SEMIRARA
MINING CORPORATION

SEMIRARA MINING CORPORATION Financial Statements December 31, 2006 and 2005
and Report of Independent Auditors

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of SEMIRARA MINING CORPORATION is responsible for all information and representations contained in the financial statements for the years ended December 31, 2006 and 2005. The financial statements have been prepared in conformity with generally accepted accounting principles in the Philippines and reflect amounts that are based on the best estimates and informed judgement of management with an appropriate consideration to materiality.

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

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

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

DAVID M. CONSUNJI
Chairman of the Board

VICTOR A. CONSUNJI
President

NESTOR D. DADIVAS
Chief Financial Officer

REPORT OF INDEPENDENT AUDITORS

THE STOCKHOLDERS AND THE BOARD OF DIRECTORS
SEMIRARA MINING CORPORATION

We have audited the accompanying balance sheets of Semirara Mining Corporation as of December 31, 2006 and December 31, 2005, and the related statements of income, changes in stockholders' equity (capital deficiency) and cash flows for each of the three years in the period ended December 31, 2006, 2005 and 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial stements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the Philippines. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes asessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentaion. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements reffered to above present fairly, in all material respects, the financial position of Semirara Mining Corporation as of December 31, 2006 and 2005, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2006, 2005 and 2004 in conformity with accounting principles generally accepted in the Philippines.

Sycip Gorres Velayo & Co.

Makati City, Philippines

INDEPENDENT AUDITORS' REPORT
ON SUPPLEMENTARY SCHEDULES

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

We have audited in accordance with auditing standards generally accepted in the Philippines, the financial statements of Semirara Mining Corporation included in this Form 17-A and have issued our report thereon dated March 26, 2007. 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.

Arnel F. de Jesus
Partner
CPA Certificate No. 43285
SEC Accreditation No. 0075-AR-1
Tax Identification No. 152-884-385
PTR No. 0266544, January 2, 2007, Makati City

March 26, 2007

SEMIRARA MINING CORPORATION
BALANCE SHEETS

	December 31	
	2006	2005 (As restated - Note 2)
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 5 and 28)	**₱510,439,223**	₱1,331,641,854
Short-term investment (Note 16)	**300,000,000**	–
Receivables - net (Notes 6, 16, 25 and 28)	**566,877,125**	1,171,854,780
Inventories - net (Note 7)	**1,840,409,362**	1,366,127,761
Other current assets (Note 8)	**187,975,060**	84,564,749
Total Current Assets	**3,405,700,770**	3,954,189,144
Noncurrent Assets		
Property, plant and equipment - net (Notes 2, 9 and 13)	**3,014,851,173**	2,831,606,307
Other noncurrent assets - net (Notes 2 and 10)	**90,641,223**	142,132,113
Total Noncurrent Assets	**3,105,492,396**	2,973,738,420
	₱6,511,193,166	₱6,927,927,564
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts and other payables (Notes 11, 16, 26 and 28)	**₱320,464,835**	₱388,737,244
Current portion of long-term debt (Notes 9, 13 and 28)	**976,010,745**	402,742,462
Income tax payable	**30,568,160**	324,107,390
Customers' deposits (Notes 12 and 25)	**18,895,985**	50,052,467
Total Current Liabilities	**1,345,939,725**	1,165,639,563
Noncurrent Liabilities		
Long-term debt - net of current portion (Notes 9, 13 and 28)	**713,056,539**	1,456,431,223
Pension liability (Note 17)	**52,669,928**	42,332,361
Asset retirement obligation	**11,138,611**	10,000,000
Deferred tax liability (Note 23)	**73,794,342**	61,828,094
Total Noncurrent Liabilities	**850,659,420**	1,570,591,678
	2,196,599,145	2,736,231,241
Equity (Note 14)		
Capital stock	**296,875,000**	296,875,000
Additional paid-in capital	**1,576,796,271**	1,576,796,271
Retained earnings	**2,969,814,010**	2,701,658,512
	4,843,485,281	4,575,329,783
Cost of shares held in treasury (Note 14)	**(528,891,260)**	(383,633,460)
Total Equity	**4,314,594,021**	4,191,696,323
	₱6,511,193,166	₱6,927,927,564

See accompanying Notes to Financial Statements.

SEMIRARA MINING CORPORATION
STATEMENTS OF INCOME

	Years Ended December 31		
	2006	2005	2004
SALES AND SERVICES (Note 25)	**₱4,687,694,870**	₱5,552,892,725	₱5,065,864,642
COST OF SALES (Notes 16 and 18)	**3,713,161,109**	3,305,420,022	2,840,904,625
GROSS PROFIT	**974,533,761**	2,247,472,703	2,224,960,017
OPERATING EXPENSES (Notes 16, 17, 19 and 26)	**(133,125,734)**	(271,639,979)	(285,653,704)
FINANCE COSTS (Notes 16 and 20)	**(213,038,456)**	(118,518,445)	(438,899,836)
FINANCE REVENUE (Notes 16 and 21)	**54,526,586**	55,111,406	365,347
FOREIGN EXCHANGE GAINS (LOSSES)	**119,964,722**	98,094,920	(14,999,391)
OTHER INCOME (Note 22)	**107,607,836**	4,435,259	2,431,645
	(64,065,046)	(232,516,839)	(736,755,939)
INCOME BEFORE INCOME TAX	**910,468,715**	2,014,955,864	1,488,204,078
PROVISION FOR INCOME TAX (Note 23)			
Current	**297,259,609**	435,939,571	41,972,694
Deferred	**11,966,248**	(13,326,528)	7,730,677
	309,225,857	422,613,043	49,703,371
NET INCOME	**₱601,242,858**	₱1,592,342,821	₱1,438,500,707
Basic / Diluted Earnings Per Share (Note 24)	**₱2.161**	₱5.469	₱7.021

See accompanying Notes to Financial Statements.

SEMIRARA MINING CORPORATION
STATEMENTS OF CHANGES IN EQUITY

	Paid-up Capital								
	Preferred Stock (Note 14)	Common Stock (Note 14)	Additional Paid-in Capital (Note 14)	Total Paid-up Capital	Unappropriated Retained Earnings (Note 15)	Appropriated Retained Earnings (Note 15)	Total	Cost of Shares Held in Treasury (Notes 14 and 15)	Grand Total
					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
					For the Year Ended December 31, 2004				
At January 1	₱480,000	₱1,630,970,000	₱36,872	₱1,631,486,872	(₱1,730,037,936)	₱–	(₱1,730,037,936)	(₱222)	(₱98,551,286)
Net income for the year	–	–	–	–	1,438,500,707	–	1,438,500,707	–	1,438,500,707
Conversion of preferred shares to common stock	(480,000)	225,532	254,468	–	–	–	–	–	–
Decrease in issued and outstanding common stock from capital restructuring	–	(1,625,852,920)	–	(1,625,852,920)	1,625,852,920	–	1,625,852,920	–	–
Additional issuance of common stock	–	19,657,388	986,496	20,643,884	–	–	–	–	20,643,884
Stock dividends	–	225,000,000	–	225,000,000	(225,000,000)	–	(225,000,000)	–	–
Sale of treasury shares	–	–	–	–	–	–	–	222	222
At December 31	₱–	₱250,000,000	₱1,277,836	₱251,277,836	₱1,109,315,691	₱–	₱1,109,315,691	₱–	₱1,360,593,527

