SEMIRARA MINING CORPORATION
INDEPENDENT AUDITORS' REPORT

SGV & Co

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

Phone: (632) 891-0307
Fax: (632) 819-0872
www.sgv.com.ph

BOA/PRC Reg. No. 0001
SEC Accreditation No. 0012-FR-1

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

We have audited the accompanying financial statements of Semirara Mining Corporation, which comprise the balance sheets as at December 31, 2007 and 2006, and the statements of income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2007, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

SEMIRARA MINING CORPORATION
INDEPENDENT AUDITORS' REPORT

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Semirara Mining Corporation as of December 31, 2007 and 2006, and its financial performance and its cash flows for each of the three years in the period ended December 31, 2007 in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.

Jessie D. Cabaluna
Partner
CPA Certificate No. 36317
SEC Accreditation No. 0069-AR-1
Tax Identification No. 102-082-365
PTR No. 0017583, January 3, 2008, Makati City

March 18, 2008

The Stockholders and the Board of Directors
Semirara Mining Corporation

We have audited the accompanying financial statements of Semirara Mining Corporation, which comprise the balance sheets as at December 31, 2007 and 2006, and the statements of income, statements of changes in equity and statements of cash flows for the three years in the period ended December 31, 2007, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

SEMIRARA MINING CORPORATION
INDEPENDENT AUDITORS' REPORT

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Semirara Mining Corporation as of December 31, 2007 and 2006, and its financial performance and its cash flows for each of the three years in the period ended December 31, 2007 in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.

Jessie D. Cabaluna
Partner
CPA Certificate No. 36317
SEC Accreditation No. 0069-AR-1
Tax Identification No. 102-082-365
PTR No. 0017583, January 3, 2008, Makati City

March 18, 2008

SGV & Co

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

Phone: (632) 891-0307
Fax: (632) 819-0872
www.sgv.com.ph

BOA/PRC Reg. No. 0001
SEC Accreditation No. 0012-FR-1

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

We have audited in accordance with Philippine Standards on Auditing, the financial statements of Semirara Mining Corporation included in this Form 17-A and have issued our report thereon dated March 18, 2008. Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the Index to Financial Statements and Supplementary Schedules are the responsibility of the Company's management. These schedules are presented for purposes of complying with the Securities Regulation Code (SRC) Rule 68.1 and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state in all material respects, the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Jessie D. Cabaluna
Partner
CPA Certificate No. 36317
SEC Accreditation No. 0069-AR-1
Tax Identification No. 102-082-365
PTR No. 0017583, January 3, 2008, Makati City

March 18, 2008

SEMIRARA MINING CORPORATION
BALANCE SHEETS

	December 31	
	2007	2006
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 4 and 28)	₱1,650,806,337	₱510,439,223
Short-term cash investment (Notes 17 and 28)	–	300,000,000
Receivables - net (Notes 3, 5, 12, 17, and 28)	1,115,816,166	566,877,125
Inventories - net (Notes 3 and 6)	1,452,670,221	1,840,409,362
Other current assets (Note 7)	215,241,438	187,975,060
Total Current Assets	4,434,534,162	3,405,700,770
Noncurrent Assets		
Property, plant and equipment - net (Notes 3, 8 and 13)	1,904,372,202	3,095,262,309
Investments and advances (Note 9)	80,871,207	–
Other noncurrent assets - net (Notes 3 and 10)	2,869,167	10,230,087
Total Noncurrent Assets	1,988,112,576	3,105,492,396
	₱6,422,646,738	₱6,511,193,166
LIABILITIES AND EQUITY		
Current Liabilities		
Trade and other payables (Notes 11, 17 and 28)	₱546,601,656	₱320,464,835
Current portion of long-term debt (Notes 8, 13 and 28)	730,171,195	976,010,745
Income tax payable	40,166,543	30,568,160
Customers' deposits (Note 12)	8,867,023	18,895,985
Total Current Liabilities	1,325,806,417	1,345,939,725
Noncurrent Liabilities		
Long-term debt - net of current portion (Notes 8, 13 and 28)	397,581,035	713,056,539
Deferred tax liability - net (Notes 3 and 24)	67,603,209	73,794,342
Provision for decommissioning and site rehabilitation (Notes 3 and 14)	12,205,198	11,138,611
Pension liability (Notes 3 and 18)	4,659,224	52,669,928
Total Noncurrent Liabilities	482,048,666	850,659,420
	1,807,855,083	2,196,599,145
Equity (Notes 15 and 16)		
Capital stock	296,875,000	296,875,000
Additional paid-in capital	1,576,796,271	1,576,796,271
Retained earnings	3,270,011,644	2,969,814,010
	5,143,682,915	4,843,485,281
Cost of shares held in treasury (Note 15)	(528,891,260)	(528,891,260)
Total Equity	4,614,791,655	4,314,594,021
	₱6,422,646,738	₱6,511,193,166

See accompanying Notes to Financial Statements.

SEMIRARA MINING CORPORATION
STATEMENTS OF INCOME

	Years Ended December 31		
	2007	2006	2005
SALES AND SERVICES (Note 12)	₱6,466,700,620	₱4,687,694,870	₱5,552,892,725
COST OF SALES (Notes 17 and 19)	5,193,989,609	3,713,161,109	3,305,420,022
GROSS PROFIT	1,272,711,011	974,533,761	2,247,472,703
OPERATING EXPENSES (Notes 17, 18, 20 and 26)	(324,382,373)	(133,125,734)	(271,639,979)
FINANCE COSTS (Notes 17 and 21)	(140,251,461)	(213,038,456)	(118,518,445)
FINANCE REVENUE (Notes 17 and 22)	40,301,348	54,526,586	55,111,406
FOREIGN EXCHANGE GAINS - Net	102,964,270	119,964,722	98,094,920
OTHER INCOME (Note 23)	9,423,888	107,607,836	4,435,259
	(311,944,328)	(64,065,046)	(232,516,839)
INCOME BEFORE INCOME TAX	960,766,683	910,468,715	2,014,955,864
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 24)			
Current	333,672,822	297,259,609	435,939,571
Deferred	(6,191,133)	11,966,248	(13,326,528)
	327,481,689	309,225,857	422,613,043
NET INCOME	₱633,284,994	₱601,242,858	₱1,592,342,821
Basic / Diluted Earnings Per Share (Note 25)	₱2.28	₱2.16	₱5.47

See accompanying Notes to Financial Statements.

SEMIRARA MINING CORPORATION
STATEMENTS OF CHANGES IN EQUITY

	Paid-up Capital							
	Common Stock (Note 15)	Additional Paid-in Capital (Note 15)	Total Paid-up Capital	Unappropriated Retained Earnings (Note 16)	Appropriated Retained Earnings (Note 16)	Total	Cost of Shares Held in Treasury (Notes 15 and 16)	Grand Total
				For the Year Ended December 31, 2007				
At January 1	₱296,875,000	₱1,576,796,271	₱1,873,671,271	₱1,969,814,010	₱1,000,000,000	₱2,969,814,010	(₱528,891,260)	₱4,314,594,021
Net income for the year	–	–	–	633,284,994	–	633,284,994	–	633,284,994
Dividends	–	–	–	(333,087,360)	–	(333,087,360)	–	(333,087,360)
At December 31	₱296,875,000	₱1,576,796,271	₱1,873,671,271	₱2,270,011,644	₱1,000,000,000	₱3,270,011,644	(₱528,891,260)	₱4,614,791,655
				For the Year Ended December 31, 2006				
At January 1	₱296,875,000	₱1,576,796,271	₱1,873,671,271	₱1,701,658,512	₱1,000,000,000	₱2,701,658,512	(₱383,633,460)	₱4,191,696,323
Net income for the year	–	–	–	601,242,858	–	601,242,858	–	601,242,858
Dividends	–	–	–	(333,087,360)	–	(333,087,360)	–	(333,087,360)
Acquisition of treasury shares	–	–	–	–	–	–	(145,257,800)	(145,257,800)
At December 31	₱296,875,000	₱1,576,796,271	₱1,873,671,271	₱1,969,814,010	₱1,000,000,000	₱2,969,814,010	(₱528,891,260)	₱4,314,594,021
				For the Year Ended December 31, 2005				
At January 1	₱250,000,000	₱1,277,836	₱251,277,836	₱1,109,315,691	₱–	₱1,109,315,691	₱–	₱1,360,593,527
Net income for the year	–	–	–	1,592,342,821	–	1,592,342,821	–	1,592,342,821
Additional issuance of common stock	46,875,000	1,575,518,435	1,622,393,435	–	–	–	–	1,622,393,435
Appropriation during the year	–	–	–	(1,000,000,000)	1,000,000,000	–	–	–
Acquisition of treasury shares	–	–	–	–	–	–	(383,633,460)	(383,633,460)
At December 31	₱296,875,000	₱1,576,796,271	₱1,873,671,271	₱1,701,658,512	₱1,000,000,000	₱2,701,658,512	(₱383,633,460)	₱4,191,696,323

See accompanying Notes to Financial Statements.

