COVER SHEET

AS095-002283
SEC Registration Number

DMCI HOLDINGS, INC. AND SUBSIDIARIES
(Company's Full Name)

3rd Floor, Dacon Building, 2281 Don Chino Roces Avenue, Makati City
(Business Address: No. Street City/Town/Province)

Herbert M. Consunji
(Contact Person)

888-3000
(Company Telephone Number)

12 31
Month *Day*
(Fiscal Year)

AAFS
(Form Type)

Month *Day*
(Annual Meeting)

(Secondary License Type, If Applicable)

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

STAMPS

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BOA/PRC Reg. No. 0001
SEC Accreditation No. 0012-FR-2

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
DMCI Holdings, Inc.
3rd Floor, Dacon Building
2281 Don Chino Roces Avenue
Makati City

We have audited the accompanying consolidated financial statements of DMCI Holdings, Inc. and Subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2009 and 2008, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2009, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of DMCI Holdings, Inc. and Subsidiaries as of December 31, 2009 and 2008, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2009 in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.

Jessie D. Cabaluna
Partner
CPA Certificate No. 36317
SEC Accreditation No. 0069-AR-2
Tax Identification No. 102-082-365
PTR No. 2087369, January 4, 2010, Makati City

April 19, 2010

DMCI HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Amounts in Thousands)

	December 31	
	2009	2008
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 4 and 34)	**₱3,262,290**	₱3,068,623
Available-for-sale financial assets - net (Notes 5 and 34)	**214,174**	202,933
Receivables - net (Notes 6, 20 and 34)	**5,403,883**	6,598,971
Costs and estimated earnings in excess of billings on uncompleted contracts (Note 7)	**605,754**	369,923
Inventories - net (Note 8)	**10,660,129**	8,930,963
Other current assets (Note 9)	**3,350,338**	2,025,144
Total Current Assets	**23,496,568**	21,196,557
Noncurrent Assets		
Noncurrent receivables - net (Notes 6, 20 and 34)	**2,195,731**	2,440,384
Investments in associates, jointly controlled entities and others - net (Note 10)	**6,785,788**	4,634,643
Investment properties - net (Note 11)	**2,578,233**	2,350,001
Property, plant and equipment - net (Note 12)	**21,969,886**	4,475,163
Deferred tax assets - net (Note 28)	**38,529**	34,899
Other noncurrent assets - net (Note 13)	**573,560**	522,459
Total Noncurrent Assets	**34,141,727**	14,457,549
	₱57,638,295	₱35,654,106
LIABILITIES AND EQUITY		
Current Liabilities		
Bank loans (Notes 14 and 34)	**₱1,207,116**	₱438,407
Current portion of liabilities for purchased land (Notes 15 and 34)	**154,597**	572,955
Accounts and other payables (Notes 16 and 34)	**8,141,460**	5,650,621
Current portion of long-term debt (Notes 18 and 34)	**3,839,948**	2,438,607
Billings in excess of costs and estimated earnings on uncompleted contracts (Note 7)	**357,990**	197,038
Customers' advances and deposits (Note 17)	**4,095,906**	2,050,365
Income tax payable (Note 28)	**138,495**	102,216
Payable to related parties (Notes 20 and 34)	**694,749**	841,839
Total Current Liabilities	**18,630,261**	12,292,048
Noncurrent Liabilities		
Long-term debt - net of current portion (Notes 18 and 34)	**14,284,335**	3,952,748
Liabilities for purchased land - net of current portion (Notes 15 and 34)	**683,506**	353,777
Deferred tax liabilities - net (Note 28)	**518,786**	462,268
Pension liabilities (Note 22)	**107,857**	109,246
Other noncurrent liabilities (Notes 19 and 34)	**19,711**	17,954
Total Noncurrent Liabilities	**15,614,195**	4,895,993
Total Liabilities	**34,244,456**	17,188,041

	December 31	
	2009	2008
Equity (Note 21)		
Equity attributable to equity holders of the DMCI Holdings, Inc.:		
Paid-up capital	**₱7,421,415**	₱7,421,415
Retained earnings	**13,135,743**	8,995,322
Premium on minority acquisition	**(161,033)**	–
Other comprehensive income (Note 35)	**72,093**	82,477
	20,468,218	16,499,214
Minority interests	**2,925,621**	1,966,851
Total Equity	**23,393,839**	18,466,065
	₱57,638,295	₱35,654,106

See accompanying Notes to Consolidated Financial Statements.

DMCI HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Amounts in Thousands)

	ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT								
	Capital Stock (Note 21)	Additional Paid-in Capital (Note 21)	Total Paid-up Capital (Note 21)	Retained Earnings (Note 21)	Premium on acquisition of minority interest	Other Comprehensive Income (Note 35)	Total	ATTRIBUTABLE TO MINORITY INTERESTS	TOTAL EQUITY
As of January 1, 2009	**₱2,655,498**	**₱4,765,917**	**₱7,421,415**	**₱8,995,322**	**₱–**	**₱82,477**	**₱16,499,214**	**₱1,966,851**	**₱18,466,065**
Net income for the year	–	–	–	**4,682,519**	–	–	**4,682,519**	**747,114**	**5,429,633**
Other comprehensive income (losses)	–	–	–	–	–	**(10,384)**	**(10,384)**	**(62)**	**(10,446)**
Total comprehensive income	–	–	–	**4,682,519**	–	**(10,384)**	**4,672,135**	**747,052**	**5,419,187**
Dividends	–	–	–	**(542,098)**	–	–	**(542,098)**	**(738,896)**	**(1,280,994)**
Net movement in minority interest	–	–	–	–	**(161,033)**	–	**(161,033)**	**950,614**	**789,581**
Balances at December 31, 2009	**₱2,655,498**	**₱4,765,917**	**₱7,421,415**	**₱13,135,743**	**(₱161,033)**	**₱72,093**	**₱20,468,218**	**₱2,925,621**	**₱23,393,839**
As of January 1, 2008	₱2,655,498	₱4,766,142	₱7,421,640	₱7,135,135	₱–	(₱35,880)	₱14,520,895	₱2,142,909	₱16,663,804
Net income for the year	–	–	–	1,687,900	–	–	1,687,900	348,563	2,036,463
Other comprehensive income	–	–	–	–	–	118,357	118,357	1,350	119,707
Total comprehensive income	–	–	–	1,687,900	–	118,357	1,806,257	349,913	2,156,170
Redemption of preferred shares	–	(225)	(225)	–	–	–	(225)	–	(225)
Transferred from APIC	–	–	–	115,985	–	–	115,985	1,898	117,883
Transferred from revaluation increment	–	–	–	321,832	–	–	321,832	5,266	327,098
Dividends	–	–	–	(265,530)	–	–	(265,530)	(483,420)	(748,950)
Decrease in minority interest	–	–	–	–	–	–	–	(48,365)	(48,365)
Balances at December 31, 2008	₱2,655,498	₱4,765,917	₱7,421,415	₱8,995,322	₱–	₱82,477	₱16,499,214	₱1,966,851	₱18,466,065
As of January 1, 2007	₱2,255,498	₱2,402,685	₱4,658,183	₱5,103,728	₱–	₱39,873	₱9,801,784	₱1,858,406	₱11,660,190
Net income for the year	–	–	–	2,273,756	–	–	2,273,756	286,832	2,560,588
Other comprehensive losses	–	–	–	–	–	(75,753)	(75,753)	–	(75,753)
Total comprehensive income	–	–	–	2,273,756	–	(75,753)	2,198,003	286,832	2,484,835
Issuance of additional common shares	400,000	2,363,457	2,763,457	–	–	–	2,763,457	–	2,763,457
Dividends	–	–	–	(242,349)	–	–	(242,349)	(138,859)	(381,208)
Increase in minority interest	–	–	–	–	–	–	–	136,530	136,530
Balances at December 31, 2007	₱2,655,498	₱4,766,142	₱7,421,640	₱7,135,135	₱–	(₱35,880)	₱14,520,895	₱2,142,909	₱16,663,804

DMCI HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(Amounts in Thousands)