See accompanying Notes to Financial Statements

SEMIRARA MINING CORPORATION
STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2006	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱910,468,715**	₱2,014,955,864	₱1,488,204,078
Adjustments for:			
Depreciation, depletion and amortization (Notes 9 and 10)	**1,336,202,892**	1,239,303,578	564,210,124
Interest expense (Note 20)	**213,038,456**	118,518,445	438,899,836
Loss (gain) on disposal/retirement/write-off of assets (Notes 9, 18 and 22)	**(20,066,758)**	–	383,496,359
Net unrealized foreign exchange losses (gains)	**(85,679,563)**	(74,911,051)	9,000,667
Interest income (Note 21)	**(54,526,586)**	(55,111,406)	(365,347)
Provision for (reversal of provision) for real property tax (Notes 19 and 23)	**(71,530,122)**	–	45,996,836
Operating income before changes in working capital	**2,227,907,034**	3,242,755,430	2,929,442,553
Changes in operating assets and liabilities:			
Decrease (increase) in:			
Receivables	**608,232,450**	(366,991,928)	(541,991,341)
Inventories	**(474,281,601)**	(811,305,721)	16,961,517
Other current assets	**(245,539,448)**	(7,898,712)	(42,713,450)
Increase (decrease) in:			
Accounts and other payables	**(8,784,115)**	(583,480,152)	(212,064,441)
Customers' deposits	**(31,156,482)**	(63,874,944)	28,873,155
Asset retirement obligation	**1,138,611**	–	–
Pension liability	**10,337,567**	7,836,430	5,774,025
Cash generated from operations	**2,087,854,016**	1,417,040,403	2,184,282,018
Interest received	**51,271,791**	55,111,406	365,347
Interest paid	**(200,996,628)**	(130,868,816)	(672,846,295)
Income taxes paid	**(448,669,703)**	(44,408,239)	(15,847,965)
Net cash provided by operating activities	**1,489,459,476**	1,296,874,754	1,495,953,105
CASH FLOWS FROM INVESTING ACTIVITIES			
Short-term investment placement (Note 16)	**(300,000,000)**	–	–
Additions to property, plant and equipment (Notes 9 and 30)	**(633,924,797)**	(1,143,281,804)	(787,147,324)
Decrease (increase) in other noncurrent assets	**39,195,667**	(36,190,069)	(37,136,949)
Proceeds from sale of assets	**20,115,000**	–	–
Net cash used in investing activities	**(874,614,130)**	(1,179,471,873)	(824,284,273)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of long-term debt	**(1,278,163,549)**	(1,253,045,049)	(1,084,675,246)
Availments of long-term debt (Note 30)	**320,460,732**	1,193,955,068	405,687,511
Additional subscription to capital stock (Note 14)	–	1,622,393,435	20,643,884
Sale of treasury shares (Note 14)	–	–	222
Payment of dividends (Note 15)	**(333,087,360)**	–	–
Payment on acquisition of shares held in treasury (Note 14)	**(145,257,800)**	(383,633,460)	–
Net cash provided by (used in) financing activities	**(1,436,047,977)**	1,179,669,994	(658,343,629)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(821,202,631)**	1,297,072,875	13,325,203
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**1,331,641,854**	34,568,979	21,243,776
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 5)	**₱510,439,223**	₱1,331,641,854	₱34,568,979

SEMIRARA MINING CORPORATION
NOTES TO FINANCIAL STATEMENTS

1. **Corporate Information**

Semirara Mining Corporation (the Company) is 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.

2. **Changes in Accounting Policies**

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

The Company has adopted the following new and amended Philippine Financial Reporting Standards (PFRS) 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.

- Philippine Accounting Standards (PAS) 19, *Amendment - Employee Benefits*
- PAS 21, *Amendment - The Effects of Changes in Foreign Exchange Rates*
- PAS 39, *Amendments - Financial Instruments: Recognition and Measurement*
- PFRS 6, *Exploration for and Evaluation of Mineral Resources*
- Philippine Interpretation IFRIC 4 - *Determining whether an Arrangement Contains a Lease*

The principal effects of these changes are as follows:

PAS 19 - *Employee Benefits*
As of January 1, 2006, the Company adopted the amendments to PAS 19. As a result, additional disclosures are made providing information about trends in the assets and liabilities in the defined benefit plans and the assumptions underlying the components of the defined benefit cost. This change has resulted in additional disclosures being included in the financial statements (Note 17) but has not had a recognition or measurement impact, as the Company chose not to apply the new option offered to recognize actuarial gains and loss outside of the statement of income.

PAS 21 - *The Effects of Changes in Foreign Exchange Rates*
As of January 1, 2006, the Company adopted the amendments to PAS 21. Under this amendment, all exchange differences arising from a monetary item that forms part of the Company's investment in a foreign operation are recognized in a separate component of equity in the financial statements regardless of the currency in which the monetary item is denominated. This change had no impact to the financial statements as there are no investments in foreign operation.

PAS 39 - *Financial Instruments: Recognition and Measurement*
Amendment for financial guarantee contracts - amended the scope of PAS 39 to require financial guarantee contracts that are not considered to be insurance contracts to be recognized initially at fair value and to be remeasured at the higher of the amount determined in accordance with PAS 37, *Provisions, Contingent Liabilities and Contingent Assets,* and the amount initially recognized less, when appropriate, cumulative amortization recognized in accordance with PAS 18, *Revenue*. This amendment did not have any impact to the financial statements.

Amendment for hedges of forecast intragroup transactions - amended PAS 39 to permit the foreign currency risk of a highly probable intragroup forecast transaction to qualify as the hedged item in a cash flow hedge, provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and that the foreign currency risk will affect the statement of income. As the Company has no such transactions, the amendment did not have any effect on the financial statements.

Amendment for the fair value option - amended PAS 39 to restrict the use of the option to designate any financial asset or any financial liability to be measured at fair value through the statements of income. The Company had not previously used this option; hence, the amendment will not have any effect on the financial statements.

PFRS 6, *Exploration for and Evaluation of Mineral Resources.*
This standard requires a company to develop its own accounting policy for the recognition and measurement of exploration and evaluation of assets without specifically considering the requirements of paragraphs 11 and 12 of PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors.* Thus, a company adopting PFRS 6 may continue to use the accounting policies applied immediately before adopting the PFRS. This includes continuing to use recognition and measurement practices that are part of those accounting policies. The standard also specifies the circumstances in which the companies recognized exploration and evaluation assets should test such assets for impairment in accordance with PAS 36, *Impairment of Assets.* The standard also requires companies engaged in the exploration for and evaluation of mineral resources to disclose information about exploration and evaluation assets, the level at which such assets are assessed for impairment and any impairment losses recognized. The adoption of this standard did not materially impact the financial statements as the Company is not presently engaged in any exploration for and evaluation of mineral resources. The adoption, however, resulted to the reclassification of the costs of acquisition of the mining rights from "Property, plant and equipment" to "Mining rights acquisition cost" account shown under the "Other noncurrent assets" account.

Philippine Interpretation IFRIC 4 - *Determining Whether an Arrangement Contains a Lease*
The Company adopted IFRIC 4 as of January 1, 2006, which provides guidance in determining whether an arrangement contain to which lease accounting must be applied. This change in accounting policy has not had a significant impact on the financial statements.