SEMIRARA MINING CORPORATION
STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2007	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	₱960,766,683	₱910,468,715	₱2,014,955,864
Adjustments for:			
Depreciation and amortization (Notes 8 and 10)	1,651,861,176	1,169,414,380	1,238,929,678
Finance costs (Note 21)	140,251,461	213,038,456	118,518,445
Donation of school campus (Note 31)	18,164,254	–	–
Gain on sale of equipment (Notes 8 and 23)	(5,173,911)	(20,066,758)	–
Finance revenue (Note 22)	(40,301,348)	(54,526,586)	(55,111,406)
Net unrealized foreign exchange gains	(41,555,757)	(85,679,563)	(74,911,051)
Reversal of provision for real property tax (Notes 20 and 24)	–	(71,530,122)	–
Operating income before changes in working capital	2,684,012,558	2,061,118,522	3,242,381,530
Changes in operating assets and liabilities:			
Decrease (increase) in:			
Receivables	(543,458,037)	608,232,450	(366,991,928)
Inventories	263,719,356	(307,493,089)	(810,931,821)
Other current assets	(27,266,378)	(245,539,448)	(7,898,712)
Increase (decrease) in:			
Trade and other payables	203,050,742	(8,784,115)	(583,480,152)
Customers' deposits	(10,028,962)	(31,156,482)	(63,874,944)
Pension liability	(48,010,704)	10,337,567	7,836,430
Cash generated from operations	2,522,018,575	2,086,715,405	1,417,040,403
Interest received	34,820,344	51,271,791	55,111,406
Interest paid	(116,098,795)	(199,858,017)	(130,868,816)
Income taxes paid	(324,074,439)	(448,669,703)	(44,408,239)
Net cash provided by operating activities	2,116,665,685	1,489,459,476	1,296,874,754
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from (placement of) short-term cash investment (Note 17)	300,000,000	(300,000,000)	–
Decrease (increase) in other noncurrent assets (Note 10)	5,684,483	39,195,667	(36,190,069)
Proceeds from sale of equipment	5,380,800	20,115,000	–
Additions to investments	(80,871,207)	–	–
Additions to property, plant and equipment (Notes 8 and 31)	(214,754,775)	(633,924,797)	(1,143,281,804)
Net cash provided by (used in) investing activities	15,439,301	(874,614,130)	(1,179,471,873)

See accompanying Notes to Financial Statements.

SEMIRARA MINING CORPORATION
STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2007	**2006**	**2005**
CASH FLOWS FROM FINANCING ACTIVITIES			
Availments of long-term debt	**446,857,219**	**320,460,732**	**1,193,955,068**
Payment of dividends (Note 16)	**(333,087,360)**	**(333,087,360)**	**–**
Repayment of long-term debt	**(1,105,507,731)**	**(1,278,163,549)**	**(1,253,045,049)**
Additional subscription to capital stock (Note 15)	**–**	**–**	**1,622,393,435**
Payment on acquisition of shares held in treasury (Note 15)	**–**	**(145,257,800)**	**(383,633,460)**
Net cash provided by (used in) financing activities	**(991,737,872)**	**(1,436,047,977)**	**1,179,669,994**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**1,140,367,114**	**(821,202,631)**	**1,297,072,875**
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**510,439,223**	**1,331,641,854**	**34,568,979**
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	**₱1,650,806,337**	**₱510,439,223**	**₱1,331,641,854**

See accompanying Notes to Financial Statements.

1. Corporate Information

Semirara Mining Corporation (the Company) was incorporated and domiciled in the Philippines. The Company's registered office address is 2281 Don Chino Roces Avenue, Makati City. The Company is a majority-owned (58.31%) subsidiary of DMCI Holdings, Inc. (DMCI-HI), a company incorporated in the Philippines.

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

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

The financial statements of Semirara Mining Corporation as of December 31, 2007 and 2006 and for each the three years ended December 31, 2007 were authorized for issue by the Audit Committee on March 7, 2008 and by the Board of Directors (BOD) on March 18, 2008.

2. Summary of Significant Accounting policies

Basis of Preparation

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

Statement of Compliance

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

Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year except as follows:

New PFRS, Amendment to PAS and Philippine Interpretations effective in 2007

The Company has adopted the following new Philippine Financial Reporting Standards (PFRS) and amended Philippine Accounting Standards (PAS) and Philippine Interpretations during the year. Adoption of these revised standards and Philippine Interpretations did not have any effect on the financial statements of the Company. These, however, give rise to additional disclosures.

- PFRS 7 *Financial Instruments: Disclosures*
- PAS 1 *Amendment - Presentation of Financial Statements*
- Philippine Interpretation IFRIC 7 - *Applying the Restatement Approach Under PAS 29, Financial Reporting in Hyperinflationary Economies*
- Philippine Interpretation IFRIC 8 *Scope of PFRS 2*

- Philippine Interpretation IFRIC 9 *Reassessment of Embedded Derivatives*
- Philippine Interpretation IFRIC 10 *Interim Financial Reporting and Impairment*

The principal effects of these changes are as follows:

PFRS 7 - *Financial Instruments: Disclosures*

PFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It replaces PAS 30, *Disclosures in the Financial Statements of Banks and Similar Financial Institutions*, and the disclosure requirements in PAS 32, *Financial Instruments: Disclosure and Presentation*. It is applicable to all entities that report under PFRS.

The Company adopted the amendment to the transition provisions of PFRS 7, as approved by the Financial Reporting Standards Council, which gives transitory relief with respect to the presentation of comparative information for the new risk disclosures about the nature and extent of risks arising from financial instruments. Accordingly, the Company does not need to present comparative information for the disclosures required by paragraphs 31-42 of PFRS 7, unless the disclosure was previously required under PAS 30 or PAS 32. Adoption of PFRS 7 resulted in additional disclosures, which are included throughout the financial statements. Adoption of this standard resulted in the inclusion of additional disclosures such as market risk sensitivity analysis, contractual maturity analysis of financial liabilities and aging analysis of financial assets that are past due but not impaired (Note 28).

PAS 1 *Amendments to - Presentation of Financial Statements*

The amendment to PAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. Adoption of the Amendments resulted to the inclusion of additional disclosures on capital management (Note 28).

Philippine Interpretation IFRIC 7 - *Applying the Restatement Approach under PAS 29 Financial* This Philippine Interpretation requires entities to apply PAS 29, *Financial Reporting in Hyper-inflationary Economies*, in the reporting period in which an entity first identifies the existence of hyperinflation in the economy of its functional currency as if the economy had always been hyperinflationary. This Philippine Interpretation is not applicable to the Company.

Philippine Interpretation IFRIC 8 - *Scope of PFRS 2*

This interpretation requires PFRS 2 to be applied to any arrangements in which the entity cannot identify specifically some or all of the goods received, in particular where equity instruments are issued for consideration which appears to be less than fair value. The adoption of this Philippine Interpretation will not impact the financial statements as the Company has no share-based payments.