	Years Ended December 31		
	2009	2008	2007
REVENUE			
Mining	**₱11,602,130**	₱9,170,287	₱6,466,701
Construction contracts	**10,442,043**	6,727,610	4,685,196
Real estate sales	**6,963,108**	4,736,635	2,455,167
Electricity sales	**443,493**	–	–
Merchandise sales and others	**260,054**	523,543	568,564
	29,710,828	21,158,075	14,175,628
COSTS OF SALES AND SERVICES (Note 23)			
Mining	**8,873,190**	6,943,586	5,193,990
Construction contracts	**8,709,809**	6,024,191	3,462,058
Real estate sales	**4,756,934**	2,984,329	1,258,498
Electricity sales	**440,471**	–	–
Merchandise sales and others	**197,957**	553,735	441,883
	22,978,361	16,505,841	10,356,429
GROSS PROFIT	**6,732,467**	4,652,234	3,819,199
OPERATING EXPENSES (Notes 11, 12, 22, 23 and 24)	**2,882,151**	2,397,261	1,871,325
	3,850,316	2,254,973	1,947,874
OTHER INCOME (LOSSES)			
Equity in net earnings of associates, jointlycontrolled entities and others (Note 10)	**1,680,147**	84,073	1,259,900
Finance income (Note 25)	**840,035**	572,552	371,536
Gain on sale of investments	**40,412**	44,999	178,976
Finance costs (Note 26)	**(590,535)**	(552,067)	(515,367)
Other income (charges) - net (Note 27)	**223,606**	327,083	(137,279)
INCOME BEFORE INCOME TAX	**6,043,981**	2,731,613	3,105,640
PROVISION FOR INCOME TAX (Note 28)	**614,348**	695,150	545,052
NET INCOME (Note 33)	**₱5,429,633**	₱2,036,463	₱2,560,588
NET INCOME ATTRIBUTABLE TO			
Equity holders of DMCI Holdings, Inc.	**₱4,682,519**	₱1,687,900	₱2,273,756
Minority interests	**747,114**	348,563	286,832
	₱5,429,633	₱2,036,463	₱2,560,588
Basic/Diluted Earnings Per Share (Note 29)	**₱1.76**	₱0.64	₱0.94

See accompanying Notes to Consolidated Financial Statements.

DMCI HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in Thousands)

	Years Ended December 31		
	2009	2008	2007
NET INCOME	**₱5,429,633**	₱2,036,463	₱2,560,588
OTHER COMPREHESIVE INCOME			
Change in fair value unrealized loss on AFS financial assets	**(6,649)**	–	(35,880)
Unrealized gain (loss) on AFS financial assets transferred to statement of income (Note 5)	**–**	35,880	(39,873)
Exchange differences on translating foreign operations	**(3,797)**	3,822	–
Recognized revaluation increment	**–**	80,005	–
OTHER COMPREHENSIVE INCOME (LOSS) FOR THE YEAR, NET OF TAX	**(10,446)**	119,707	(75,753)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**₱5,419,187**	₱2,156,170	₱2,484,835
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO			
Equity holders of DMCI Holdings, Inc.	**₱4,673,510**	₱1,787,117	₱2,206,489
Minority interests	**745,677**	369,053	278,346
	₱5,419,187	₱2,156,170	₱2,484,835

See accompanying Notes to Consolidated Financial Statements.

DMCI HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in Thousands)

	Years Ended December 31		
	2009	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱6,043,981**	₱2,731,613	₱3,105,640
Adjustments for:			
Depreciation, depletion and amortization (Notes 11, 12, 13, 23 and 24)	**1,493,002**	1,566,760	1,905,640
Finance costs (Note 26)	**590,535**	552,067	515,367
Write-off of other noncurrent assets (Note 27)	**–**	–	300,000
Provisions for:			
Doubtful accounts (Note 24)	**76,948**	54,123	4,434
Probable losses on investments	**–**	–	20,188
Equity in net earnings of associates and jointly controlled entities (Note 10)	**(1,680,147)**	(84,073)	(1,259,900)
Gain on sale of property and equipment (Note 27)	**(13,735)**	(43)	(11,396)
Interest income (Note 25)	**(840,035)**	(572,552)	(371,536)
Dividend income (Notes 10 and 27)	**(1,399)**	(47,979)	(3,937)
Operating income before changes in working capital	**5,669,150**	4,199,916	4,204,500
Decrease (increase) in:			
Receivables	**1,991,911**	(4,304,049)	1,398,637
Inventories	**(243,936)**	(2,068,937)	(1,448,586)
Costs and estimated earnings in excess of billings on uncompleted contracts	**(235,831)**	(229,241)	(123,665)
Other current assets	**(2,085,211)**	(663,671)	(189,877)
Increase (decrease) in:			
Accounts and other payables	**1,187,034**	2,884,870	1,105,907
Customers' advances and deposits	**2,045,541**	24,082	538,240
Billings in excess of costs and estimated earnings on uncompleted contracts	**160,952**	150,852	10,322
Pension liabilities	**(1,389)**	(18,165)	(85,778)
Cash generated from (used in) operations	**8,488,221**	(24,343)	5,409,700
Interest received	**905,256**	574,833	371,536
Interest paid	**570,283**	(552,067)	(515,367)
Income taxes paid	**(525,181)**	(578,272)	(439,790)
Net cash provided by (used in) operating activities	**9,438,579**	(579,849)	4,826,079

(Forward)

	Years Ended December 31		
	2009	2008	2007
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from disposals of:			
Available-for-sale financial assets (Note 5)	**₱24,641**	₱46,635	₱21,038
Property and equipment	**900,545**	1,587,281	–
Additions to:			
Available-for-sale financial assets (Note 5)	**(42,531)**	–	–
Investment properties		(97,044)	218,129
Property, plant and equipment (Note 12)	**(4,375,952)**	(2,626,811)	(1,232,884)
Investments in associates, jointly controlled entities and others (Note 10)	**(472,397)**	(200,351)	(3,032,125)
Investment properties (Note 11)	**(433,430)**		
Decrease (increase) in other noncurrent assets	**99,466**	(361,340)	(42,572)
Acquisition of a business (Notes 32 and 37)	**(7,107,741)**	–	–
Net increase (decrease) in minority interest	**785,784**	(41,201)	136,530
Dividends received	**1,399**	47,979	3,937
Net cash used in investing activities	**(10,620,216)**	(1,644,852)	(3,927,947)
CASH FLOWS FROM FINANCING ACTIVITIES			
Availments of long-term debt	**11,288,460**	3,817,805	1,248,443
Payments of long-term debt	**(9,322,615)**	(2,127,459)	(2,012,503)
Payments of bank loans	**(133,988)**	–	(763,357)
Redemption of preferred shares	**–**	(226)	–
Dividends paid	**(1,280,994)**	(265,530)	(381,208)
Proceeds from:			
Bank loans	**902,697**	229,501	749,857
Additional subscriptions to capital stock	–	–	2,763,457
Increase (decrease) in:			
Payable to related parties (Note 20)	**(80,013)**	190,050	(497,069)
Other noncurrent liabilities	**1,757**	999	1,067
Net cash provided by financing activities	**1,375,304**	1,845,140	1,108,687
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**193,667**	(379,561)	2,006,819
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**3,068,623**	3,448,184	1,441,365
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	**₱3,262,290**	₱3,068,623	₱3,448,184

See accompanying Notes to Consolidated Financial Statements.

1. Corporate Information

DMCI Holdings, Inc. (the Parent Company) was incorporated and is domiciled in the Philippines. The Parent Company's registered office address and principal place of business is at 3rd Floor, Dacon Building, 2281 Don Chino Roces Avenue, Makati City.

The Parent Company is the holding company of the DMCI Group (collectively referred to herein as the Group) which is primarily engaged in general construction, mining, power generation, infrastructure, real estate development and manufacturing. The Parent Company is a subsidiary of Dacon Corporation (Dacon) which is also the ultimate parent Company.

2. Summary of Significant Accounting Policies

Basis of Preparation
The consolidated financial statements of the Group have been prepared using the historical cost basis, except for available-for-sale (AFS) financial assets that have been measured at fair value. The Group's functional and presentation currency is the Philippine Peso (₱). All amounts are rounded to the nearest thousand (₱000) unless otherwise indicated.

Statement of Compliance
The consolidated financial statements of the Group have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

Basis of Consolidation
The consolidated financial statements comprise the financial statements of the Group as of December 31, 2009 and 2008 and for each of the three years in the period ended December 31, 2009. Under PFRS, it is acceptable to use, for consolidation purposes, the financial statements of subsidiaries for fiscal periods differing from that of the Parent Company if the difference is not more than three months.

The consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances. All significant intercompany balances and transactions, including income, expenses and dividends, are eliminated in full. Profits and losses resulting from intercompany transactions that are recognized in assets are eliminated in full.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Minority interests represent the portion of profit or loss and net assets in subsidiaries not wholly owned by the Group and are presented separately in consolidated statement of income and consolidated statement of changes in equity and within equity in the consolidated statement of financial position, separately from equity holders' of the Parent Company. Losses are attributed to the non-controlling interest even if that results in a deficit balance.

The consolidated financial statements include the financial statements of the Parent Company and the following subsidiaries (which are all incorporated in the Philippines):

	Effective Percentages of Ownership	
	2009	2008
General Construction:		
D.M. Consunji, Inc. (DMCI) [1]	**100.00%**	100.00%
DMCI International, Inc. (DMCII) [2]	**100.00**	100.00
OHKI-DMCI Corporation (OHKI) [2]	**100.00**	100.00
Atlantic, Gulf and Pacific Company of Manila, Inc. (AG&P)	**98.39**	98.39
Atlantic, Gulf and Pacific Company (Marine), Inc. (AG&P Marine, Inc.) [4]	**98.39**	98.39
Pascal-Ville Corporation (PVC) [4]	**98.39**	98.39
Integrain Agricultural Development Corporation (IADC) [4]	**98.39**	98.39
AG&P Nouvelle Caledonie[4]	**98.39**	98.39
DMCI-Laing Construction, Inc. (DMCI-Laing) [2]	**60.00**	60.00
Beta Electric Corporation (Beta Electric) [2]	**50.77**	50.77
Raco Haven Automation Philippines, Inc. (Raco) [2]	**50.14**	50.14
Mining:		
Semirara Mining Corporation (Semirara)	**58.88**	56.46
DMCI Mining Corporation (DMC)	**79.44**	78.23
Real Estate Development:		
DMCI Project Developers, Inc. (PDI)	**100.00**	100.00
Hampstead Gardens Corporation (Hampstead) [3]	**100.00**	100.00
Riviera Land Corporation (Riviera) [3]	**100.00**	100.00
DMCI-PDI Hotels, Inc. (PDI Hotels) [3]	**100.00**	–
DMCI Homes Property Management Corporation (DHPMC) [3]	**100.00**	100.00
Manufacturing:		
Semirara Cement Corporation (SemCem) *	**100.00**	100.00
Oriken Dynamix Company, Inc. (Oriken) [2]	**89.00**	89.00
Wire Rope Corporation of the Philippines (Wire Rope)	**61.70**	61.70
Marketing Arm:		
DMCI Homes, Inc. (DMCI Homes) [3]	**100.00**	100.00
Power:		
DMCI Power Corporation (DPC) (formerly DMCI Energy Resources Unlimited Inc.) *	**79.44**	78.23
DMCI Masbate Power Corporation (DMCI Masbate)	**89.93**	89.33
DMCI Concepcion Power Corporation (DMCI Concepcion)	**79.44**	78.23
DMCI Calaca Power Corporation	**100.00**	–
Sem-Calaca Power Corporation [5]	**58.88**	–

* Organized on January 29, 1998 and October 16, 2006, respectively, and has not yet started commercial operations.

[1] Also engaged in real estate development

[2] DMCI's subsidiaries

[3] PDI's subsidiaries

[4] AG&P's subsidiaries

[5] Semirara's subsidiary

DMCI-PDI Hotels, Inc. (PDI Hotels)

On September 2, 2009, PDI Hotels was incorporated to engage in hotel business, including but not limited to the ownership of, establishment, maintenance and operation of hotels, condotels, apartelles, and similar establishments, as well as to engage in the development of, design, and implementation of hotel management systems or manual of operations. PDI Hotels started commercial operations on November 1, 2009.

DMCI Project Developers, Inc. (PDI)
In 2008, DMCI and PDI entered into a debt-to-equity conversion agreement for the equivalent 32.19% interest in PDI.

DMCI Power Corporation (DPC)
On February 28, 2008, the BOD of DPC approved the increase in the authorized capital stock of DPC from ₱80.00 million divided into 80 million shares, par value of ₱1.00 per share, to ₱1,000.00 million divided into 1,000 million shares, par value of ₱1.00 per share.

In 2007, the Parent Company holds the entire ₱20 million outstanding capital stocks of DPC. In relation to the increase in the capital stocks of DPC, the BOD of the Parent Company, in its meeting on February 28, 2008, approved the subscription to an additional 105 million shares at par value of ₱1.00 per share in DPC. Semirara subscribed to the increase in the authorized capital stocks of DPC and infused a total of ₱125.00 million which resulted in a 50:50 equity sharing of the Parent Company with Semirara.

On March 12, 2009, the Semirara made an additional subscription to the unissued capital stock of DPC equivalent to 25 million shares at ₱1.00 per share or a total subscription price of ₱25.00 million payable in cash. Advances for future subscriptions amounting to ₱60.55 million were also made.

DMCI Mining Corporation (DMC)
On February 28, 2008, the BOD of DMC also approved the increase in the authorized capital stock of DMC from ₱80.00 million divided into 80 million shares, par value of ₱1.00 per share, to ₱500.00 million divided into 500 million shares, par value of ₱1.00 per share.

In 2007, the Parent Company holds the entire ₱20 million outstanding capital stocks of DMC. In relation to the increase in the capital stocks of DMC, the BOD of the Parent Company, in its meeting on February 28, 2008, approved the subscription to an additional 80 million shares at par value of ₱1.00 per share in DMC. Semirara subscribed to the increase in the authorized capital stocks of DMC and infused a total of ₱100.00 million in DMC which resulted in a 50:50 equity sharing of the Parent Company with Semirara.

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

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

Sem-Calaca Power Corporation (SCPC)
SCPC, a wholly-owned subsidiary of Semirara, was incorporated on November 19, 2009, primarily to acquire, expand and maintain power generating plants, develop fuel for generation of electricity, and sell electricity to any person or entity through electricity markets, among others.

<u>Changes in Accounting Policies</u>
The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those of the previous financial year except for the following new and amended PFRS and Philippine Interpretations from International Financial Reporting Interpretations Committee (IFRIC) which were adopted as of January 1, 2009.

New Standards and Interpretations
- Philippine Accounting Standard (PAS) 1 (Revised), *Presentation of Financial Statements* (effective January 1, 2009)
- PAS 23 (Revised), *Borrowing Costs* (effective January 1, 2009)
- PFRS 8, *Operating Segments* (effective January 1, 2009)
- Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes* (effective July 1, 2008)
- Philippine Interpretation IFRIC 16*, Hedges of a Net Investment in a Foreign Operation* (effective October 1, 2008)
- Philippine Interpretation IFRIC 18, *Transfers of Assets from Customers* (effective July 1, 2009)

Amendments to Standards
- PAS 32 and PAS 1 Amendments, *Puttable Financial Instruments and Obligations Arising on Liquidation* (effective January 1, 2009)
- PFRS 1 and PAS 27 Amendments, *Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate* (effective January 1, 2009)
- PFRS 2, Amendment, *Vesting Conditions and Cancellations* (effective January 1, 2009)
- PFRS 7 Amendment, *Improving Disclosures about Financial Instruments* (effective January 1, 2009)
- Philippine Interpretation IFRIC 9 and PAS 39 Amendments, *Embedded Derivatives* (effective June 30, 2009)

Improvements to PFRSs 2008
- PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*
- PAS 1, *Presentation of Financial Statements*
- PAS 16, *Property, Plant and Equipment*
- PAS 18, *Revenue*
- PAS 19, *Employee Benefits*
- PAS 23, *Borrowing Costs*
- PAS 28, *Investment in Associates*
- PAS 31, *Interest in Joint ventures*
- PAS 36, *Impairment of Assets*
- PAS 38, *Intangible Assets*
- PAS 39, *Financial Instruments: Recognition and Measurement*
- PAS 40, *Investment Properties*

Standards or interpretations that have been adopted and that are deemed to have an impact on the consolidated financial statements or performance of the Group are described below:

- PAS 1 (Revised), *Presentation of Financial Statements*
  The revised standard introduces a new statement of comprehensive income that combines all items of income and expenses recognized in the profit or loss together with "comprehensive income". Entities may choose to present all items in one statement, or to present two linked statements, a separate statement of income and a statement of comprehensive income. This

standard also requires additional requirements in the presentation of statements of financial information and owners' equity as well as additional disclosures to be included in the financial statements. The Group has elected to present two linked statements, a consolidated statement of income and a consolidated statement of comprehensive income. The consolidated financial statements have been prepared following the revised disclosure requirements.