The following are the Philippine Interpretations and accounting standards that have been issued but effective for financial statements after January 1, 2006. The Company did not early adopt this Philippine Interpretations and accounting standards.

- Philippine Interpretation IFRIC 7, *Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies (effective for annual periods beginning on or after March 1, 2006).* 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 (effective for annual periods beginning on or after May 1, 2006).* This Philippine Interpretation clarifies that PFRS 2, *Share-based Payment,* will apply to any arrangement when equity instruments are granted or liabilities (based on a value of the Company's equity instruments) are incurred by the Company, when the identifiable consideration appears to be less than the fair value of the instruments given. 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 (effective for annual periods beginning on or after June 1, 2006).* This Philippine Interpretation requires an entity to assess whether a contract contains an embedded derivative at the date an entity first become a party to the contract and prohibits reassessment unless there is change to the contract that significantly modifies the cash flows. The Company will reassess to determine whether or not embedded derivatives were assessed at the date of transition to PFRS rather than at the date of entering into the contract. This Philippine Interpretation requires the Company to revisit and revise accounting for embedded derivatives.

- Philippine Interpretation IFRIC 10, *Interim financial Reporting and Impairment (effective for annual periods beginning on or after November 1, 2006).* This Philippine Interpretation addresses an inconsistency between PAS 34, *Interim Financial Reporting,* and the impairment requirements relating to goodwill in PAS 36, *Impairment of Assets* and equity instruments classified as available for sale in PAS 39, *Financial Instruments: Recognition and Measurement*. The Philippine Interpretation states that the specific requirements of PAS 36 and PAS 39 take precedence over the general requirements of PAS 34 and, therefore, any impairment loss recognized for these assets in an interim period may not be reversed in subsequent interim periods. The Company will assess impact of this Philippine Interpretation.

- 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 not have an impact on the 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.

- Amendments to PAS 1, *Presentation of Financial Statements - Capital Disclosure (effective for annual periods beginning on or after January 1, 2007).* This amendment requires entities to disclose information that enables readers to evaluate the entity's objectives, policies and processes for managing capital. The disclosures are based on information provided internally to key management personnel, and will include: (a) the objectives, procedures and policies used to manage capital, (b) a description of what the entity manages as capital, the nature of any externally imposed capital requirements (if any) and how it meets objectives for managing capital, (c) quantitative information about what the entity manages as capital and any changes from the prior period, (d) whether the entity complied with externally imposed capital requirements and the consequences of any non-compliance, (if applicable). The Company will consider what information is currently used internally and how this is to be incorporated into the disclosures.

- PFRS 7, *Financial Instruments - Disclosures (effective for annual periods beginning on or after January 1, 2007).* PFRS 7 includes all of the disclosure requirements relating to financial instruments and will replace the disclosure section of PAS 32 *Financial Instruments: Disclosure and Presentation* and all of PAS 30 *Disclosures in the Financial Statements of Banks and Similar Financial Institutions*. PAS 32 will then contain only presentation requirements for financial instruments. The most significant additional disclosure requirements of PFRS 7 (compared to PAS 32 and PAS 30) are as follows: (a) qualitative risk disclosures are to include information on the processes that an entity uses to manage and measure its risks, (b) quantitative data about the exposure to each type of risk (including credit risk, liquidity risk and market risk) arising from financial instruments, (c) information about the credit quality of financial assets that are neither past due nor impaired, (d) an analysis of financial assets that are past due or impaired, including a description of collateral held as security and its fair value, (e) a market risk sensitivity analysis which includes the effect of a reasonably possible change in the risk variables, along with the methods and assumptions used in preparing the analysis. The Company will assess whether the processes and systems in place are capable of collecting these information and making any necessary changes. The Company will reassess to determine whether documented policies are comprehensive and complete. The amendment requires presentation of comparative information in the financial statements.

- 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. As the information required to be disclosed will likely be readily available as it is already used internally, the Company will reassess to determine whether additional processes should be put into place to reconcile information to the balance sheet and statement of income.

3. Summary of Significant Accounting Policies

Basis of Preparation

The financial statements have been prepared using the historical cost basis and are presented in Philippine Pesos.

Statement of Compliance

The financial statements have been prepared in compliance with PFRS.

Revenue Recognition

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

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 coal sales are denominated and recorded in Philippine Pesos.

Rendering of services

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

Interest income

Revenue 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 Assets
Financial assets within the scope of PAS 39 are classified as either financial assets at fair value through profit and loss (FVPL), loans and receivables, held-to-maturity (HTM) investments and available for sale (AFS) financial assets, as appropriate. When financial assets are recognized initially, these are measured at fair value, plus, in the case of investments measured not at FVPL, directly attributable costs. The Company considers whether a contract contains an embedded derivative when the entity first becomes a party to it. The embedded derivatives are separated from the host contract which is not measured at FVPL when analysis shows that the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract.

The Company determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year end.

All regular way purchases and sales of financial assets are recognized on the trade date, which is the date that the Company commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the market place.

Financial assets at FVPL
Financial assets at FVPL include financial assets held for trading and financial assets designated upon initial recognition as at FVPL. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless these are designated as effective hedging instruments or a financial guarantee contract. Gains or losses on investments held for trading are recognized in the statement of income.

Financial assets may be designated at initial recognition as FVPL if the following criteria are met: (a) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognizing gains or losses on them on a different basis; or (b) the assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (c) the financial asset contains an embedded derivative that would need to be separately recorded. As of December 31, 2006 and 2005, no financial assets have been designated as at FVPL.

HTM investments
HTM investments are non-derivative financial assets which carry fixed or determinable payments and fixed maturities which the Company has the positive intention and ability to hold to maturity. After initial measurement, HTM investments are measured at amortized cost. This cost is computed as the amount initially recognized minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initially recognized amount and the maturity amount, less allowance for impairment. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. Gains and losses are recognized in the statement of income when the investments are derecognized or impaired, as well as through the amortization process. As of December 31, 2006 and 2005, the Company has no HTM investments.

Loans and Receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, loans and receivables are subsequently carried at amortized cost using the effective interest method less any allowance for impairment. Amortized cost is calculated taking into account any discount or premium on acquisition and includes fees that are integral part of the effective interest rate and transaction costs. Gains and losses are recognized in the statement of income when the loans and receivables are derecognized or impaired, as well through the amortization process. The Company's loans and receivables consist mainly of receivable from customers and related parties.

AFS Investments
AFS investments are those non derivative financial assets that are designated as AFS or are not classified in any of the three preceding categories. After initial measurement, AFS are measured at fair value with unrealized gains or losses being recognized directly in equity in the net unrealized gain on AFS investments. When the investment is disposed of, the cumulative gain or loss previously recorded in equity is recognized in the statement of income. Interest earned or paid on the investments is reported as interest income or expense using the effective interest rate. Dividends earned on investments are recognized in the statement of income when the right to receive has been established. As of December 31, 2006, the Company classified its short-term investments as AFS investments.

Fair Value
The fair value of investments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using arm's length market transactions; references to the current market value of another instrument, which is substantially the same; discounted cash flow analysis or other valuation models.

Interest Bearing Loans and Borrowings
All loans and borrowings are initially recognized at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized costs using the effective interest method.