Philippine Interpretation IFRIC 9 - *Reassessment of Embedded Derivatives*

Philippine Interpretation IFRIC 9 states that the date to assess the existence of an embedded derivative is the date that an entity first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. As the Company has no embedded derivative requiring separation from the host contract, the Philippine Interpretation had no impact on the financial position or performance of the Company.

Philippine Interpretation IFRIC 10 - *Interim Financial Reporting and Impairment*

The Company adopted Philippine Interpretation IFRIC 10 as of January 1, 2007, which requires that an entity must not reverse an impairment loss recognized in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost. As the Company had no impairment losses in interim period that was reversed, the Philippine Interpretation had no impact on the financial position or performance of the Company.

Future Changes in Accounting Policies

The following are the Philippine Interpretations and accounting standards that have been issued but effective for financial statements after January 1, 2007. The Company did not early adopt this Philippine Interpretations and accounting standards.

- PAS 1, *Presentation of Financial Statements* (Revised) *(effective for annual periods beginning on or after January 1, 2009).* The revised standard requires that the statement of changes in stockholders' equity includes only transactions with owners and all non-owner changes are presented in equity as a single line with details included in a separate statement.

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

- PAS 23, *Borrowing Costs (effective for annual periods beginning on or after January 1, 2009)*

  The Standard has been revised to require capitalization of borrowing costs when such costs relate to a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. In accordance with the transitional requirements of the Standard, the Company will adopt this as a prospective change. Accordingly, borrowing costs will be capitalized on qualifying assets with a commencement date after January 1, 2009. The adoption of this standard has no impact on the Company's financial statements.

- Philippine Interpretation IFRIC 11, *PFRS 2 - Group and Treasury Share Transactions (effective for annual periods beginning on or after March 1, 2007).* This Philippine Interpretation requires arrangements whereby an employee is granted rights to a Company's equity instruments to be accounted for as an equity-settled scheme by the Company even if: (a) the Company chooses or is required to buy those equity instruments (e.g. treasury shares) from another party, or (b) the shareholders of the Company provide the equity instruments needed. It also provides guidance on how subsidiaries, in their separate financial statements, account for such schemes when their employees receive rights to equity instruments of the parent. The adoption of this Philippine Interpretation will have no impact on the Company's financial statements.

- Philippine Interpretation IFRIC 12, *Service Concession Arrangements (effective for annual periods beginning on or after January 1, 2008).* This Philippine Interpretation outlines an approach to account for contractual arrangements arising from entities providing public services. It provides that the operator should not account for the infrastructure as property, plant and equipment, but recognize a financial asset and/or an intangible asset. This Philippine Interpretation will not have an impact on the financial statements of the Company since the Company is not involved in providing public services.

- PFRS 8, *Operating Segments (effective for annual periods beginning on or after January 1, 2009).* This amendment was issued as part of the convergence project with the US Financial Accounting Standards Board. This new standard replaces PAS 14, *Segment Reporting,* and adopts a management approach to segment reporting as required in the US Standard SFAS 131 - *Disclosures about Segments of an Enterprise and Related Information*. The information reported would be that which management uses internally for evaluating the performance of operating segments and allocating resources to those segments. This information may be different from that reported in the balance sheet and statement of income and entities will need to provide explanations and reconciliations of the differences. The Company will assess the impact of the adoption of this standard.

- Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes (effective for annual periods beginning on or after July 1, 2008).* This Interpretation requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted, and therefore, part of the fair value of the consideration received is allocated to the award credits and deferred over the period that the award credits are fulfilled. The Company expects that this Interpretation will have no impact on the Company's financial statements as no such schemes currently exist.

- Philippine Interpretation IFRIC 14 *PAS 19*, *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective for annual periods beginning on or after January 1, 2008).* This Interpretation provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognized as an asset under PAS 19 *Employee Benefits*. The Company expects that this Interpretation will have no impact on the financial position or performance of the Company as all defined benefit schemes are currently in deficit.

<u>Revenue Recognition</u>

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

Sale of coal

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

<u>Rendering of services</u>

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

Interest income

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

Cash and Cash Equivalents

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

Financial Instruments

Date of recognition

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

Initial recognition of financial instruments

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

As of December 31, 2007 and 2006, the Company's financial instruments are of the nature of loans and receivables and other financial liabilities.

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

Determination of fair value

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

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

Day 1 profit

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

Loans and Receivables

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

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

Other financial liabilities

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

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

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

<u>Impairment of Financial Assets</u>

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

Loans and receivables

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

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Company will not be able to collect all of the amounts due under the original terms of the invoice.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial assets' original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through use of an allowance account and the amount of loss is charged to the statement of income during the period in which it arises. Interest income continues to be recognized based on the original effective interest rate of the asset. Receivables, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery has been realized.

If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in profit or loss, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

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

Derecognition of Financial Assets and Liabilities

Financial Assets

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

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

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

Financial Liabilities

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

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

Offsetting

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

Inventories

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

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

Property, Plant and Equipment

Property, plant and equipment are carried at cost less accumulated depreciation and amortization and any impairment in value. Costs also include decommissioning and site rehabilitation cost. 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.

Construction in progress, included in property, plant and equipment, is stated at cost. This includes the cost of the construction of property, plant and equipment and other direct costs.

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

Depreciation and amortization of property, plant and equipment are computed on a straight-line basis over the following estimated useful lives (EUL) of the respective assets or the remaining contract period, whichever is shorter:

Conventional and continuous mining properties and equipment	**2 to 13 years**
Power plant and buildings	**10 to 17 years**
Roads and bridges	**17 years**

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

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

Mine Exploration and Development Costs

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

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

Decommissioning and Site Rehabilitation Costs

The Company is legally required to fulfill certain obligations as required under its Environmental Compliance Certificate (ECC) issued by Department of Environment and Natural Resources (DENR). The Company recognizes the present value of the liability for these obligations and capitalizes the present value of these costs as part of the balance of the related property, plant and equipment accounts which are depreciated on a straight-line basis over the EUL of the related property, plant and equipment or the contract period, whichever is shorter. The ARO was determined based on PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*. The Company recognizes the liability for these obligations as *"Provision for the decommissioning and site rehabilitation"* in the balance sheet.

Intangible Assets

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

Software Cost

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

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

Impairment of Non-financial Assets

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

A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement of income unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase.

Borrowing Costs

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

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

Pension Expense

The Company has a noncontributory defined benefit retirement plan.

The retirement cost of the Company is determined using the projected unit credit method. Under this method, the current service cost is the present value of retirement benefits payable in the future with respect to services rendered in the current period. The liability recognized in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the date less the fair value of plan assets, together with adjustments for unrecognized actuarial gains or losses and past service costs.

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

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

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

The defined benefit asset or liability comprises the present value of the defined benefit obligation less past service costs not yet recognized, if any, and less the fair value of the plan assets out of which the obligations are to be settled directly. The value of any asset is restricted to the sum of any past service costs not yet recognized, if any, and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

Income Tax

Current Tax

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

Deferred Income tax

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

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

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

Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits from excess minimum corporate income tax (MCIT) and unused net operating loss carry over (NOLCO), to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused NOLCO can be utilized except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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

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

Provisions

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

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 are recognized on a straight line basis over the lease term.

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

A reassessment is made after inception of the lease only if one of the following applies: (a) there is a change in contractual terms, other than a renewal or extension of the arrangement; (b) a renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term; (c) there is a change in the determination of whether the fulfillment is dependent on a specified asset; or (d) there is a substantial change to the asset.

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

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

Foreign Currency Translation

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

Earnings Per Share (EPS)

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

Contingencies

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

Events After Balance Sheet Date

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

3. Significant Accounting Estimates, Judgments and Assumptions

Judgment

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

Contingencies

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

Revenue recognition

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

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

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

Estimates and Assumptions

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

Estimating allowance for doubtful accounts

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

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

There were no provisions made in 2007 and 2006. Receivables, net of allowance for doubtful accounts of ₱26.90 million as of December 31, 2007 and 2006, amounted to ₱1,115.82 million and ₱566.88 million as of December 31, 2007 and 2006, respectively (Note 5).