- PAS 23 (Revised), *Borrowing Costs*
  The revised PAS 23 requires capitalization of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. The Group's previous policy was to expense borrowing costs as they were incurred. In accordance with the transitional provisions of the amended PAS 23, the Group has adopted the standard on a prospective basis. Therefore, borrowing costs will be capitalized on qualifying assets with a prevailing commencement date on or after January 1, 2009. During the 12-month period to December 31, 2009, ₱45.03 million of borrowing costs have been capitalized on qualifying assets included in "Real Estate Held for Sale and Development" account in the consolidated statement of financial position.

- PFRS 8, *Operating Segments*
  PFRS 8 replaced PAS 14, *Segment Reporting*, upon its effective date. The Group concluded that the operating segments determined in accordance with PFRS 8 are the same as the business segments previously identified under PAS 14. PFRS 8 disclosures are shown in Note 33, including the related revised comparative information.

- Amendment to PFRS 7, *Financial Instruments: Disclosure*
  The amendments to PFRS 7, *Financial Instruments: Disclosures*, require additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by source of inputs using a three level fair value hierarchy, by class, for all financial instruments recognized at fair value. In addition, a reconciliation between the beginning and ending balance for level 3 fair value measurements is now required, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and financial assets used for liquidity management. The fair value measurement disclosures are presented in Note 34. The liquidity risk disclosures are not significantly impacted by the amendments and are presented in Note 34.

- PFRS 1 and PAS 27 Amendments - *Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*
  The amendments to PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards*, allowed an entity to determine the 'cost' of investments in subsidiaries, jointly controlled entities or associates in its opening PFRS financial statements in accordance with PAS 27, *Consolidated and Separate Financial Statements*, or using a deemed cost method. The amendment to PAS 27 required all dividends from a subsidiary, jointly controlled entity or associate to be recognized in the income statement in the separate financial statement. The revision to PAS 27 was applied prospectively. The new requirement affects only the Parent Company's separate financial statement and does not have an impact on the consolidated financial statements.

- PAS 18, *Revenue*
  The amendment adds guidance (which accompanies the standard) to determine whether an entity is acting as a principal or as an agent. The features to consider are whether the entity:

  - Has primary responsibility for providing the goods or service
  - Has inventory risk
  - Has discretion in establishing prices
  - Bears the credit risk

  The Group has assessed its revenue arrangements against these criteria and has concluded that it is acting as principal in all arrangements. The revenue recognition policy has been updated accordingly.

Future Changes in Accounting Policies
The Group has not applied the following PFRS and Philippine Interpretations which are not yet effective as of December 31, 2009:

- PFRS 3, *Business Combinations* (Revised) and PAS 27, *Consolidated and Separate Financial Statements* (Amended)
  The revised standards are effective for annual periods beginning on or after July 1, 2009. PFRS 3 (Revised) introduces significant changes in the accounting for business combinations occurring after this date. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs and future reported results. PAS 27 (Amended) requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes by PFRS 3 (Revised) and PAS 27 (Amended) will affect future acquisitions or loss of control of subsidiaries and transactions with non-controlling interests. PFRS 3 (Revised) will be applied prospectively while PAS 27 (Amended) will be applied retrospectively with a few exceptions.

- Philippine Interpretation IFRIC 15, *Agreement for Construction of Real Estate*
  This Interpretation, effective for annual periods beginning on or after January 1, 2012, covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The Interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11, *Construction Contracts*, or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion. This standard will not have an impact on the consolidated financial statements because the Group accounts its revenue using completed contract method.

- Philippine Interpretation IFRIC 17, *Distributions of Non-Cash Assets to Owners*
  This Interpretation is effective for annual periods beginning on or after July 1, 2009 with early application permitted. It provides guidance on how to account for non-cash distributions to owners. The Interpretation clarifies when to recognize a liability, how to measure it and the associated assets, and when to derecognize the asset and liability. The Group does not expect the Interpretation to have an impact on the consolidated financial statements as the Group has not made non-cash distributions to shareholders in the past.

Amendments to Standards

- PAS 39 Amendment - *Eligible Hedged Items*
  The amendment to PAS 39, *Financial Instruments: Recognition and Measurement,* effective for annual periods beginning on or after July 1, 2009, clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. This also covers the designation of inflation as a hedged risk or portion in particular situations. The Group has concluded that the amendment will have no impact on the financial position or performance of the Group, as the Group has not entered into any such hedges.

- PFRS 2 Amendments - *Group Cash-settled Share-based Payment Transactions*
  The amendments to PFRS 2, *Share-based Payments*, effective for annual periods beginning on or after January 1, 2010, clarify the scope and the accounting for group cash-settled share-based payment transactions. The Group has concluded that the amendment will have no impact on the financial position or performance of the Group as the Group has not entered into any such share-based payment transactions.

Improvements to PFRS 2009
The omnibus amendments to PFRSs issued in 2009 were issued primarily with a view to removing inconsistencies and clarifying wording. The amendments are effective for annual periods financial years January 1, 2010 except otherwise stated. The Group has not yet adopted the following amendments and anticipates that these changes will have no material effect on the financial statements.

- PFRS 2, *Share-based Payment*: clarifies that the contribution of a business on formation of a joint venture and combinations under common control are not within the scope of PFRS 2 even though they are out of scope of PFRS 3, *Business Combinations* (Revised). The amendment is effective for financial years on or after July 1, 2009.

- PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*: clarifies that the disclosures required in respect of non-current assets and disposal groups classified as held for sale or discontinued operations are only those set out in PFRS 5. The disclosure requirements of other PFRSs only apply if specifically required for such non-current assets or discontinued operations.

- PFRS 8, *Operating Segment Information*: clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker.

- PAS 1, *Presentation of Financial Statements*: clarifies that the terms of a liability that could result, at anytime, in its settlement by the issuance of equity instruments at the option of the counterparty do not affect its classification.

- PAS 7, *Statement of Cash Flows*: explicitly states that only expenditure that results in a recognized asset can be classified as a cash flow from investing activities.

- PAS 17, *Leases*: removes the specific guidance on classifying land as a lease. Prior to the amendment, leases of land were classified as operating leases. The amendment now requires that leases of land are classified as either 'finance' or 'operating' in accordance with the general principles of PAS 17. The amendments will be applied retrospectively.

- PAS 36, *Impairment of Assets*: clarifies that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in PFRS 8 before aggregation for reporting purposes.

- PAS 38, *Intangible Assets*: clarifies that if an intangible asset acquired in a business combination is identifiable only with another intangible asset, the acquirer may recognize the group of intangible assets as a single asset provided the individual assets have similar useful lives. Also clarifies that the valuation techniques presented for determining the fair value of intangible assets acquired in a business combination that are not traded in active markets are only examples and are not restrictive on the methods that can be used.

- PAS 39, *Financial Instruments: Recognition and Measurement*: clarifies the following:
  a) that a prepayment option is considered closely related to the host contract when the exercise price of a prepayment option reimburses the lender up to the approximate present value of lost interest for the remaining term of the host contract.
  b) that the scope ex scope exemption for contracts between an acquirer and a vendor in a business combination to buy or sell an acquiree at a future date applies only to binding forward contracts, and not the derivative contracts where further actions by either party are still to be taken.
  c) that that gains or losses on cash flow hedges o f a forecast transaction that subsequently results in the recognition of a financial instrument or on cash flow hedges of recognized financial instruments should be reclassified in the period that the hedged forecast cash flows affect profit or loss.

- Philippine Interpretation IFRIC 9, *Reassessment of Embedded Derivatives*: clarifies that it does not apply to possible reassessment at the date of acquisition, to embedded derivatives in contracts acquired in a business combination between entities or businesses under common control or the formation of joint venture.

- Philippine Interpretation IFRIC 16, *Hedge of a Net Investment in a Foreign Operation*: states that, in a hedge of a net investment in a foreign operation, qualifying hedging instruments may be held by any entity or entities within the group, including the foreign operation itself, as long as the designation, documentation and effectiveness requirements of PAS 39 that relate to a net investment hedge are satisfied.