Gains and losses are recognized in the statement of income when the liabilities are derecognized as well as through the amortization process.

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

- the rights to receive cash flows from the asset have expired;
- the 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.

<u>Impairment of Financial Assets</u>
The Company assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

Assets carried at amortized cost
The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected 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 the use of an allowance account. The amount of the loss shall be recognized in profit or loss during the period in which it arises. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group if financial assets is collectively assessed for impairment. 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 of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to 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.

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. The carrying amount of the receivable is reduced through the use of an allowance account. Impaired debts are derecognized when they are assessed as uncollectible.

AFS financial investments
If an AFS asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in the statement of income, is transferred from equity to the statement of income. Reversals in respect of equity instruments classified as AFS are not recognized in the statement of income. Reversals of impairment losses on the debt instruments are reversed through the statement of income; if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in the statement of income.

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 asset retirement obligations (ARO).

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. All other repairs and maintenance expenses are charged to current operations as incurred.

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

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 of the respective assets:

Conventional and continuous mining equipment	2 to 13 years
Power plant and buildings	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.

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. Construction in progress is not depreciated until such time the relevant assets are completed and put into operational use.

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.

ARO

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 and equipment accounts which are depreciated on a straight-line basis over the EUL of the related property 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 *"Asset retirement obligation"* 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. Subsequently, intangible assets are measured at cost. 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 mining rights acquisition costs and software cost as its intangible assets.

Mining Rights Acquisition Costs and Mine Exploration and Development Costs

Cost incurred for the acquisition of mining rights are capitalized and amortized using the units-of-production method.

Expenditures for mine exploration and development activities on 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, the exploration expenses and subsequent development expenses are capitalized and presented under the *"Other noncurrent assets"* account in the balance sheet. Upon the start of commercial production, such capitalized costs are amortized using the units-of-production method.

Depletion of mining rights acquisition costs, mine exploration and development costs is calculated based on the units-of-production method. The estimated remaining mine life is 19 years where units of production is estimated at 29 million metric tons.

The estimated units of production and depletion method are reviewed periodically to ensure that the period and method of depletion are consistent with the expected pattern of economic benefits that can be derived from items of mining rights acquisition costs and mine exploration and development costs.

Mining rights acquisition costs and mine and 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.

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.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Company makes an estimate of recoverable amount. 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.

Intangible assets with indefinite useful lives are tested for impairment annually as of December 31 either individually or at the cash generating unit level, as appropriate.

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.

These costs are amortized using the straight-line method over the estimated useful life of the building.

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

Retirement

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 if 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 income 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 income 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 income 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 income 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 income tax 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 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 rate of exchange ruling 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.

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.

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.

Subsequent Events

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.

4. 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 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, the length of the Company's relationship with the customer, the customer's payment behavior and known market factors. 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.

Provision for doubtful accounts amounted to ₱4.68 million for the year ended December 31, 2004. There were no provisions made in 2006 and 2005. Receivables of the Company, net of allowance for doubtful accounts of ₱26.90 million and ₱47.50 million as of December 31, 2006 and 2005, respectively, amounted to ₱566.88 million and ₱1,171.85 million as of December 31, 2006 and 2005, respectively (Note 6).

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, 2006 and 2005 amounted to ₱1,017.02 million and ₱552.62 million, respectively.

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.

Provision for inventory write down amounted to ₱12.74 million for the year ended December 31, 2004. There were no provisions made in 2006 and 2005. Inventories of the Company, net of allowance for inventory write down of ₱53.29 million as of December 31, 2006 and 2005, amounted to ₱823.38 million and ₱813.51 million as of December 31, 2006 and 2005, respectively (Notes 7 and 19).

Estimating ARO
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, whichever is shorter. Assumptions used to compute the ARO 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 ARO would increase the recorded operating expenses and increase noncurrent liabilities.

As of December 31, 2006 and 2005, the ARO has a carrying value of ₱11.14 million and ₱10.00 million, respectively.

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

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, mining rights acquisition cost and software cost as of December 31, 2006 amounted to ₱3,014.85 million, ₱80.41 million and ₱3.41 million, respectively. The net book values of the property, plant and equipment, mining rights acquisition cost and software cost as of December 31, 2005 amounted to ₱2,831.61 million, ₱95.08 million and ₱1.03 million, respectively (Notes 9 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, mining rights acquisition cost and software cost.

The net book values of the property, plant and equipment, mining rights acquisition cost and software cost as of December 31, 2006 amounted to ₱3,014.85 million, ₱80.41 million and ₱3.41 million, respectively. The net book values of the property, plant and equipment, mining rights acquisition cost and software cost as of December 31, 2005 amounted to ₱2,831.61 million, ₱95.08 million and ₱1.03 million, respectively (Notes 9 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, 2006 and 2005, the Company has net deferred income tax liability of ₱73.79 million and ₱61.83 million, respectively (Note 23).

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 17). 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, 2006 and 2005, the balances of the Company's net pension liability and unrecognized actuarial gain follow:

	2006	2005
Pension liability (Note 17)	**₱52,669,928**	₱42,332,361
Unrecognized actuarial gains (losses) (Note 17)	**(4,709,675)**	18,937,010

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, 2006 and 2005 amounted to ₱3.54 million and ₱3.13 million, respectively.

Financial assets and liabilities
The Company carries certain financial assets and liabilities at fair value, which requires extensive use of accounting estimates and judgments. While significant components of fair value measurement were determined using verifiable objective evidence (i.e., foreign exchange rates, interest rates, volatility rates), amount of changes in fair value would differ if the Company utilized a different valuation methodology. Any changes in fair value of these financial assets and liabilities would affect profit and loss and equity.

The fair value of financial assets and liabilities as of December 31, 2006 amounted to ₱1,377.32 million and ₱1,826.06 million, respectively. The fair value of financial assets and liabilities as of December 31, 2005 amounted to ₱2,503.50 million and ₱2,231.22 million, respectively (Note 28).

5. Cash and Cash Equivalents

This account consists of:

	2006	2005
Cash in banks and on hand	**₱139,688,135**	₱168,922,957
Short-term placements	**370,751,088**	1,162,718,897
	₱510,439,223	₱1,331,641,854

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.

6. Receivables

This account consists of:

	2006	2005
Trade (Notes 25 and 28)	**₱505,732,640**	₱1,093,097,146
Due from related parties - net (Notes 16 and 28)	**62,106,768**	68,477,758
Others	**25,940,567**	57,776,622
	593,779,975	1,219,351,526
Less allowance for doubtful accounts	**26,902,850**	47,496,746
	₱566,877,125	₱1,171,854,780

Trade receivables are non-interest bearing and are generally on 30 - 45 days' terms.

Movement in the allowance for doubtful accounts follow:

	2006	2005
At January 1	**₱47,496,746**	₱216,555,744
Amounts written-off	**(20,593,896)**	(169,058,998)
At December 31	**₱26,902,850**	₱47,496,746

7. Inventories

This account consists of:

	2006	2005
Coal inventory at cost	**₱1,017,024,549**	₱552,615,554
Spare parts and supplies at NRV	**823,384,813**	813,512,207
	₱1,840,409,362	₱1,366,127,761

The amount of write down of inventories recognized as an expense amounted to ₱12.74 million for the year ended December 31, 2004. There were no provisions made in 2006 and 2005 (Note 19).