Estimating stock pile inventory quantities

The Company estimates the stock pile inventory by conducting a topographic survey which is performed by in house surveyors. The survey is conducted on a monthly basis with a reconfirmatory survey at year end. The process of estimation involves a predefined formula which considers an acceptable margin of error of plus or minus 3%. Thus, an increase or decrease in the estimation threshold for any period would differ if the Company utilized different estimates and this would either increase or decrease the profit for the year. Stock pile inventory as of December 31, 2007 and 2006 amounted to ₱570.81 million and ₱1,017.02 million, respectively (Note 6).

Estimating allowance for write down in spare parts and supplies

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

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

There were no provisions made in 2007 and 2006. Spare parts and supplies of the Company, net of allowance for inventory write down of ₱53.29 million as of December 31, 2007 and 2006, amounted to ₱881.86 million and ₱823.38 million as of December 31, 2007 and 2006, respectively (Note 6).

Estimating decommissioning and site rehabilitation costs

The Company is legally required to fulfill certain obligations under its DENR issued ECC when it abandons depleted mine pits. These costs are accrued based on in-house estimate, which incorporates estimates of the amount of obligations and interest rates, if appropriate. The Company recognizes the present value of the liability for these obligations and capitalizes the present value of these costs as part of the balance of the related property and equipment accounts, which are being depreciated and amortized on a straight line basis over the useful life of the related asset or the lease term. Assumptions used to compute the decommissioning and site rehabilitation costs are reviewed and updated annually.

The amount and timing of the recorded obligations for any period would differ if different judgments were made or different estimates were utilized. An increase in decommissioning and site rehabilitation costs would increase the recorded operating expenses and increase noncurrent liabilities.

As of December 31, 2007 and 2006, the provision for decommissioning and site rehabilitation has a carrying value of ₱12.21 million and ₱11.14 million, respectively (Note 14).

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

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

A reduction in the estimated useful lives of property, plant and equipment and intangible assets would increase the recorded depreciation, depletion and amortization expense and decrease noncurrent assets.

The net book values of the property, plant and equipment and software cost as of December 31, 2007 amounted to ₱1,904.37 million and ₱1.73 million, respectively. The net book values of the property, plant and equipment and software cost as of December 31, 2006 amounted to ₱3,095.26 million and ₱3.41 million, respectively (Notes 8 and 10).

Estimating impairment for nonfinancial assets

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

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

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

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

The net book values of the property, plant and equipment and software cost as of December 31, 2007 amounted to ₱1,904.37 million and ₱1.73 million, respectively. The net book values of the property, plant and equipment and software cost as of December 31, 2006 amounted to ₱3,095.26 million and ₱3.41 million, respectively (Notes 8 and 10).

Deferred income tax assets

The Company reviews the carrying amounts of deferred income tax assets at each balance sheet date and reduces deferred income tax assets to the extent that it is no longer probable that sufficient income will be available to allow all or part of the deferred income tax assets to be utilized. However, there is no assurance that the Company will generate sufficient taxable profit to allow all or part of its deferred income tax assets to be utilized.

As of December 31, 2007 and 2006, the Company has net deferred tax liability of ₱67.60 million and ₱73.79 million, respectively (Note 24).

Estimating pension and other employee benefits

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

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

As of December 31, 2007 and 2006, the balances of the Company's net pension liability and unrecognized actuarial gain follow:

	2007	2006
Pension liability (Note 18)	**₱4,659,224**	**₱52,669,928**
Unrecognized actuarial gains (losses) (Note 18)	**32,273,171**	**(4,709,675)**

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

The accrued balance of unpaid vacation and sick leaves as of December 31, 2007 and 2006 amounted to ₱3.34 million and ₱3.54 million, respectively (Note 11).

4. Cash and Cash Equivalents

This account consists of:

	2007	2006
Cash in banks and on hand	₱237,357,196	₱139,688,135
Cash equivalents	1,413,449,141	370,751,088
	₱1,650,806,337	₱510,439,223

Cash in banks earns interest at their respective bank deposit rates. Short-term placements are made for varying period of up to three months depending on the immediate cash requirements of the Company, and earn interest at the respective short-term placement rates.

5. Receivables

This account consists of:

	2007	2006
Trade (Notes 12, 28 and 29)		
Local sales	₱772,642,764	₱505,732,640
Export sales	294,296,228	–
Due from related parties (Notes 17 and 29)	57,920,745	62,106,768
Others (Notes 28 and 29)	17,859,279	25,940,567
	1,142,719,016	593,779,975
Less allowance for doubtful accounts	26,902,850	26,902,850
	₱1,115,816,166	₱566,877,125

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

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

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

	2007 and 2006		
	Trade Receivable - Local Sales	Other Receivables	Total
At January 1	₱12,056,502	₱14,846,348	₱26,902,850
Write-offs	–	–	–
At December 31	₱12,056,502	₱14,846,348	₱26,902,850
Individual impairment	₱12,056,502	₱2,483,406	₱14,539,908
Collective impairment	₱–	₱12,362,942	₱12,362,942

6. Inventories

This account consists of:

	2007	2006
Coal inventory at cost	**₱570,806,557**	**₱1,017,024,549**
Spare parts and supplies at NRV	**881,863,664**	**823,384,813**
	₱1,452,670,221	**₱1,840,409,362**

The cost of spare parts and supplies amounted to ₱935.15 million and ₱876.67 million as of December 31, 2007 and 2006, respectively.

The cost of coal inventories recognized as expense in the statements of income amounted to ₱5,193.99 million, ₱3,713.16 million and ₱3,305.42 million for the years ended December 31, 2007, 2006 and 2005, respectively.

7. Other Current Assets

This account consists of:

	2007	2006
5% input value added tax (VAT) withheld	**₱199,755,060**	**₱175,341,478**
Prepaid insurance and others	**13,986,378**	**11,133,582**
Environmental guarantee fund	**1,500,000**	**1,500,000**
	₱215,241,438	**₱187,975,060**

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

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

8. Property, Plant and Equipment

The rollforward analysis of this account follows:

	2007				
	Conventional and Continuous Mining Properties and Equipment	Power Plant and Buildings	Roads and Bridges	Construction in Progress	Total
At Cost					
At January 1	₱8,619,912,796	₱1,258,757,324	₱278,964,409	₱396,180,421	₱10,553,814,950
Additions	185,027,159	4,345,770	–	163,923,264	353,296,193
Transfers	168,424,567	183,012,116	729,999	(352,166,682)	–
Disposals	(42,721,942)	(20,496,453)	–	–	(63,218,395)
At December 31	8,930,642,580	1,425,618,757	279,694,408	207,937,003	10,843,892,748
Accumulated Depreciation and Amortization					
At January 1	6,367,951,032	841,600,758	249,000,851	–	7,458,552,641
Depreciation and amortization	1,445,259,536	64,998,567	15,557,054	–	1,525,815,157
Disposals	(42,515,053)	(2,332,199)	–	–	(44,847,252)
At December 31	7,770,695,515	904,267,126	264,557,905	–	8,939,520,546
Net Book Value	₱1,159,947,065	₱521,351,631	₱15,136,503	₱207,937,003	₱1,904,372,202

	2006				
	Conventional and Continuous Mining Properties and Equipment	Power Plant and Buildings	Roads and Bridges	Construction in Progress	Total
At Cost					
At January 1	₱7,477,952,408	₱1,151,114,619	₱269,004,106	₱222,593,212	₱9,120,664,345
Additions	1,094,733,699	994,464	–	408,658,000	1,504,386,163
Transfers	118,462,247	106,648,241	9,960,303	(235,070,791)	–
Disposals	(71,235,558)	–	–	–	(71,235,558)
At December 31	8,619,912,796	1,258,757,324	278,964,409	396,180,421	10,553,814,950
Accumulated Depreciation and Amortization					
At January 1	5,163,536,271	795,720,873	234,720,214	–	6,193,977,358
Depreciation and amortization	1,275,602,077	45,879,885	14,280,637	–	1,335,762,599
Disposals	(71,187,316)	–	–	–	(71,187,316)
At December 31	6,367,951,032	841,600,758	249,000,851	–	7,458,552,641
Net Book Value	₱2,251,961,764	₱417,156,566	₱29,963,558	₱396,180,421	₱3,095,262,309