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.

Financial Instruments

Date of recognition

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

Initial recognition of financial instruments

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

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

As of December 31, 2009 and 2008, the Group's financial instruments are classified as AFS financial assets, loans and receivables and other financial liabilities.

Determination of fair value

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

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

Day 1 difference

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

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

"Receivables", "Noncurrent receivables" and Security deposits included under "Other noncurrent assets".

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

AFS financial assets
AFS financial assets are those non-derivative financial assets that are designated as AFS financial assets or are not classified in any of the three preceding categories. After initial measurement, AFS financial assets are measured at fair value with unrealized gains or losses being recognized in the consolidated statement of comprehensive income and are reported as "net unrealized gain on AFS financial assets" in equity. When the investment is disposed of, the cumulative gain or loss previously recorded in equity is recognized in the consolidated 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 consolidated statement of income when the right to receive has been established. The Group's AFS financial assets pertain to quoted and unquoted securities (see Note 5).

When the fair value of AFS assets cannot be measured reliably because of lack of reliable estimates of future cash flows and discount rates necessary to calculate the fair values of unquoted equity instruments, then instruments are carried at cost less any allowance for impairment losses.

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

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

Other financial liabilities relate to the consolidated statement of financial position captions, "Accounts and other payables", Liabilities for purchased land", "Payable to related parties", "Bank loans", "Long-term debt - including current portion" and "Other noncurrent liabilities".

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

Impairment of Financial Assets
The Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

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

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

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

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

Financial assets carried at cost
If there is an objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the loss is measured as the difference between the carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

AFS financial assets
In case of AFS financial assets classified as equity investments, impairment would include a significant or prolonged decline in the fair value of the investments below its cost. Where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the consolidated statement of income - is removed from equity and recognized in the consolidated statement of income under "Other charges" account. Impairment losses on equity investments are not reversed through the consolidated statement of income. Increases in fair value after impairment are recognized directly in consolidated statement of changes in equity.

In the case of AFS financial assets classified as debt instruments, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount future cash flows for the purpose of measuring impairment loss and is recorded as part of "Interest income" account in the consolidated statement of income. If, in subsequent year, the fair value of a debt instrument increased and the increase can be objectively related to an event occurring after the impairment loss was recognized, the impairment loss is reversed through the consolidated statement of income.

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

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

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either: (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 Group 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 Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

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

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

<u>Inventories</u>
Inventories are valued at the lower of aggregate cost or net realizable value (NRV). NRV is the estimated replacement cost or the selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale. Costs incurred in bringing each product to its present location and conditions are accounted for as follows:

Coal inventory
The cost of coal inventory is determined using the weighted average production cost method. 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 the total volume of coal produced. Except for shiploading cost, which is a component of total minesite cost, all other costs are charged to production cost.

Nickel ore inventory
The cost of extracted nickel ore includes all direct materials, labor, fuel, outside services 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 nickel ore produced. Except for shiploading cost, which is a component of total minesite cost, all other costs are charged to production cost.

Materials-in-transit
Cost is determined using the specific identification basis.

Equipment parts and supplies
The cost of equipment parts, materials and supplies is determined principally by the average cost method (either by moving average or weighted average production cost).

Real estate held for sale and development
Property acquired or being constructed for sale in the ordinary course of business, rather than to be held for rental or capital appreciation, is held as Real estate held for sale and development. Real estate held for sale and development consists of residential units for sale and development, subdivision land for sale and development. Costs include those costs of acquisition, development, improvement and construction of the real estate projects. Borrowing costs are capitalized while the development and construction of the real estate projects are in progress, and to the extent that these are expected to be recovered in the future.

Investments in Associates, Jointly Controlled Entities and Others
Investments in associates and jointly controlled entities (investee companies) are accounted for under the equity method of accounting.

An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture. A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control, and a jointly controlled entity is a joint venture that involves the establishment of a separate entity in which each venturer has an interest.

Under the equity method, the investments in the investee companies are carried in the consolidated statement of financial position at cost plus post-acquisition changes in the Group's share in the net assets of the investee companies, less any impairment in value. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortized. The Group's share in the investee's post acquisition profit or loss is recognized in the consolidated satatement of income. Profit and losses resulting from transactions between the Group and the investee companies are eliminated to the extent of the interest in the investee companies.

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

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

Upon loss of significant influence over the associate, the Group measures and recognizes any retaining investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retaining investment and proceeds from disposal is recognized in the consolidated statement of income.

Investment in Jointly Controlled Assets
A jointly controlled asset involves joint control and ownership by the Group and other venturers of assets contributed to or acquired for the purpose of the joint venture, without the formation of a corporation, partnership or other entity. The Group accounts for its share of the jointly controlled assets, any liabilities it has incurred, its share of any liabilities jointly incurred with other ventures, income from the sale or use of its share of the joint venture's output, together with its share of the expenses incurred by the joint venture, and any expenses it incurs in relation to its interest in the joint venture.

Investment Properties
Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties, except land, are stated at cost less accumulated depreciation and any impairment in value. Land is stated at cost less any impairment in value. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met and excludes the cost of day-to-day servicing of an investment property.

Investment properties are derecognized when they have either been disposed of or when the investment property is permanently withdrawn from use and no future benefit is expected from its disposal. Any gain or loss on the retirement or disposal of an investment property is recognized in the consolidated statement of income in the year in which it arises.

Expenditures incurred after the investment properties have been put into operations, such as repairs and maintenance costs, are normally charged to consolidated statements of income in the period in which the costs are incurred.

Depreciation and amortization is calculated on a straight-line basis using the following estimated useful lives (EUL) from the time of acquisition of the investment properties. The EUL of the investment properties follow:

	Years
Buildings and building improvements	5-25
Condominium units	5

Transfers are made to investment property when, and only when, there is a change in use, evidenced by the end of owner occupation, commencement of an operating lease to another party or completion of construction or development. Transfers are made from investment property when, and only when, there is a change in use, as evidenced by commencement or owner occupation or commencement of development with a view to sale.

For a transfer from investment property to owner occupied property, the deemed cost of property for subsequent accounting is its fair value at the date of change in use. If the property occupied by the Group as an owner occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use. When the Group completes the construction or development of a self constructed investment property, any difference between the fair value of the property at that date and its previous carrying amount is recognized in the consolidated statement of income.

Mine Exploration, Evaluation and Development Costs

Pre-license costs

Pre-license costs are expensed in the period in which they are incurred.

Exploration and evaluation costs

Once the legal right to explore has been acquired, exploration and evaluation expenditure is charged to the consolidated statement of income as incurred, unless the directors conclude that a future economic benefit is more likely than not to be realized. These costs include materials and fuel used, surveying costs, drilling costs and payments made to contractors.

In evaluating if expenditures meet the criteria to be capitalized, several different sources of information are utilized. The information that is used to determine the probability of future benefits depends on the extent of exploration and evaluation that has been performed.

Exploration and evaluation expenditure incurred on licenses where a Joint Ores Reserve Committee (JORC) compliant resource has not yet been established is expensed as incurred until sufficient evaluation has occurred in order to establish a JORC compliant resource. Costs incurred during this phase are included as part of production cost.

Upon the establishment of a JORC compliant resource (at which point, the Group considers it probable that economic benefits will be realised), the Group capitalises any further evaluation costs incurred for the particular licence to exploration and evaluation assets up to the point when a JORC compliant reserve is established.

Once JORC compliant reserves are established and development is sanctioned, exploration and evaluation assets are tested for impairment and transferred to 'Mines under construction'. No amortization is charged during the exploration and evaluation phase.

Mines under construction
Upon transfer of 'Exploration and evaluation costs' into 'Mines under construction', all subsequent expenditure on the construction, installation or completion of infrastructure facilities is capitalized within "Mines under construction". Development expenditure is net of proceeds from all but the incidental sale of ore extracted during the development phase. After production starts, all assets included in "Mines under construction" are transferred to "Mining equipment".

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

Property, Plant and Equipment
Property, plant and equipment, except land, are stated at cost less accumulated depreciation and amortization, and any impairment in value. Land is stated at cost, less any impairment in value.

The initial cost of property, plant and equipment comprises its purchase price, including import duties, taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Costs also include decommissioning and site rehabilitation cost. Expenditures incurred after the property, plant and equipment have been put into operation, such as repairs and maintenance and overhaul costs, are normally charged to operations in the period in which 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, the expenditures are capitalized as additional cost 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.