8. Other Current Assets

This account consists of:

	2006	2005
5% value added tax (VAT) withheld	**₱175,341,478**	₱–
Prepaid insurance and others	**11,133,582**	–
Environmental guarantee fund	**1,500,000**	1,500,000
Creditable withholding taxes	**–**	83,064,749
	₱187,975,060	₱84,564,749

As a result of the enactment of RA 9337 (Note 23), NPC started withholding the required 5% 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).

9. Property, Plant and Equipment

The rollforward analysis of this account follows:

	2006				
	Conventional and Continuous Mining Equipment	**Power Plant and Buildings**	**Roads and Bridges**	**Construction in Progress**	**Total**
AT COST					
Cost					
January 1	**₱7,296,500,797**	**₱1,151,114,619**	**₱269,004,106**	**₱222,593,212**	**₱8,939,212,734**
Additions	**1,094,733,699**	**994,464**	**–**	**408,658,000**	**1,504,386,163**
Transfers/disposals	**47,226,689**	**106,648,241**	**9,960,303**	**(235,070,791)**	**(71,235,558)**
December 31	**8,438,461,185**	**1,258,757,324**	**278,964,409**	**396,180,421**	**10,372,363,339**
Accumulated Depreciation and Amortization					
January 1	**5,077,165,340**	**795,720,873**	**234,720,214**	**–**	**6,107,606,427**
Depreciation and amortization	**1,260,932,533**	**45,879,885**	**14,280,637**	**–**	**1,321,093,055**
Retirement/disposals	**(71,187,316)**	**–**	**–**	**–**	**(71,187,316)**
December 31	**6,266,910,557**	**841,600,758**	**249,000,851**	**–**	**7,357,512,166**
Net Book Value	**₱2,171,550,628**	**₱417,156,566**	**₱29,963,558**	**₱396,180,421**	**₱3,014,851,173**

	2005				
	Conventional and Continuous Mining Equipment	Power Plant and Buildings	Roads and Bridges	Construction in Progress	Total
Cost					
January 1	₱5,719,409,618	₱1,105,022,356	₱252,629,388	₱77,350,401	₱7,154,411,763
Additions	1,577,091,179	46,092,263	16,374,718	145,242,811	1,784,800,971
December 31	7,296,500,797	1,151,114,619	269,004,106	222,593,212	8,939,212,734
Accumulated Depreciation and Amortization					
January 1	3,925,230,460	754,189,430	222,081,113	–	4,901,501,003
Depreciation and amortization	1,151,934,880	41,531,443	12,639,101	–	1,206,105,424
December 31	5,077,165,340	795,720,873	234,720,214	–	6,107,606,427
Net Book Value	₱2,219,335,457	₱355,393,746	₱34,283,892	₱222,593,212	₱2,831,606,307

Certain conventional and continuous mining equipment items with an aggregate book value of ₱8.07 million and ₱143.62 million as of December 31, 2006 and 2005, respectively, have been pledged as collaterals to secure the indebtedness of the Company to local banks and foreign suppliers (Note 13).

Depreciation and amortization charged to operations aggregated to ₱1,321.09 million, ₱1,206.11 million and ₱656.25 million for the years ended December 31, 2006, 2005 and 2004, respectively.

Losses on Property and Equipment
In 2004, the Company has written-off property and equipment with net book value of ₱224.00 million consisting mainly of development costs and certain continuous mining equipment (Note 18). This has resulted from the Company's annual review of the EUL and impairment of assets where management determined that there has been a significant change in the use and expected economic benefits from the said assets.

10. **Other Noncurrent Assets**

This account consists of:

	2006	2005
Mining rights acquisition cost - net	**₱80,411,136**	₱95,080,680
Marginal deposits	**5,684,483**	42,818,880
Software cost - net	**3,406,919**	1,032,598
Others	**1,138,685**	3,199,955
	₱90,641,223	₱142,132,113

Depletion charged to operations amounted to ₱14.67 million, ₱32.82 million and ₱28.85 million for the years ended December 31, 2006, 2005 and 2004, respectively.

The movements in the mining rights acquisition cost account follow:

	2006	2005
At cost		
January 1 and December 31	**₱181,451,611**	₱181,451,611
Accumulated depletion		
January 1	**86,370,931**	53,546,677
Depletion	**14,669,544**	32,824,254
December 31	**101,040,475**	86,370,931
Net Book Value	**₱80,411,136**	₱95,080,680

The movements in the software cost account follow:

	2006	2005
At Cost		
January 1	**₱1,445,336**	₱893,282
Additions	**2,814,614**	552,054
December 31	**4,259,950**	1,445,336
Accumulated Amortization		
January 1	**412,738**	38,838
Amortization during the year	**440,293**	373,900
December 31	**853,031**	412,738
Net Book Value	**₱3,406,919**	₱1,032,598

The software costs are not integral to the computer hardware.

11. **Accounts and Other Payables**

This account consists of:

	2006	2005
Trade payables	**₱219,687,000**	₱196,274,784
Accrued expenses and other payables	**66,947,492**	72,790,832
Payable to DOE and local government units (Note 26)	**28,505,131**	46,141,506
Due to related parties - net (Note 16)	**5,325,212**	–
Provisions	–	73,530,122
	₱320,464,835	₱388,737,244

Trade payables included liabilities amounting to ₱98.51 million (US$2.01 million) and ₱77.13 (US$0.3 million) as of December 31, 2006 and 2005, 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 terms.

Details of the accrued expenses and other payables account follow:

	2006	2005
Interest	**₱29,246,691**	₱24,797,166
Withholding tax	**18,301,640**	21,059,077
Salaries and wages	**2,403,904**	9,172,944
Coal handling costs	**3,338,556**	6,765,190
Professional fees	**2,251,786**	6,161,762
Others	**11,404,915**	4,834,693
	₱66,947,492	₱72,790,832

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.

12. **Customers' Deposits**

The deposits are due to the following customers:

	2006	2005
National Power Corporation (NPC)	**₱14,049,111**	₱35,597,050
Solid Cement Corporation (Solid)	**4,846,874**	–
APO Cement Corporation (APO)	–	14,455,417
	₱18,895,985	₱50,052,467

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 (Note 25).