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

9. Investments and Advances

This account represents advances for equity interest in:

	2007	2006
DMCI Mining Corporation (DMCI-MC)	₱43,294,790	₱–
DMCI Power Corporation (DMCI-PC)	37,576,417	–
	₱80,871,207	₱–

On February 18, 2008, in pursuant to the approval of Stockholders in the May 7, 2007 Annual Stockholders' Meeting, the BOD approved the following investments:

i. Investment in DMCI-MC, a corporation engaged in nickel mining and other base metals by subscribing ₱100.00 million in equity in DMCI-MC. DMCI-MC shall be a 50%-50% venture between the Company and DMCI-HI.

ii Investment in DMCI-PC, a corporation engaged in power generation by subscribing to ₱125.00 million in equity in DMCI-PC. DMCI-PC shall be a 50%-50% venture between the Company and DMCI-HI.

The Company will account for the above investments using the equity method of accounting starting in 2008.

10. Other Noncurrent Assets

This account consists of:

	2007	2006
Software cost - net	₱1,730,482	₱3,406,919
Marginal deposits	–	5,684,483
Others	1,138,685	1,138,685
	₱2,869,167	₱10,230,087

The movements in the software cost account follow:

	2007	2006
At Cost		
At January 1	₱4,259,950	₱1,445,336
Additions	349,797	2,814,614
At December 31	4,609,747	4,259,950
Accumulated Amortization		
At January 1	853,031	412,738
Amortization	2,026,234	440,293
At December 31	2,879,265	853,031
Net Book Value	₱1,730,482	₱3,406,919

11. Trade and Other Payables

This account consists of:

	2007	2006
Trade	₱382,337,116	₱219,687,000
Accrued expenses and other payables	97,785,184	66,947,492
Payable to DOE and local government units (Note 26)	53,558,600	28,505,131
Due to related parties (Note 17)	12,920,756	5,325,212
	₱546,601,656	₱320,464,835

Trade payables include liabilities amounting to ₱68.91 million (US$1.67 million) and ₱98.51 million (US$2.01 million) as of December 31, 2007 and 2006, 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:

	2007	2006
Interest	₱52,332,770	₱29,246,691
Withholding taxes	22,050,957	18,301,640
Salaries and wages	2,806,773	2,403,904
Coal handling costs	4,503,466	3,338,556
Professional fees	1,261,786	2,251,786
Others	14,829,432	11,404,915
	₱97,785,184	₱66,947,492

12. Customers' Deposits

The deposits are due to the following customers:

	2007	2006
Steag State Power Inc. (SSP)	₱6,691,962	₱–
National Power Corporation (NPC)	1,441,678	14,049,111
Phil. Phosphate Fertilizer Corp (PPFC)	733,383	–
Solid Cement Corporation (Solid)	–	4,846,874
	₱8,867,023	₱18,895,985

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

NPC

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

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

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

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

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

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

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

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

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

The services to be undertaken by the Company in order to extend its delivery service from discharge port to silos includes coal unloading and handling; repairs and maintenance of coal handling facilities; stevedoring services; support activities and coal yard management; and tree planting, marine life protection program and environmental programs to enhance image of NPC power plants. The Company recognized an income of ₱23.40 million and ₱25.98 million in 2007 and 2006, respectively, and loss amounting to ₱26.87 million in 2005 from this handling operation.

The Company's receivables from NPC amounted to ₱471.65 million and ₱380.93 million as of December 31, 2007 and 2006, respectively.

Solid and SSP

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

As provided for in the MOA, the Company received advance payments that are subsequently applied against coal delivery sales. The unapplied portion of these advance payments are presented as "Customers' deposits" account in the balance sheet.

13. Long-term Debt

This account consists of:

	2007	**2006**
Bank loans	**₱877,078,302**	**₱996,445,034**
Acceptances and trust receipts payable	**250,673,928**	**683,728,838**
Payable to foreign suppliers	**–**	**8,893,412**
	1,127,752,230	**1,689,067,284**
Less current portion of:		
Bank loans	**479,497,267**	**283,388,495**
Acceptances and trust receipts payable	**250,673,928**	**683,728,838**
Payable to foreign suppliers	**–**	**8,893,412**
	730,171,195	**976,010,745**
	₱397,581,035	**₱713,056,539**

Details of the obligations follow:

Loan Type	Date of Availment	Outstanding Balance 2007 (In Million)	Outstanding Balance 2006 (In Million)	Maturity	Interest Rate	Payment Terms	Covenants/ Collaterals
Local bank loans							
Loan 1	September 30, 2005	₱120.67	₱179.81	October 5, 2009	9% fixed p.a.	Payable in 48 equal monthly installments commencing on November 5, 2005	Secured by collaterals on mining equipment (Note 8)
Other loans	Various in 2007	258.35	–	Various in 2007 and 2008	8% fixed p.a.	Various	None

Loan Type	Date of Availment	Outstanding Balance 2007	2006	Maturity	Interest Rate	Payment Terms	Covenants/ Collaterals
		(In Million)					
Foreign bank loans							
Loan 1	December 14, 2005	193.54	306.50	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	304.52	510.14	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)
		877.08	996.45				
Payable to foreign suppliers							
Supplier 1	December 31, 2005	–	6.44	December 4, 2007	5.7% p.a. compounded quarterly	Payable in 8 equal quarterly installments	None
Supplier 2	August 20, 2004	–	2.45	September 15, 2006	5% p.a. compounded monthly	Payable in 18 equal monthly installments	Unconditional and irrevocable guarantee issued by DMCI-HI (Note 17)
			8.89				
Various Letters of Credits	Various dates of availments	250.67	683.73	Various maturities in 2008	Interest ranging from 8% to 11% p.a.	Payable within 1 year	None
		₱1,127.75	₱1,689.07				

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

14. Provision for Decommissioning and Site Rehabilitation

The rollforward analysis of this account follows:

	2007	2006
At January 1	₱11,138,611	₱10,000,000
Accretion of interest	1,066,587	1,138,611
At December 31	₱12,205,198	₱11,138,611

15. Capital Stock

The Company's authorized capital stock consists of 1,000,0000,000 common shares at ₱1 par value per share.

The rollforward of outstanding common shares follows:

	2007		2006		2005	
	Shares	Amount	Shares	Amount	Shares	Amount
At January 1	296,875,000	₱296,875,000	296,875,000	₱296,875,000	250,000,000	₱250,000,000
Additional issuance	–	–	–	–	46,875,000	46,875,000
At December 31	296,875,000	₱296,875,000	296,875,000	₱296,875,000	296,875,000	₱296,875,000

Cost of Shares Held in Treasury

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

A reconciliation of the movement of the treasury shares follow:

	2007		2006		2005	
	Shares	Amount	Shares	Amount	Shares	Amount
At January 1	19,302,200	(₱528,891,260)	13,802,700	(₱383,633,460)	–	₱–
Acquisitions	–	–	5,499,500	(145,257,800)	13,802,700	(383,633,460)
At December 31	19,302,200	(₱528,891,260)	19,302,200	(₱528,891,260)	13,802,700	(₱383,633,460)

16. Retained Earnings

Cash Dividends

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

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

Restrictions

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

On March 18, 2008, the BOD authorized an additional ₱500.00 million appropriation out of its unrestricted retained earnings for capital expenditures and expansion.

Retained earnings are restricted for the payment of dividends to the extent of the cost of the common shares held in treasury amounting to ₱528.90 million for the years ended December 31, 2007 and 2006, and ₱383.63 million for the year ended December 31, 2005.