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

Depreciation, depletion and amortization of property, plant and equipment are calculated on the straight-line basis over the following EUL of the respective assets or the remaining contract period, whichever is shorter:

	Years
Land improvements	5-17
Power plant, buildings and building improvements	5-25
Construction equipment, machinery and tools	5-10
Office furniture, fixtures and equipment	3-5
Transportation equipment	4-5
Conventional and continuous mining properties and equipment	2-13
Leasehold improvements	5-7

The EUL and depreciation, depletion and amortization methods are reviewed periodically to ensure that the period and methods of depreciation, depletion and amortization are consistent with the expected pattern of economic benefits from items of property, plant and equipment.

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

Provision for decommissioning and site rehabilitation costs
The Group 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 Group recognizes the present value of the liability for these obligations and capitalizes the present value of these costs as part of the balance of the related property, plant and equipment accounts which are depreciated, depleted and amortized on a straight-line basis over the EUL of the related property, plant and equipment or the contract period, whichever is shorter. The decommissioning and site rehabilitation costs are determined based on the provisions of PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*. The Group recognizes the liability for these obligations as "Provision for decommissioning and site rehabilitation" under "Other noncurrent liabilities" in the consolidated statement of financial position.

Intangible Assets
Intangible assets acquired separately are capitalized at cost and these are shown as part of the other noncurrent assets account in the consolidated statement of financial position. Following initial recognition, intangible assets are measured at cost less accumulated amortization and provisions for impairment losses, if any. The useful lives of intangible assets with finite life are assessed at the individual asset level. Intangible assets with finite life are amortized over their EUL. The perios and method of amortization for intangible assets with finite useful lives are reviewed annually or earlier where an indicator of impairment exists.

Costs incurred to acquire and bring the computer software (not an integral part of its related hardware) to its intended use are capitalized as part of intangible assets. These costs are amortized over their EUL ranging from 3 to 5 years. Costs directly associated with the development of identifiable computer software that generate expected future benefits to the Group are recognized as intangible assets. All other costs of developing and maintaining computer software programs are recognized as expense when 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 consolidated statement of income when the asset is derecognized.

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

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

Impairment of Nonfinancial Assets
This accounting policy applies primarily to the Group's property, plant and equipment, investment properties and investments in associates and jointly controlled entities.

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

A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, depletion and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated 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 reporting date either individually or at the cash generating unit level, as appropriate.

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

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

Treasury Shares
Treasury shares are recorded at cost and are presented as a deduction from equity. When the shares are retired, the capital stock account is reduced by its par value. The excess of cost over par value upon retirement is debited to the following accounts in the order given: (1) additional paid-in capital to the extent of the specific or average additional paid-in capital when the shares were issued; and, (2) retained earnings.

Minority Interests
Minority interests represent the portion of profit or loss and the net assets not held by the Parent Company and are presented separately in the consolidated statement of income and within equity in the consolidated statement of financial position, separately from total equity attributable to owners of the Parent Company. Any losses applicable to a minority shareholder of a consolidated subsidiary in excess of the minority shareholder's equity in the subsidiary are charged against the minority interests to the extent that the minority shareholder has binding obligation to, and is able to, make good of the losses.

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

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

Electricity sales
Revenue from sale of electricity is derived from its primary function of providing and selling electricity to customers of its generated and purchased electricity. Revenue derived from the generation and/or supply of electricity is recognized based on the actual delivery of electricity as agreed upon between parties.

Real estate sales
Real estate sales are generally accounted for under the full accrual method. Under this method, the gain on sale is recognized when: (a) the collectibility of the sales price is reasonably assured; (b) the earnings process is virtually complete; and (c) the seller does not have a substantial continuing involvement with the subject properties. The collectibility of the sales price is considered reasonably assured when: (a) the buyers have actually confirmed their acceptance of the related loan applications after the same have been delivered to and approved by either the banks or other financing institutions for externally-financed accounts; or (b) the full down payment comprising a substantial portion of the contract price is received and the capacity to pay and credit worthiness of buyers have been reasonably established for sales under the deferred cash payment arrangement.

If the above criteria is not met, the deposit method is applied until all the conditions for recording a sale are met. Pending recognition of sale, cash received from buyers are presented under the "Customers' advances and deposits" account in the liabilities section of the consolidated statement of financial position.

Construction contracts
Revenue from construction contracts is recognized using the percentage-of-completion method of accounting and is measured principally on the basis of the estimated completion of a physical proportion of the contract work. Contracts to manage, supervise, or coordinate the construction activity of others and those contracts wherein the materials and services are supplied by contract owners are recognized only to the extent of the contracted fee revenue. Revenue from cost plus contracts is recognized by reference to the recoverable costs incurred during the period plus the fee earned, measured by the proportion that costs incurred to date bear to the estimated total costs of the contract.

Contract costs include all direct materials and labor costs and those indirect costs related to contract performance. Expected losses on contracts are recognized immediately when it is probable that the total contract costs will exceed total contract revenue. The amount of such loss is determined irrespective of whether or not work has commenced on the contract; the stage of completion of contract activity; or the amount of profits expected to arise on other contracts, which are not treated as a single construction contract. Changes in contract performance, contract conditions and estimated profitability, including those arising from contract penalty provisions and final contract settlements that may result in revisions to estimated costs and gross margins are recognized in the year in which the changes are determined. Profit incentives are recognized as revenue when their realization is reasonably assured.

The asset "Costs and estimated earnings in excess of billings on uncompleted contracts" represents total costs incurred and estimated earnings recognized in excess of amounts billed. The liability "Billings in excess of costs and estimated earnings on uncompleted contracts" represents billings in excess of total costs incurred and estimated earnings recognized. Contract retentions are presented as part of "Trade receivables" under the "Receivables" account in the consolidated statement of financial position.

Merchandise sales
Revenue from merchandise sales is recognized upon delivery of the goods to and acceptance by the buyer and when the risks and rewards are passed on to the buyers.

Dividend income
Revenue is recognized when the Group's right to receive payment is established.

Rental income
Rental income arising from operating leases on investment properties and construction equipment is accounted for on a straight-line basis over the lease terms.

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.

Operating Expenses
Operating expenses are expenses that arise in the course of the ordinary operations of the Group. These usually take the form of an outflow or depletion of assets such as cash and cash equivalents, supplies, investment properties and property, plant and equipment. Expenses are recognized in the consolidated statement of income.

Borrowing Costs
Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

The interest capitalized is calculated using the Group's weighted average cost of borrowings after adjusting for borrowings associated with specific developments. Where borrowings are associated with specific developments, the amounts capitalized is the gross interest incurred on those borrowings less any investment income arising on their temporary investment. Interest is capitalized from the commencement of the development work until the date of practical

completion. The capitalization of finance costs is suspended if there are prolonged periods when development activity is interrupted. Interest is also capitalized on the purchased cost of a site property acquired specially for development but only where activities necessary to prepare the asset for development are in progress.

The Group capitalized borrowing costs for all eligible assets where construction commenced on or after January 1, 2009. The Group continues to expense borrowing costs relating to construction projects that commenced prior to January 1, 2009.

Foreign Currency Translations
The functional and presentation currency of the Parent and its Philippine subsidiaries (except for AG&P Nouvelle Caledonie), is the Philippine Peso. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are initially recorded by the Group entities at their respective functional currency rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date. All differences are taken to the consolidated statement of income.

The functional currency of the foreign operations, AG&P-Nouvelle Caledonie, is the Pacific Franc (XPF). As at the reporting date, the assets and liabilities of this subsidiary are translated into the presentation currency of the Group at the rate of exchange ruling at the reporting date and its statement of income accounts are translated at the weighted average exchange rates for the year. The exchange differences arising on the translation are recognized in the consolidated statement of comprehensive income and reported as a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognized in the consolidated statement of comprehensive income relating to that particular foreign operation shall be recognized in the consolidated statement of income.

The Group's share in the associate's translation adjustments are likewise included under the cumulative translation adjustments account in the consolidated statement of financial position.

Commission Expense
The Group recognizes commission expense when services are rendered by the broker. The commission expense is recognized upon receipt of down payment from the buyer comprising a substantial portion of the contract price and the capacity to pay and credit worthiness of buyers have been reasonably established for sales under the deferred cash payment arrangement.