13. Long-term Debt

This account consists of:

	2006	2005
Bank loans	**₱996,445,034**	₱1,052,616,540
Acceptances and trust receipts payable	**683,728,838**	313,673,959
Payable to foreign suppliers	**8,893,412**	492,883,186
	1,689,067,284	1,859,173,685
Less current portion of:		
Bank loans	**283,388,495**	176,604,879
Acceptances and trust receipts payable	**683,728,838**	176,477,558
Payable to foreign suppliers	**8,893,412**	49,660,025
	976,010,745	402,742,462
	₱713,056,539	₱1,456,431,223

The maturities of long-term debt as of December 31, 2006 follow:

Due in:	
2007	₱976,010,745
2008	287,224,710
2009	284,411,189
2010 and thereafter	141,420,640
	₱1,689,067,284

Details of the obligations follow:

Loan Type	**Date of Availment**	**Outstanding Balance 2006**	**Outstanding Balance 2005**	**Maturity**	**Interest Rate**	**Payment Terms**	**Covenants/Collaterals**
		(In Million)					
Local bank loan							
Loan 1	September 30, 2005	₱179.81	₱224.80	October 5, 2009	13% fixed p.a.	Payable in 48 equal monthly installments to commence on November 5, 2005	Secured by collaterals on mining equipment
Foreign bank loans							
Loan 1	December 14, 2005	306.50	117.49	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 drawn down dates	Unconditional and irrevocable guarantee issued by Komatsu Asia and Pacific Pte Ltd. and other covenants

(Forward)

Loan Type	Date of Availment	Outstanding Balance 2006	2005	Maturity	Interest Rate	Payment Terms	Covenants/Collaterals
		(In Million)					
Other loans	Various availments in 2004 and 2005	₱510.14	₱710.33	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 shall become due and payable 6 months after the starting point	Unconditional and irrevocable guarantee issued by DMCI-HI
		996.45	1,052.62				
Payable to foreign suppliers							
Supplier 1	October 15, 2004	–	458.28	January 26, 2010; prepaid fully in 2006	Based on 3 month SIBOR plus 4.25% p.a.	Payable in 16 consecutive equal quarterly installments	None
Supplier 2	December 31, 2005	6.44	10.72	December 4, 2007	5.7% p.a. compounded quarterly	Payable in 8 equal quarterly installments	None
Supplier 3	August 20, 2004	2.45	23.88	September 15, 2006	5% p.a. compounded monthly	Payable in 18 equal monthly installments	Unconditional and irrevocable guarantee issued by DMCI-HI
		8.89	492.88				
Various Letters of Credits	Various dates of availments	683.73	313.67	Various maturities in 2007	Interest ranging from 9% to 11% p.a.	Payable within 1 year or more	None
		₱1,689.07	₱1,859.17				

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 million and US$1 million, respectively, or their equivalent in other currencies.

The payable to foreign supplier 1 aggregating US$7.53 million was paid on August 23, 2006. There had been no penalties in the prepayment of the full amount of this loan.

14. 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:

	2006		2005		2004	
	Shares	**Amount**	Shares	Amount	Shares	Amount
At January 1	**296,875,000**	**₱296,875,000**	250,000,000	₱250,000,000	1,630,970,000	₱1,630,970,000
Additional issuance	–	–	46,875,000	46,875,000	19,657,388	19,657,388
Conversion of preferred shares to common shares	–	–	–	–	225,532	225,532
Decrease in issued and outstanding common stock from capital restructuring	–	–	–	–	(1,625,852,920)	(1,625,852,920)
Stock dividends	–	–	–	–	225,000,000	225,000,000
At December 31	**296,875,000**	**₱296,875,000**	296,875,000	₱296,875,000	250,000,000	₱250,000,000

Conversion of Preferred Shares to Common Shares

On August 12, 2000, the BOD approved the conversion of 48 unredeemed preferred shares into common shares without exemption on or before October 15, 2000. In this connection, the BOD authorized the Company to issue, exchange and deliver 225,532 common shares with a par value of ₱1 per share to the preferred shareholders pursuant to their right of conversion. On September 29, 2000, the Stockholders approved such conversion of preferred shares. In 2004, the preferred shareholders converted their outstanding preferred shares to common shares.

Capital Restructuring

On March 17, 2004, the stockholders ratified the BOD resolution on the Company's Capital Restructuring and on July 2, 2004, the SEC approved the Company's Capital Restructuring.

The Capital Restructuring includes the following:

a) Reduction of the authorized capital stock from ₱1,812,200,000, divided into 1,662,200,000 common shares at ₱1 par value per share and 15,000 preferred shares at ₱10,000 par value per share to ₱21,370,448 divided into 21,370,448 common shares at ₱1 par value per share.

b) Retirement and cancellation of the ₱150,000,000 authorized preferred shares.

c) Issued and outstanding common shares will be used to eliminate deficit as of December 31, 2003 of ₱1,625,852,920, thus, reducing issued and outstanding common shares to ₱5,342,612.

d) Increase in authorized capital stock from ₱21,370,448 divided into 21,370,448 common shares to ₱1,000,000,000 divided into 1,000,000,000 shares with a par value of ₱1 per share.

On July 30, 2004, the BOD approved the application for additional listing on the Philippine Stock Exchange of 19,657,388 common shares. These shares were subscribed by DMCI-HI out of the increase in the authorized capital stock approved by the SEC on July 2, 2004 as part of the Company's Capital Restructuring.

On September 14, 2004, the BOD approved the increase in the Company's authorized capital stock from ₱100.00 million divided into 100 million common shares with ₱1 par value per share to ₱1 billion divided into 1 billion common shares with ₱1 par value per share. The BOD also approved the declaration of 900% stock dividends in the amount of ₱225.00 million consisting of 225 million common shares at a par value of ₱1 per share in favor of all stockholders as of the record date to be determined by the SEC in proportion to their respective shareholdings as of said record date. On October 8, 2004, the stockholders approved the said increase in the authorized capital stock and the declaration of stock dividends. The stockholders also approved the offer for subscription to qualified institutional buyers of common shares out of the authorized capital stock provided it does not exceed 20% of the issued and outstanding capital stock after the offered shares have been subscribed.

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. As of December 31, 2006 and 2005, 5,499,500 shares (₱145.26 million) and 13,802,700 shares (₱383.63 million), respectively were reacquired.

A reconciliation of the movement of the treasury shares follow:

	2006		2005		2004	
	Shares	**Amount**	Shares	Amount	Shares	Amount
At January 1	**13,802,700**	**(₱383,633,460)**	–	₱–	(222)	(₱222)
Acquisitions	**5,499,500**	**(145,257,800)**	13,802,700	(383,633,460)	–	–
Sale	–	–	–	–	222	222
At December 31	**19,302,200**	**(₱528,891,260)**	13,802,700	(₱383,633,460)	–	₱–

15. **Retained Earnings**

Cash Dividends
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 27, 2006, respectively. The 2006 cash dividends shall be paid on April 30, 2007 while the 2005 cash dividends were paid on April 20, 2006.

Restrictions
In a meeting held on April 4, 2005, the BOD authorized the restriction in the amount of ₱1 billion out of the Company's retained earnings to be devoted to capital expenditures.

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 and ₱383.63 million for the years ended December 31, 2006 and 2005, respectively.

16. **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 temporary investment in DMCI-HI for a period of 180 days amounting to ₱300.00 million which bear interest 11% per annum (amounted to ₱3.25 million for the year ended December 31, 2006). On March 22, 2007, the temporary investment was terminated (Note 21).