17. Related Party Transactions

Related parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making the financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities. In the regular course of business, the Company's significant transactions with related parties include the following:

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

b. Continuing Indemnity Agreement dated September 3, 1998 with DMCI-HI and certain related parties whereby the Company, in consideration for guarantees extended by DMCI-HI and related parties in the form of Real Estate Mortgage (REM), standby letters of credit and other credit lines or facilities to secure the Company's indebtedness to various banks and creditors, agreed to indemnify and hold DMCI-HI and related parties free from and against any and all claims, liabilities, demands, actions, costs, expenses and consequences of whatever nature which may arise or result from said corporate guarantees. The Company further agreed to pay a fixed interest rate per annum on all sums or monies paid by DMCI-HI and related parties by reason of or in connection with the said corporate guarantees, letters of credit, credit facilities or REM; real properties of this affiliate were already freed from lien effective at the time when these old equipment loan were fully paid. The loans contracted in 2004 and 2005 were still guaranteed by DMCI-HI. Guarantee fees incurred amounted to ₱8.07 million, ₱12.29 million and ₱23.39 million for the years ended December 31, 2007, 2006 and 2005, respectively;

c. DMC-Construction Equipment Resources, Inc. (DMC-CERI), an affiliate, has transactions with the Company for services rendered relating to the Company's coal operations. These included services for the confirmatory drilling for coal reserve evaluation of identified potential areas, exploratory drilling of other minerals within Semirara Island, dewatering well drilling along cut-off wall of Panian mine and fresh water well drilling for industrial and domestic supply under an agreement. Expenses incurred for said services amounted to ₱20.12 million, ₱24.48 million and ₱26.02 million for the years ended December 31, 2007, 2006, and 2005, respectively;

d. DMC-CERI also provides to the Company marine vessels for use in the delivery of coal to its various customers. The coal freight billing is on a per metric ton basis plus demurrage charges when delay will be incurred in the loading and unloading of coal cargoes. Expenses (at gross amount) incurred for this services amounted to ₱468.10 million, ₱308.93 million and ₱302.17 million for the years ended December 31, 2007, 2006 and 2005, respectively. The reported expense of the company is net of freight payment by NPC (billing is C&F);

e. M&S Co., DMC-CERI and DMCI-Construction, Inc. had transactions with the Company representing equipment rental, long-term lease on office space and other transactions, such as transfer of equipment, materials, supplies and labor services rendered to the Company necessary for the coal operations. Equipment rental expense incurred amounted to ₱103.79 million, ₱103.15 million and ₱109.64 million in 2007, 2006 and 2005, respectively. Office rental expense amounted to ₱3.35 million, ₱2.67 million and ₱1.06 million in 2007, 2006 and 2005, respectively. Transfer of materials and supplies amounted to ₱11.21 million, ₱10.84 million and ₱64.42 million for the years ended December 31, 2007, 2006 and 2005, respectively (covering steel structures and construction materials and parts for various projects);

f. Equipment transferred by DMCI-CI and DMC-CERI to the Company in 2005 amounted to ₱72.10 million, none were transferred in 2007 and 2006. Most of the equipment items transferred were rented in 2004 by the Company. Among the equipment items transferred included one (1) unit aircraft, one (1) lot rock crusher, two (2) units crane, two (2) units drill rig, seven (7) welding machines and other tools and accessories. Labor cost related to manpower services rendered by DMC-CERI and DMCI-CI employees represents actual salaries and wages covered by the period when the services were rendered to Company in its coal operations. Under existing arrangements, payments of said salaries and wages are given directly to personnel concerned; and

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

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

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

	2007	2006	2005
Short-term employee benefits	₱17,584,535	₱9,010,375	₱9,346,594
Post employment benefits	2,138,923	843,467	988,074
	₱19,723,458	₱9,853,842	₱10,334,668

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

18. Pension Plan

The Company has an unfunded, noncontributory defined benefit plan covering substantially all of its employees.

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

	2007	2006	2005
Current service cost	₱4,202,052	₱8,788,614	₱3,007,000
Interest cost on benefit obligation	4,659,224	2,573,489	4,829,430
Actuarial gain recognized	–	(1,024,536)	–
	₱8,861,276	₱10,337,567	₱7,836,430

The pension liability recognized in the balance sheets follows:

	2007	2006
Present value of defined benefit obligation	₱27,760,518	₱57,379,603
Contribution during the year	55,374,465	–
Deficit (excess) of fair value of plan assets over present value of defined benefit obligation	(27,613,947)	57,379,603
Unrecognized actuarial gain (loss)	32,273,171	(4,709,675)
	₱4,659,224	₱52,669,928

Movements in the pension benefit liability follows:

	2007	2006	2005
At January 1	₱57,379,603	₱23,395,350	₱34,495,931
Current service cost	4,202,052	8,788,614	3,007,000
Interest cost on benefit obligation	4,659,224	2,573,489	4,829,430
Benefits paid	(1,497,515)	–	–
Actuarial loss (gain)	(36,982,846)	22,622,150	(18,937,011)
At December 31	₱27,760,518	₱57,379,603	₱23,395,350

The rollforward of unrecognized actuarial gains (loss) follow:

	2007	2006	2005
At January 1	(₱4,709,675)	₱18,937,011	₱–
Additional actuarial gain (losses) from plan obligations	36,982,846	(22,622,150)	18,937,011
Actuarial gain recognized	–	(1,024,536)	–
At December 31	₱32,273,171	(₱4,709,675)	₱18,937,011

The assume ptions used to determine pension benefits of the Company for the years ended December 31, 2007, 2006 and 2005 follow:

	2007	2006	2005
Discount rate	7.97%	8.12%	11.00%
Salary increase rate	10.00%	6.00%	10.00%

The amounts for the current and the previous period follow:

	2007	2006
Present value of defined benefit obligation	₱27,760,518	₱52,669,928
Fair value of plan assets	55,374,465	–
Unfunded obligation	(27,613,947)	52,669,928
Experience adjustments on plan liabilities	(37,166,703)	14,502,816

19. Cost of Sales

This account consists of:

	2007	2006	2005
Depreciation and amortization (Notes 8 and 10)	₱1,651,861,176	₱1,169,414,380	₱1,238,929,678
Fuel and lubricants	1,161,726,775	1,068,281,359	742,905,050
Materials and supplies (Note 17)	1,304,615,144	670,710,940	607,062,100
Outside services (Note 17)	345,638,871	268,620,540	228,515,951
Shipping, hauling and shiploading costs (Note 17)	253,282,342	159,130,227	194,443,110
Direct labor	244,503,934	154,578,648	116,282,956
Production overhead	232,361,367	222,425,015	177,281,177
	₱5,193,989,609	₱3,713,161,109	₱3,305,420,022

20. Operating Expenses

This account consists of:

	2007	2006	2005
Government share (Note 26)	**₱191,290,056**	**₱138,272,655**	**₱158,784,821**
Personnel costs (Notes 17 and 18)	**67,852,077**	**23,804,340**	**40,979,760**
Professional fees	**15,187,397**	**7,285,341**	**17,306,728**
Transportation and travel (Note 17)	**10,260,915**	**8,015,437**	**26,797,368**
Entertainment, amusement and recreation	**7,018,849**	**8,678,867**	**6,411,005**
Taxes and licenses	**1,017,989**	**1,752,898**	**1,684,655**
Reversal of provision for real property tax (Note 27)	**–**	**(71,530,122)**	**–**
Office expenses and others	**31,755,090**	**16,846,318**	**19,675,642**
	₱324,382,373	**₱133,125,734**	**₱271,639,979**

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

21. Finance Costs

The finance costs are incurred from the following financial liabilities:

	2007	2006	2005
Interest on:			
Bank loans	**₱124,272,283**	**₱115,834,669**	**₱49,290,577**
Acceptances and letters of credits and other short-term borrowings	**15,274,663**	**73,229,501**	**32,141,602**
Purchase contracts	**704,515**	**23,974,286**	**37,086,266**
	₱140,251,461	**₱213,038,456**	**₱118,518,445**