Pension Expense
The Group has a noncontributory defined benefit retirement plan.

The retirement cost of the Group is determined using the projected unit credit method. Under this method, the current service cost is the present value of retirement benefits payable in the future with respect to services rendered in the current period. The defined benefit asset or liability comprises the present value of the defined benefit obligation less past service costs not yet recognized, if any, less the fair value of the plan assets out of which the obligations are to be settled directly and less any actuarial gains or losses not recognized. The value of any asset is restricted to the sum of any past service costs not yet recognized, if any, and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

The defined benefit obligation is calculated annually by an independent actuary using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using prevailing interest rate on government bonds that have terms to maturity approximating the terms of the related retirement liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are credited to or charged against income when the net cumulative unrecognized actuarial gains and losses at the end of the previous period exceeded 10% of the higher of the present value of the defined benefit obligation and the fair value of plan assets at that date. These gains or losses are recognized over the expected average remaining working lives of the employees participating in the plan.

Past-service costs, if any, are recognized immediately in 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.

Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the creditors of the Group, nor can they be paid directly to the Group. Fair value is based on market price information and in the case of quoted securities it is the published bid price. The value of any defined benefit asset recognized is restricted to the sum of any past service costs and actuarial gains and losses not yet recognized and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

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

<u>Leases</u>
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.

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

Group as a lessor
Leases where the Group retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same bases as rental income.

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

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

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

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

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

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

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

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

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

Income tax relating to items recognized directly in equity is recognized in equity and not in the consolidated statement of income.

Earnings per Share
Basic earnings per share (EPS) is computed by dividing the net income for the year attributable to common shareholders (net income for the period less dividends on convertible redeemable preferred shares) by the weighted average number of common shares issued and outstanding during the year and adjusted to give retroactive effect to any stock dividends declared during the period.

Diluted EPS is computed by dividing the net income for the year attributable to common shareholders by the weighted average number of common shares outstanding during the year adjusted for the effects of dilutive convertible redeemable preferred shares. Diluted EPS assumes the conversion of the outstanding preferred shares. When the effect of the conversion of such preferred shares is anti-dilutive, no diluted EPS is presented.

Operating Segment
The Group's operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products. Financial information on operating segments is presented in Note 33 to the consolidated financial statements.

Provisions
A provision is recognized only when the Group has: (a) a present obligation (legal or constructive) as a result of a past event; (b) it is probable (i.e., more likely than not) 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 assessment of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

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

Events After the Reporting Period
Post year-end events up to the date of the auditors' report that provide additional information about the Group's position at reporting date (adjusting events) are reflected in the consolidated financial statements. Any post year-end events that are not adjusting events are disclosed in the the consolidated financial statements when material.

Business Combinations
Business combinations are accounted for using the purchase method. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets (including previously unrecognized intangible assets) acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the date of acquisition, irrespective of the extent of any noncontrolling interest.

PFRS 3 provides that if the initial accounting for a business combination can be determined only provisionally by the end of the period in which the combination is effected because either the fair values to be assigned to the acquireee's identifiable assets, liabilities or contingent liabilities or the cost of the combination can be determined only provisionally, the acquirer shall account for the combination using those provisional values. The acquirer shall recognize any adjustments to those provisional values as a result of completing the initial accounting within twelve months of the acquisition date as follows: (i) the carrying amount of the identifiable asset, liability or contingent liability that is recognized or adjusted as a result of completing the initial accounting shall be

calculated as if its fair value at the acquisition date had been recognized from that date; (ii) goodwill or any gain recognized shall be adjusted by an amount equal to the adjustment to the fair value at the acquisition date of the identifiable asset, liability or contingent liability being recognized or adjusted; and (iii) comparative information presented for the periods before the initial accounting for the combination is complete shall be presented as if the initial accounting has been completed from the acquisition date.

Acquisition of Minority Interests in a Subsidiary
Acquisition of minority interests is accounted for using the parent entity extension method, whereby the difference between the fair value of consideration given and the net book value of the share in the net assets acquired is recognized as goodwill. When the consideration is less than the net assets acquired, the difference is recognized as a gain in the consolidated statement of income. In an acquisition without consideration involved, the difference between the share of the minority interests in the net assets at book value before and after the acquisition is recognized either as goodwill or a gain from acquisition of minority interests.

3. Significant Accounting Judgments and Estimates

The preparation of the consolidated financial statements in conformity with PFRS requires the Group to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingent assets and contingent liabilities. Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effects of any change in estimates are reflected in the consolidated financial statements, as they become reasonably determinable.

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

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

Real estate revenue recognition
Selecting an appropriate revenue recognition method for a real estate sale transaction requires certain judgments based on buyer's commitment on sale which may be ascertained through the significance of the buyer's initial payments.

Impairment of AFS financial assets
The Group follows the guidance of PAS 39 in determining when an asset is impaired. This determination requires significant judgment. In making this judgment, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; the financial health of and near-term business outlook of the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

Financial assets not quoted in an active market
The Group classifies financial assets by evaluating, among others, whether the asset is quoted or not in an active market. Included I the evaluation on whether a financial asset is quoted in an active market is the determination on whether quoted prices are readily and regularly available, and whether those prices represent actual and regularly occurring market transactions on an arm's length basis.

Distinction between investment properties and owner-occupied properties
The Group determines whether a property qualifies as an investment property. In making its judgment, the Group considers whether the property generates cash flows largely independent of the other assets held by an entity. Owner-occupied properties generate cash flows that are attributable not only to property but also to the other assets used in the production or supply process.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions cannot be sold separately, the property is accounted for as an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgment is applied in determining whether ancillary services are so significant that a property does not qualify as investment property. The Group considers each property separately in making its judgment.

Operating lease commitments - The Group as Lessee
The Group has entered into various leases for its occupied offices, and mining and transportation equipment . The Group has determined that all significant risks and rewards of ownership are retained by the respective lessors on the offices and equipment it leases under operating leases.

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

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

a.) Mining

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

There is no assurance that the use of estimates may not result in material adjustments in future periods. Revenue from mining amounted to ₱11.60 billion, ₱9.17 billion and ₱6.47 billion in 2009, 2008 and 2007, respectively.

c.) Construction contracts

The Group's revenue from construction contracts are recognized based on the percentage-of-completion, measured principally on the basis of the estimated completion of a physical proportion of the contract work.

There is no assurance that the use of estimates may not result in material adjustments in future periods. Revenue from construction contracts amounted to ₱10.44 billion, ₱6.73 billion and ₱4.69 billion in 2009, 2008 and 2007, respectively.

Allowance for doubtful accounts
The Group 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 the management on the basis of factors that affect the collectibility of the accounts. These factors include, but are not limited to debtors' ability to pay all amounts due according to the contractual terms of the receivables being evaluated, the length of relationship with the customer, the customer's payment behavior and known market factors. The Group reviews the age and status of receivables, and identifies accounts that are to be provided with allowances on a continuous basis. The Group provides full allowance for receivables that it deems uncollectible.

The amount and timing of recorded expenses for any period would differ if the Group made different judgments or utilized different estimates. An increase in the allowance for doubtful accounts on receivables would increase recorded operating expenses and decrease total assets. Provision for doubtful accounts of the Group amounted to ₱76.95 million, ₱54.13 million and ₱4.43 million in 2009, 2008 and 2007, respectively (see Notes 6 and 24). Receivables of the Group, net of allowance for doubtful accounts of ₱438.58 million and ₱430.76 million as of December 31, 2009 and 2008, respectively, amounted to ₱5.40 billion and ₱6.60 billion as of December 31, 2009 and 2008, respectively (see Note 6).

Stock pile inventory quantities
The Group estimates the stock pile inventory of coal 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 Group utilized different estimates and this would either increase or decrease the profit for the year. The coal inventory as of December 31, 2009 and 2008 amounted to ₱1.74 billion and ₱0.90 billion, respectively (see Note 8).

NRV of equipment parts, materials in transit and supplies
The Group reviews its inventory to assess NRV at least on a semi-annual basis. This requires the Group to make an estimate of the inventories' estimated selling price in the ordinary course of business and costs necessary to make a sale to determine the NRV. The amount and timing of recorded expenses for any period would differ if different judgments were made or different estimates were utilized. An increase in reserves for inventory write-down would increase recorded operating expenses and decrease current assets.