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, 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. In 2004, the Company agreed to the retroactive charging of guarantee fees and fees for use of collateral. Guarantee fees incurred amounted to ₱12.29 million, ₱23.39 million and ₱7.63 million for the years ended December 31, 2006, 2005 and 2004, respectively. Additional guarantee fees booked in 2004 amounted to ₱160.02 million representing back guarantee fees covering the years 1998-2002. All real properties of this affiliate were already freed from lien effective at the time when these old equipment loan were fully paid. The new loans starting in 2006 no longer contain corporate guarantee of DMCI-HI and DMCI except for loans with Hypo-und Vereinsbank (HVB) and another lender which are guaranteed by DMCI-HI;

c. Use of DMCI, DMC CERI and PDI properties as collaterals for certain debts of the Company; The amount of ₱59.78 million was booked in 2004 representing collateral fees for the period 1998-2002;

d. Interest-bearing operating cash advances from M&S Company, an affiliate, amounting to ₱4.55 million as of December 31, 2004. Interest expense charged to operations arising from these cash advances amounted to ₱7.10 million for the year ended December 31, 2004. These advances were fully paid in 2005. No new interest-bearing cash advances were obtained in 2006.

e. 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 ₱24.48 million, ₱26.02 million and ₱34.19 million for the years ended December 31, 2006, 2005 and 2004, respectively; and

f. 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 ₱308.93 million, ₱302.17 million and ₱332.97 million for the years ended December 31, 2006, 2005 and 2004, respectively. The reported expense of the company is net of freight payment by NPC (billing is C&F).

g. M&S Co., DMC-CERI and DMCI-CI 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 ₱103.15 million, ₱109.64 million, ₱23.30 million, in 2006, 2005 and 2004, respectively. Office rental expense amounted to ₱2.67 million in 2006 and 1.06 million per year in 2005 and 2004. Transfer of materials and supplies amounted to ₱10.84million, ₱64.42 million, ₱23.05 million, for the years ended December 31, 2006, 2005 and 2004, respectively (covering steel structures and construction materials and parts for various projects).

h. Equipment transferred by DMCI-CI and DMC-CERI to the company in 2005 amounted to ₱72.10 million, none were transferred in 2006 and 2004. 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.

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

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

	2006	2005	2004
Short-term employee benefits	**₱9,010,375**	₱9,346,594	₱9,194,671
Post employment benefits	**843,467**	988,074	1,155,756
	₱9,853,842	₱10,334,668	₱10,350,427

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.

17. Pension Plan

The Company has an unfunded, noncontributory defined benefit plan covering substantially all of its employees. Total pension costs charged to operations amounted to ₱10.34 million, ₱7.84 million and ₱5.77 million for the years ended December 31, 2006, 2005 and 2004, respectively.

The following table summarizes the components of net benefit expense (included in "Personnel costs") in the statement of income:

	2006	2005	2004
Current service cost	**₱8,788,614**	₱3,007,000	₱2,901,834
Interest cost on benefit obligation	**2,573,489**	4,829,430	2,872,191
Actuarial gain recognized	**(1,024,536)**	–	–
Total pension expense	**₱10,337,567**	₱7,836,430	₱5,774,025

Movements in the pension benefit liability for the years ended December 31 are as follows:

	2006	2005	2004
Balance at January 1	**₱23,395,350**	₱34,495,931	₱28,721,906
Current service cost	**8,788,614**	3,007,000	2,901,834
Interest cost on benefit obligation	**2,573,489**	4,829,430	2,872,191
Actuarial loss (gain)	**22,622,150**	(18,937,011)	–
Balance at December 31	**₱57,379,603**	₱23,395,350	₱34,495,931

The pension benefit liability to be recognized in the balance sheet follows:

	2006	2005	2004
Balance at January 1	**₱57,379,603**	₱23,395,350	₱34,495,931
Unrecognized actuarial gain (losses)	**(4,709,675)**	18,937,011	–
	₱52,669,928	₱42,332,361	₱34,495,931

The assumptions used to determine pension benefits of the Company for the years ended December 31, 2006, 2005 and 2004 follow:

	2006	2005	2004
Discount rate	**8.12%**	11.00%	14%
Salary increase rate	**6.00%**	10.00%	10%

The amounts for the current and the previous period follow:

	2006	2005
Present value of the unfunded defined benefit obligation	**₱52,669,928**	₱42,332,361
Effects of changes in actuarial assumptions	**8,119,335**	2,582,027
Experience adjustments on plan obligation	**14,502,816**	(21,519,038)
Actuarial loss (gain)	**22,622,150**	(18,937,011)

18. Cost of Sales

This account consists of:

	2006	2005	2004
Depreciation, depletion, amortization and assets written-off (Note 9)	**₱1,169,414,380**	₱1,238,929,678	₱839,411,435
Fuel and lubricants	**1,068,281,359**	742,905,050	481,441,058
Materials and supplies (Note 16)	**670,710,940**	607,062,100	834,086,980
Outside services (Note 16)	**268,620,540**	228,515,951	201,327,903
Production overhead	**222,425,015**	177,281,177	140,232,607
Shipping, hauling and shiploading costs (Note 16)	**159,130,227**	194,443,110	188,233,309
Direct labor	**154,578,648**	116,282,956	156,171,333
	₱3,713,161,109	₱3,305,420,022	₱2,840,904,625

19. **Operating Expenses**

This account consists of:

	2006	2005	2004
Government share (Note 26)	**₱138,272,655**	₱158,784,821	₱148,623,317
Personnel costs (Notes 16 and 17)	**23,804,340**	40,979,760	19,439,206
Entertainment, amusement and recreation	**8,678,867**	6,411,005	7,419,889
Transportation and travel (Note 16)	**8,015,437**	26,797,368	6,616,689
Professional fees	**7,285,341**	17,306,728	16,435,040
Taxes and licenses	**1,752,898**	1,684,655	16,280,512
Provision for (reversal of) real property tax (Note 27)	**(71,530,122)**	–	45,996,836
Provision for inventory writedown	**–**	–	12,742,719
Provision for doubtful accounts	**–**	–	4,684,941
Office expenses and others	**16,846,318**	19,675,642	7,414,555
	₱133,125,734	₱271,639,979	₱285,653,704

20. **Finance Costs**

The finance costs are incurred from the following:

	2006	2005	2004
Interest on:			
Bank loans	**₱115,834,669**	₱49,290,577	₱46,819,893
Acceptances and letter of credits and other short-term borrowings	**73,229,501**	32,141,602	15,906,485
Purchase contracts	**23,974,286**	37,086,266	90,417,954
Loans - affiliated entities	**–**	–	285,755,504
	₱213,038,456	₱118,518,445	₱438,899,836

21. **Finance Revenue**

Finance revenue is derived from the following sources:

	2006	2005	2004
Interest on:			
Short term placements and temporary investments (Note 16)	**₱52,847,520**	₱54,461,877	₱–
Bank savings account	**1,679,066**	649,529	365,347
	₱54,526,586	₱55,111,406	₱365,347

22. **Other Income**

This account consists of:

	2006	2005	2004
Recoveries from insurance claims	**₱70,205,364**	₱–	₱–
Gain on sale of property and equipment	**20,066,758**	–	–
Miscellaneous	**17,335,714**	4,435,259	2,431,645
	₱107,607,836	₱4,435,259	₱2,431,645

23. **Income Taxes**

The provision for income tax in 2006 and 2005 consisted solely of current income tax provision while the 2004 provision for income tax represents MCIT.