22. Finance Revenue

Finance revenue consist of the following sources:

	2007	2006	2005
Interest on:			
Short term placements and temporary investments (Note 17)	**₱39,098,278**	**₱52,847,520**	**₱54,461,877**
Cash in banks	**1,203,070**	**1,679,066**	**649,529**
	₱40,301,348	**₱54,526,586**	**₱55,111,406**

23. Other Income

This account consists of:

	2007	2006	2005
Gain on sale of equipment	₱5,173,911	₱20,066,758	₱–
Recoveries from insurance claims	4,249,977	70,205,364	–
Miscellaneous	–	17,335,714	4,435,259
	₱9,423,888	₱107,607,836	₱4,435,259

24. Income Taxes

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

	2007	2006	2005
Provision for income tax computed at the statutory income tax rate	35.00%	35.00%	32.50%
Adjustments for:			
Additional deductible expense from adopt-a-school program	(0.38)	(0.04)	(0.07)
Interest income already subjected to final tax at a lower rate - net of nondeductible interest expense	(0.54)	(1.00)	(0.46)
Changes in unrecognized deferred tax assets and tax rates	–	–	(11.00)
Effective interest rate	34.08%	33.96%	20.97%

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

	2007	2006
Deferred income tax assets on:		
Pension costs	₱18,368,825	₱18,434,472
Allowance for inventory write down	18,650,424	18,650,424
Allowance for doubtful accounts	9,415,997	9,415,997
Accrual of expenses	6,586,014	6,586,014
Provision for decommissioning and site rehabilitation	4,271,819	3,898,514
	57,293,079	56,985,421
Deferred income tax liabilities on:		
Deferred income tax liability on incremental cost of property, plant and equipment	80,363,926	100,791,916
Net unrealized foreign exchange gains	44,532,362	29,987,847
	124,896,288	130,779,763
Net deferred income tax liability	(₱67,603,209)	(₱73,794,342)

As of December 31, 2005, the Company's available NOLCO and MCIT amounting to ₱455.13 million and ₱67.42 million, respectively, were applied against the current provision for income tax and income tax payables, respectively.

RA No. 9337

RA No. 9337 was enacted into law amending various provisions in the existing 1997 National Internal Revenue Code. Among the reforms introduced by the said RA, which became effective on November 1, 2005, are as follows:

- Increase in the corporate income tax rate from 32% to 35% with a reduction thereof to 30% beginning January 1, 2009;
- Increase in VAT rate from 10% to 12% effective February 1, 2006 as authorized by the Philippine President pursuant to the recommendation of the Secretary of Finance;
- Revised invoicing and reporting requirements for VAT;
- Expanded scope of transactions subject to VAT; and
- Provide thresholds and limitations on the amounts of VAT credits that can be claimed.

25. Basic / Diluted Earnings Per Share

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

	2007	2006	2005
Net income	**₱633,284,994**	**₱601,242,858**	**₱1,592,342,821**
Divided by the weighted average number of common shares outstanding	**277,572,800**	**278,289,067**	**291,112,892**
Basic / diluted earnings per share	**₱2.28**	**₱2.16**	**₱5.47**

For the years ended December 31, 2007, 2006 and 2005, there were no outstanding dilutive potential common shares.

26. Coal Operating Contract with DOE

The Company has a Coal Operating Contract with DOE dated July 11, 1977, as amended on January 16, 1981, for the exploration, development, mining and utilization of coal over Semirara Island, Antique under the terms and conditions provided therein and pursuant to the provisions of Presidential Decree No. 972, otherwise known as the Coal Development Act of 1976. The contract is for a maximum period of 35 years (inclusive of the developmental stage and renewals) up to July 2012. The contract also provides for the manner and basis of sharing the gross proceeds from coal production between the Company and DOE. The Company's liabilities to DOE (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 ₱53.56 million and ₱28.51 million as of December 31, 2007 and 2006, respectively. These liabilities are included under the "Trade and other payables" account in the balance sheets (Note 11).

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

27. Contingencies

The Company is contingently liable for lawsuits or claims filed by third parties which are either pending decision by the courts or are under negotiation, the outcomes of which are not presently determinable. In the opinion of management and its legal counsel, the eventual liability under these lawsuits or claims, if any, will not have a material effect on the financial statements. The information usually required by PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, is not disclosed on the grounds that it can be expected to prejudice the outcome of these lawsuits, claims and assessments.

28. Financial Risk Management Objectives and Policies

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

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

Interest Rate Risk

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

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

2007

	Within 1 year	1-2 years	2-3 years	3-4 years	More than 4 years	Fair Value
			(In Thousands)			
Cash equivalents						
Interest Rates						
5.25% to 6.5%	₱1,413,449	₱–	₱–	₱–	₱–	₱1,413,449
	₱1,413,449	₱–	₱–	₱–	₱–	₱1,413,449
Long-term debts						
Fixed Rate						
Local bank loan 9% interest rate	₱63,358	₱57,315	₱–	₱–	₱–	₱120,673
Various local bank loans 8% interest rate	226,644	31,704	–	–	–	258,348
Various letters of credit 8-11% interest rate	250,674	–	–	–	–	250,674
Floating Rate						
$15.14 million loan (USD) 6 month USD LIBOR plus 1.5% per annum	124,982	124,982	54,554	–	–	304,518
$6.64 million loan (USD) 3 month SIBOR plus 1.95% per annum	64,513	64,513	64,513	–	–	193,539
	₱730,171	₱278,514	₱119,067	₱–	₱–	₱1,127,752

2006

	Within 1 year	1-2 years	2-3 years	3-4 years	More than 4 years	Fair Value
			(In Thousands)			
Cash equivalents						
Interest Rates						
4.5% to 6.75%	**₱370,751**	**₱–**	**₱–**	**₱–**	**₱–**	**₱370,751**
	₱370,751	**₱–**	**₱–**	**₱–**	**₱–**	**₱370,751**
Other Liabilities						
Fixed Rate						
Local bank loan 13% interest rate	**₱58,322**	**₱62,148**	**₱59,339**	**₱–**	**₱–**	**₱179,809**
Payable to suppliers 5%-5.7% interest rate	**8,893**	**–**	**–**	**–**	**–**	**8,893**
Various letters of credit 8-11% interest rate	**683,729**	**–**	**–**	**–**	**–**	**683,729**
Floating Rate						
$15.14 million loan (USD) 6 month USD LIBOR plus 1.5% per annum	**148,447**	**148,447**	**148,447**	**64,795**	**–**	**510,136**
$6.64 million loan (USD) 3 month SIBOR plus 1.95% per annum	**76,620**	**76,630**	**76,625**	**76,625**	**–**	**306,500**
	₱976,011	**₱287,225**	**₱284,411**	**₱141,420**	**₱–**	**₱1,689,067**

Liquidity Risk

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

2007

	Within 1 year	1-2 years	2-3 years	3-4 years	Total - Gross (In US$)	Total - Gross (in PHP)
Liabilities:						
Floating Rate						
US$15.14 million loan 6 month USD LIBOR plus 1.5% per annum	**$3,027,672,672**	**$3,027,672,672**	**$1,321,546**		**$7,376,890**	**₱304,518,019**
US$6.64 million loan 3 month SIBOR plus 1.95% per annum	**$1,562,824**	**$1,562,824**	**$1,562,824**		**$4,688,472**	**193,540,124**
Various letters of credits and suppliers debt with various interest rates	**₱250,673,928**	–	–	–		**250,673,928**
Fixed Rate						
₱234.58 million promissory note 9.00% per annum	**₱63,357,522**	**₱57,314,940**	–	–		**120,672,462**
Various local loans	**₱226,644,076**	**₱31,703,621**	–	–		**258,347,697**
					$12,065,362	**₱1,127,752,230**

