400,611**	**304,400,611**	291,613,296	296,438,346
Environmental guarantee fund	**1,500,000**	**1,500,000**	1,500,000	1,500,000
	₱4,632,407,765	**₱4,632,407,765**	₱1,721,291,077	₱1,726,116,127
Financial Liabilities				
Trade and other payables:				
Trade payables	**₱3,117,416,772**	**₱3,117,416,772**	₱1,517,169,390	₱1,955,714,995
Accrued expenses and other payables	**145,788,131**	**145,788,131**	104,263,133	104,263,133
Due to related parties	**106,974,604**	**106,974,604**	554,829,485	554,829,485
Payable to DOE and local government units	**1,013,039,943**	**1,013,039,943**	216,516,873	216,516,873
Short term loans	**449,845,179**	**449,845,179**	844,641,556	844,641,556
Long-term debt	**2,797,560,988**	**2,797,560,988**	607,621,448	610,747,267
	₱7,630,625,617	**₱7,630,625,617**	₱3,845,041,885	₱4,286,713,309

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

Loans and receivables

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

As of December 31, 2010, the fair values of the security deposits approximate their carrying amounts since these are already receivable within the year. As of December 31, 2009, the fair values of security deposits are calculated by discounting expected future cash flows at applicable rates for similar instruments using the remaining terms to maturity. The discount rate used ranged from 3.82% to 4.93%.

Financial Liabilities

Trade and other payables and short term loans

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

Floating rate long-term debt

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

Fair Value Hierarchy

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

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

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

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

As of December 31, 2010, the Parent Company does not have financial instruments measured at fair value.

29. Lease Commitments

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

As of December 31, 2010 and 2009, the future minimum lease payments under this operating lease follow:

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

30. Note to Cash Flow Statements

Supplemental disclosure of noncash investing and financing activities follow:

	2010	2009
Acquisition of conventional and other mining equipment through bank loans (see Note 13)	**₱300,379,924**	₱474,363,625

31. **Segment Information**

The Parent Company is engaged in surface open cut mining of thermal coal and is managed by the CODM as a single business unit. The CODM monitors the operating results of the Parent Company for the purpose of making decisions about resource allocation and performance assessment. The Parent Company performance is evaluated based on revenue and net income before tax which are measured similarly as profit or loss in the Parent Company's financial statements.

Geographic Information
The financial information about the operations of the Parent Company as of December 31, 2010 and 2009 reviewed by the management follows:

	2010	2009
Revenue		
Export coal sales	**₱8,926,587,776**	₱4,247,240,809
Local:		
Coal sales	**7,816,712,579**	7,358,205,411
Coal Handling	**10,646,766**	69,785,477
Electricity (Note 23)	**1,396,089**	18,594,897
	₱16,755,343,210	₱11,693,826,594
Income before income tax	**₱2,471,498,565**	₱1,823,115,965

Substantially all revenues from external customer are from open cut mining and sales of thermal coal. Local and export classification above is based on the location of the customer.

Sales to power companies amounted to ₱2,373.80 million and ₱4,472.03 million for the period ended December 31, 2010 and 2009, respectively.

The following information presents the operating assets and liabilities of the Parent Company as of December 31, 2010 and 2009.

2010

	Mining	**Power Generation**	**Consolidated**
Operating assets	**₱10,779,152,305**	**₱–**	**₱10,779,152,305**
Investments and advances	**–**	**8,000,000,000**	**8,000,000,000**
	₱10,779,152,305	**₱8,000,000,000**	**₱18,779,152,305**
Operating liabilities	**₱5,138,364,065**	**₱–**	**₱5,138,364,065**
Long-term debt	**2,797,560,988**	**–**	**2,797,560,988**
Deferred tax liabilities	**28,087,305**	**–**	**28,087,305**
	₱7,964,012,358	**₱–**	**₱7,964,012,358**
Other disclosures			
Capital expenditure	**₱3,291,596,552**	**₱–**	**₱3,291,596,552**

2009

	Mining	Power Generation	Consolidated
Operating assets	₱6,455,891,122	₱–	₱6,455,891,122
Investments and advances		7,445,501,480	7,445,501,480
	6,455,891,120	7,445,501,480	13,901,392,602
Operating liabilities	₱3,442,532,249	₱–	₱3,442,532,249
Long-term debt	607,621,448	–	607,621,448
Deferred tax liabilities	35,909,816	–	35,909,816
	₱4,086,063,513	₱–	₱4,086,063,513
Other disclosures			
Investment in associates	₱100,000,000	₱185,550,000	₱285,550,000
Capital expenditure	2,850,704,662	–	2,850,704,662

1. Segment assets include investments in associates accounted for by the cost method
2. Segment liabilities exclude deferred tax and income tax payable. Long term bank loans are no longer included as these are managed on a group basis
3. Capital expenditures consist of additions of property, plant and equipment
4. All non-current assets other than financial instruments are located in the Philippines.

32. Approval of Financial Statements

The parent company financial statements of Semirara Mining Corporation as of December 31, 2010 and 2009 were endorsed for approval by the Audit Committee on February 15, 2011 and were authorized for issue by the Executive Committee of the Board of Directors (BOD) on March 7, 2011.