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:

	2006	2005	2004
Provision for income tax computed at the statutory income tax rate	**35%**	32.50%	32.00%
Adjustments for:			
Additional deductible expense from adopt-a-school program	**(0.04)**	(0.07)	–
Interest income already subjected to final tax at a lower rate - net of nondeductible interest expense	**(1.00)**	(0.46)	–
Changes in unrecognized deferred income tax assets and tax rates	–	(11.00)	(28.66)
Effective interest rate	**33.96%**	20.97%	3.34%

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

	2006	2005
Deferred tax assets on:		
Allowance for doubtful accounts	**₱9,415,997**	₱16,623,861
Allowance for inventory write down	**18,650,424**	18,650,424
Accrual of expenses	**10,484,528**	35,520,070
Pension costs	**18,434,472**	14,816,323
	56,985,421	85,610,678
Deferred tax liabilities on:		
Deferred income tax liability on incremental cost of property, plant and equipment	**100,791,916**	121,219,904
Net unrealized foreign exchange gains	**29,987,847**	26,218,868
	130,779,763	147,438,772
Net deferred tax liability	**(₱73,794,342)**	(₱61,828,094)

In 2004, the Company has deductible temporary differences that are available for offset against future taxable income or tax payable for which deferred tax assets have not been recognized. These deductible temporary differences with no deferred income tax assets recognized in the financial statements are as follows:

NOLCO	₱455,126,957
Allowance for doubtful accounts	33,061,409
MCIT	67,423,942
	₱555,612,308

The deferred income tax effects of the above deductible temporary differences amounted to ₱223.64 million in 2004. Deferred tax assets are recognized only to the extent that taxable income will be available against which the deferred tax assets can be used or when there are sufficient taxable temporary differences which are expected to reverse in the same period as the expected reversal of the deductible temporary differences. The Company assesses the unrecognized deferred tax assets and will recognize a previously unrecognized deferred tax asset to the extent that it has become probable that future taxable income will allow the deferred tax asset to be recovered. Accordingly, in 2005, the Company recognized the deferred income tax effects of these deductible temporary differences amounting to ₱238.29 million (inclusive of the tax adjustment arising from the change in tax rate).

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. Details follow:

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.

24. Basic / Diluted Earnings Per Share

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

	2006	2005	2004
Net income	**₱601,242,858**	₱1,592,342,821	₱1,438,500,707
Divided by the weighted average number of common shares outstanding	**278,289,067**	291,112,892	204,884,683
Basic / diluted earnings per share	**₱2.161**	₱5.469	₱7.021

For the years ended December 31, 2006, 2005 and 2004, there were no outstanding dilutive potential common shares.

25. Coal Supply Agreements with NPC, Solid and APO

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;

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 a net (loss) income of ₱25.98 million, (₱26.87) million and ₱17.71 million from this handling operation for the years ended December 31, 2006, 2005 and 2004, respectively.

The Company's receivables from NPC amounted to ₱380.93 million and ₱809.33 million as of December 31, 2006 and 2005, respectively.

Solid and APO
The Company has existing MOAs with Solid and APO. These MOAs cover coal deliveries aggregating 108,000 MT in 2006 and 20,000 MT in 2005 with an estimated base price of 1,800.00 per MT.

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 (Note 12).

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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 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 ₱28.51 million and ₱46.14 million as of December 31, 2006 and 2005, respectively. These liabilities are included under the *"Accounts and other payables"* account in the balance sheets (Note 11). The contract is for a maximum period of 35 years (inclusive of the developmental stage and renewals) up to July 2012.

In 2002, the 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 short-term deposits, 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 US$ denominated debts.

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

	Within 1 year	1-2 years	2-3 years	3-4 years	4-5 years	More than 5 years	Total - Gross (in PHP)	Total – Gross (In USD)
Liabilities:								
Floating Rate (exposed to cash flow risk)								
$15.14 million loan (USD) 6 month USD LIBOR plus 1.5% per annum	₱148,446,773	₱148,446,773	₱148,446,771	₱ 64,795,403	₱–	₱–	₱510,135,720	$10,404,563
$6.64 million loan (USD) 3 month SIBOR plus 1.95% per annum	76,620,174	76,630,300	76,625,238	76,625,237	–	–	306,500,949	6,251,294
Various letters of credits and suppliers debt with various interest rates	692,622,250	–	–	–	–	–	692,622,250	181,387
Fixed Rate								
₱234.58 million promissory note 13.00% per annum	58,321,548	62,147,637	59,339,180	–	–	–	179,808,365	–
	₱976,010,745	₱287,224,710	₱284,411,189	₱141,420,640	₱–	₱–	₱1,689,067,284	$16,837,244

Foreign Currency Risk
The Company's foreign exchange risk results primarily from movements of the Philippine Pesos against the US$. All revenues are generated in Pesos, and substantially all of capital expenditures are substantially in US$. Approximately 46% and 69% of debts as of December 31, 2006 and 2005, respectively, were denominated in US$.

Information on the Company's foreign currency-denominated monetary assets and liabilities and their Philippine peso equivalents as of December 31, 2006 follows:

	U.S. Dollar	Peso Equivalent
Assets		
Cash and cash equivalents	**$238,651**	**₱11,701,058**
Liabilities		
Accounts and other payables	**(2,009,078)**	**(98,505,094)**
Long-term debt (including current portion)	**(16,837,244)**	**(825,530,073)**
Net foreign currency denominated liabilities	**($18,607,671)**	**(₱912,334,109)**

The spot exchange rate used was ₱49.03 to US$1.

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 customers:

	Percentage
NPC and PNOC	80.42%
Cement companies	8.75
Others	10.83
Total	100.0%

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.

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, 2006 and 2005.

	2006		2005	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Financial Assets				
Cash in banks	**₱510,439,222**	**₱510,439,222**	₱1,331,641,854	₱1,331,641,854
Short-term investment	**300,000,000**	**300,000,000**	–	–
Receivables	**566,877,125**	**566,877,125**	1,171,854,780	1,171,854,780
Total financial assets	**₱1,377,316,347**	**₱1,377,316,347**	₱2,503,496,634	₱2,503,496,634
Current Financial Liabilities				
Current portion of long-term debt	**₱976,010,745**	**₱945,619,277**	₱402,742,462	₱402,742,462
Accounts payable and accrued expenses	**320,464,835**	**320,464,835**	388,737,244	388,737,244
Total current financial liabilities	**1,296,475,580**	**1,266,084,112**	791,479,706	791,479,706
Noncurrent Financial Liabilities				
Long-term debt - net of current portion	**713,056,539**	**559,976,306**	1,456,431,223	1,439,738,340
Total financial liabilities	**₱2,009,532,119**	**₱1,826,060,418**	₱2,247,910,929	₱2,231,218,046

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

Debt Type	**Fair Value Assumptions**
Floating rate loans USD Php	The carrying values approximated the fair value because of recent and regular repricing (quarterly) based on market conditions.
Fixed rate loan Php	Estimated fair value is based on the discounted value of future cash flows using the applicable rates for similar type of loans.

29. 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 ₱105.82 million, ₱110.7 million and ₱24.36 million in 2006, 2005 and 2004, respectively.

As of December 31, 2006, the future minimum lease payments under this operating lease is as follows:

Not later than one year	₱15,300,629
After one year	9,950,472
	₱25,251,101

30. Note to Cash Flow Statements

Supplemental disclosure of noncash investing and financing activities follows:

	2006	2005	2004
Acquisition of conventional and other mining equipment on account (Notes 11 and 13)	**₱873,275,980**	₱642,071,221	₱434,125,210
Capital restructuring (Note 14)	**–**	–	1,625,852,920

31. Approval of the Financial Statements

On March 26, 2007, the BOD approved and authorized the release of the accompanying financial statements.

SEMIRARA
MINING CORPORATION