2006

	Within 1 year	1-2 years	2-3 years	3-4 years	Total - Gross (In US$)	Total - Gross (in PHP)
Liabilities:						
Floating Rate						
US$15.14 million loan 6 month USD LIBOR plus 1.5% per annum	**$3,027,672**	**$3,027,672**	**$3,027,672**	**$1,321,546**	**$10,404,562**	**₱510,135,675**
US$6.64 million loan 3 month SIBOR plus 1.95% per annum	**$1,562,720**	**$1,562,720**	**$1,562,720**	**$1,562,720**	**$6,250,880**	**306,480,646**
Various letters of credits and suppliers debt with various interest rates	**₱692,622,250**	–	–	–		**692,622,250**
Fixed Rate						
₱234.58 million promissory note 13.00% per annum	**₱58,321,548**	**₱62,147,637**	**₱59,359,528**	–		**179,828,713**
					$16,655,442	**₱1,689,067,284**

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

	Change in basis points	
	+100 basis points	
	Effect on income before income tax	Effect on equity
	(In thousands)	
Company - floating rate borrowings	**(₱4,981)**	**(₱3,238)**

	Change in basis points	
	-100 basis points	
	Effect on income before income tax	Effect on equity
	(In thousands)	
Company - floating rate borrowings	**₱4,981**	**₱3,238**

Foreign Currency Risk

The Company's foreign exchange risk results primarily from movements of the Philippine Peso (₱) against the US$. Majority of revenues are generated in Pesos, however, substantially all of capital expenditures are in US$. Approximately 30% and 46% of debts as of December 31, 2007 and 2006, respectively, were denominated in US$.

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

	December 31, 2007		December 31, 2006	
	U.S. Dollar	**Peso Equivalent**	**U.S. Dollar**	**Peso Equivalent**
Assets				
Cash and cash equivalents	**$9,473,323**	**₱391,058,773**	**$238,651**	**₱11,701,058**
Trade receivables	**7,129,269**	**294,296,224**	**–**	**–**
Liabilities				
Trade payables	**(1,669,348)**	**(68,910,685)**	**(2,009,078)**	**(98,505,094)**
Long-term debt (including current portion)	**(12,065,361)**	**(498,058,102)**	**(16,837,244)**	**(825,530,073)**
Net foreign currency denominated assets (liabilities)	**$2,867,883**	**₱118,386,210**	**($18,607,671)**	**(₱912,334,109)**

The spot exchange rates used in 2007 and 2006 were ₱41.28 to US$1 and ₱49.03 to US$1, respectively.

The following table demonstrates the sensitivity to a reasonably possible change in foreign exchange rates, with all variables held constant, of the Company's income before tax (due to changes in the fair value of monetary assets and liabilities) and equity on December 31, 2007.

Increase (decrease) in Peso per U.S. Dollar rates	**₱1**	**(₱1)**
Effect on profit before tax	**2,867,883**	**(2,867,883)**
Effect on equity	**1,864,124**	**(1,864,124)**

The Company recognized ₱102.96 million and ₱119.96 million foreign exchange gain for the years ended December 31, 2007 and 2006, respectively, arising from the translation of the Company's cash and cash equivalents, trade receivables, accounts payable and other payables and long-term debt.

Credit Risk

The Company trades only with recognized, creditworthy third parties. It is the Company's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Company's exposure to bad debts is not significant.

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

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

The credit risk is concentrated to the following markets:

	Percentage
Trade	
Local sales	63.15%
Exports sales	24.05
Other receivables	12.80
Total	100.0

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

	Gross Maximum Exposure	
	2007	2006
Cash and cash equivalents	₱1,650,806,337	₱510,439,223
Receivables		
Trade		
Export sales	294,296,228	–
Local sales	772,642,764	505,732,640
Due from related parties	57,920,745	62,106,768
Others	17,859,279	25,940,567
Total credit risk exposure	₱2,793,525,353	₱1,104,219,198

As of December 31, 2007, the credit quality per class of financial assets that were neither past due nor impaired is as follows:

	Neither past due nor impaired		Past due or Individually Impaired	Total
	Grade A	Grade B		
Cash and cash equivalents	₱1,650,806,337	₱–	₱–	₱1,650,806,337
Trade				
Export sales	294,296,228	–	–	294,296,228
Local sales	369,520,739	90,726,026	312,395,999	772,642,764
Due from related parties	57,920,745	–	–	57,920,745
Others	–	862,912	16,996,367	17,859,279
Total	₱2,372,544,049	₱91,588,938	₱329,392,366	₱2,793,525,353

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

	Past due but not impaired		Impaired Financial Assets	Total
	<45 days	45-135 days		
Receivables				
Trade - local sales	₱272,704,089	₱28,483,086	₱11,208,824	₱312,395,999
Others	1,301,341	–	15,695,026	16,996,367
Total	₱274,005,430	₱28,483,086	₱26,903,850	₱329,392,366

Capital Management

The primary objective of the Company's capital management strategy is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders or issue new shares.

The following table shows the component of the Company's capital as of December 31, 2007.

	2007	2006
Total paid-up capital	₱1,873,671,271	₱1,873,671,271
Retained earnings - unappropriated	2,270,011,644	1,969,814,010
Retained earnings - appropriated	1,000,000,000	1,000,000,000
Cost of shares held in treasury	(528,891,260)	(528,891,260)
	₱4,614,791,655	₱4,314,594,021

29. Fair Values

The following tables set forth the carrying values and estimated fair values of the Company's financial assets and liabilities recognized as of December 31, 2007 and 2006.

	2007		2006	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets				
Loans and receivables				
Cash in banks	₱1,650,806,337	₱1,650,806,337	₱510,439,223	₱510,439,223
Short-term investment	–	–	300,000,000	300,000,000
Trade				
Export sales	294,296,228	294,296,228	–	–
Local sales	772,642,764	772,642,764	505,732,640	505,732,640
Due from related parties	57,920,745	57,920,745	62,106,768	62,106,768
Others	17,859,279	17,859,279	25,940,567	25,940,567
Total	₱2,793,525,353	₱2,793,525,353	₱1,404,219,198	₱1,404,219,198
Financial Liabilities				
Other Liabilities				
Long-term debt	₱1,127,752,230	₱1,140,342,375	₱1,689,067,284	₱1,505,595,583
Trade and other payables				
Trade payables	382,337,116	382,337,116	219,687,000	219,687,000
Accrued expenses and other payables	97,785,184	97,785,184	66,947,492	66,947,492
Payable to DOE and local government units	53,558,600	53,558,600	28,505,131	28,505,131
Due to related parties	12,920,756	12,920,756	5,325,212	5,325,212
Total	₱1,674,353,886	₱1,686,944,031	₱2,009,532,119	₱1,826,060,418

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

Financial Assets

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

Financial Liabilities

Fair Value Assumptions

Floating rate loans

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

Fixed rate loans

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

Accounts payable and accrued expenses

The fair values of accounts payable and accrued expenses approximate the carrying amounts due to the short-term nature of these transactions.

30. Lease Commitments

The Company leases certain premises for some of its operation and equipment. The operating lease agreements are for periods ranging from 1 to 7 years from the date of the contracts and are renewable under certain terms and conditions. The Company's rentals incurred on these leases (included in cost of sales and operating expenses) aggregated to ₱107.14 million, ₱105.82 million and ₱110.7 million in 2007, 2006 and 2005, respectively.

As of December 31, 2007, the future minimum lease payments under this operating lease is as follows:

Not later than one year	**₱95,760,000**
After one year but not more than 2 years	**95,760,000**
	₱191,520,000

31. Note to Cash Flow Statements

Supplemental disclosure of noncash investing and financing activities follows:

	2007	2006	2005
Acquisition of conventional and other mining equipment on account (Notes 11 and 13)	**₱138,891,215**	**₱873,275,980**	**₱642,071,221**
Donation of school campus	**18,164,254**	–	–

On August 29, 2007 the Board of Directors approved the donation of two (2) storeys, twelve (12) classrooms with complete basic school provisions and a hectare of land as school campus situated in Barangay Semirara, Caluya, Antique in favor of Department of Education - Division of Antique.