Inventories of the Group, net of allowance for inventory obsolescence amounting to ₱92.04 million and ₱59.71 million as of December 31, 2009 and 2008, respectively, amounted to ₱1.67 billion and ₱0.70 billion as of December 31, 2009 and 2008, respectively (see Note 8).

Estimating decommissioning and site rehabilitation costs
The Group 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 Group 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, depleted and amortized on a straight line basis over the EUL of the related asset or the lease term. Assumptions used to compute the decommissioning and site rehabilitation costs are reviewed and updated annually.

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

As of December 31, 2009 and 2008, the provision for decommissioning and site rehabilitation has a carrying value of ₱14.77 million and ₱13.20 million, respectively (see Note 19).

Estimating useful lives of investment properties and property, plant and equipment
The Group estimated the useful lives of its property, plant and equipment and investment properties based on the period over which the assets are expected to be available for use. The estimated useful lives of property, plant and equipment and investment properties are reviewed at least annually and are updated if expectations differ from previous estimates due to physical wear and tear and technical or commercial obsolescence on the use of these assets.

It is possible that future results of operations could be materially affected by changes in these estimates brought about by changes in factors mentioned above. A reduction in the estimated useful lives of property, plant and equipment, investment properties and mining rights acquisition cost would increase depreciation, depletion and amortization expense and decrease noncurrent assets.

The carrying value of property, plant and equipment of the Group amounted to ₱21.97 billion and ₱4.48 billion as of December 31, 2009 and 2008, respectively (see Note 12). The net book value of investment properties of the Group amounted to ₱2.58 billion and ₱2.35 billion as of December 31, 2009 and 2008, respectively (see Note 11).

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

- significant underperformance relative to expected historical or projected future operating results;

- significant changes in the manner of use of the acquired assets or the strategy for overall business; and
- significant negative industry or economic trends.

An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's 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 Group is required to make estimates and assumptions that can materially affect the consolidated financial statements.

As of December 31, 2009 and 2008, the balances of the Group's nonfinancial assets, net of accumulated depreciation, depletion and amortization and accumulated provisions for impairment losses follow:

	2009	2008
	(Amounts in Thousands)	
Property, plant and equipment (Note 12)	**₱21,969,886**	₱4,475,163
Investments in associates, jointly controlled entities and others (Note 10)	**6,785,788**	4,634,643
Investment properties (Note 11)	**2,578,233**	2,350,001

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

The deferred tax assets amounted to ₱38.53 million and ₱34.90 million as of December 31, 2009 and 2008, respectively. The unrecognized deferred tax assets of the Group amounted to ₱436.52 million and ₱425.58 million as of December 31, 2009 and 2008, respectively (see Note 28).

Pension and other retirement 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 (see Note 22). Actual results that differ from the Group's assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods. While the Group believes that the assumptions are reasonable and appropriate, significant differences between actual experiences and assumptions may materially affect the cost of employee benefits and related obligations.

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

As of December 31, 2009 and 2008, the balances of the Group's net pension liabilities and unrecognized actuarial gain or loss follow (see Note 22):

	2009	2008
	(Amounts in Thousands)	
Net pension liabilities	**₱107,857**	₱109,246
Unrecognized actuarial gains	**294,152**	135,674

Contingencies
The Group is currently involved in various legal proceedings. The estimate of the probable costs for the resolution of these claims has been developed in consultation with outside counsel handling the defense in these matters and is based upon an analysis of potential results. The Group currently does not believe these proceedings will have a material effect on the Group's financial position. It is possible, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the strategies relating to these proceedings (see Note 36).

Fair value of financial instruments
The Group carries certain financial assets and liabilities at fair value, which requires extensive use of accounting estimates and judgment. While significant components of fair value measurement were determined using verifiable objective evidence (i.e., foreign exchange rates, interest rates), the amount of changes in fair value would differ if the Group utilized different valuation methodology. Any changes in fair value of these financial assets and liabilities would affect directly the consolidated statements of income and changes in equity.

Financial assets carried at fair value as of December 31, 2009 and 2008 amounted to ₱34.25 million and ₱25.73 million, respectively (see Note 5).

4. Cash and Cash Equivalents

This account consists of:

	2009	2008
	(Amounts in Thousands)	
Cash on hand and in banks	**₱1,913,408**	₱1,387,248
Cash equivalents	**1,348,882**	1,681,375
	₱3,262,290	₱3,068,623

Cash in banks earns interest at the respective bank deposit rates. Cash equivalents are made for varying periods of up to three (3) months depending on the immediate cash requirements of the Group, and earn interest at the respective short-term investment rates.

5. Available-for-Sale Financial Assets

This account consists of:

	2009	2008
	(Amounts in Thousands)	
Quoted securities		
Balance at beginning of year	**₱25,727**	₱29,602
Additions	**39,411**	–
Disposal	**(24,238)**	(3,875)
Balance at end of year	**40,900**	25,727
Unrealized loss recognized in equity	**(6,649)**	–
	34,251	25,727
Unquoted securities		
Balance at beginning of year	**282,595**	282,595
Additions	**3,120**	–
Disposals	**(23,832)**	–
Balance at end of year	**261,883**	282,595
Less allowance for probable loss	**(81,960)**	(105,389)
	179,923	177,206
	₱214,174	₱202,933

The quoted equity investments include investments in golf and sports club shares. In 2009, unrealized loss on AFS financial assets recognized in other comprehensive income amounted to ₱6.65 million.

Unquoted securities
The unquoted shares include investment in Montecito Properties, a 40% owned company carried at cost less provision for impairment losses. The Group does not have significant influence nor participate during Board discussion meeting. As of December 31, 2009 and 2008, the carrying amount of the investment amounted to ₱138.09 million.

On October 9, 2003, the Regional Trial Court (RTC) of Calamba City issued a stay order prohibiting Montecito from selling, encumbering, transferring or disposing any of its properties in any manner except in the ordinary course of business. In connection with this, a Rehabilitation Plan was prepared which includes, among others, the following:

(a) Restructuring of loans due to various banks subject to the following: (i) repayment of principal and capitalized interest over a term of 7 years, with a 2-year grace period; and (ii) fixed interest rate of 9.5% for 7 years and possibility of settling outstanding debt through dacion en pago or friendly foreclosure;

(b) Reconfiguration of unsold regular lots to smaller lot sizes; and

(c) Change in Montecito's existing payment terms for contracts receivables from 4 years to 3 years.

On April 25, 2005, the RTC approved the revised rehabilitation plan with as follows:

(a) Reduction of debt in full or in part, via dacion en pago for creditor banks;

(b) The North-South Spine Road shall be completed on or before July 31, 2005;

(c) Atlantic Gulf & Pacific shall improve the site facilities to attract foreign interests/investors;

(d) The two year grace period on principal on the restructured bank loans shall start on July 1, 2005; and

(e) Interest expense on the restructured loans shall be made current starting July 1, 2005.

On May 26, 2006, Montecito and a certain creditor bank entered into a Memorandum of Agreement (MOA) for the settlement of the outstanding obligation of Montecito with the creditor bank. Under the MOA, the creditor bank will foreclose certain parcels of land mortgaged with the creditor bank with a carrying value of ₱329.50 million as of December 31, 2004. After the foreclosure, the obligation and related interests of the creditor bank as of May 22, 2006 shall be fully extinguished. Any interest due on the obligation during the period of May 22, 2006 to May 31, 2006 computed at the rate of 5% per annum and interest, if any, which may be due thereafter, at a rate which may agreed upon by Montecito and the creditor bank but not to exceed 9.5% per annum shall be settled by Montecito before the date of public auction.

On March 28, 2008, Montecito entered into a marketing management agreement with Ayala Land, Inc. (ALI) for the purpose of constructing, developing and completing the redevelopment of the residential subdivision known as Montecito Estate or the Project.

The agreement provided for an allocation of 55% of the saleable lots to Montecito and remaining 45% to (ALI) and payment of project management fee and marketing fees.

6. Receivables

This account consists of:

	2009	2008
	(Amounts in Thousands)	
Trade:		
Real estate	**₱2,788,393**	₱4,390,350
General construction (including retention receivables on uncompleted contracts of ₱788.15 million in 2009 and ₱307.68 million in 2008)	**2,890,654**	1,666,048
Mining	**752,142**	1,773,418
Electricity sales	**489,246**	–
	6,920,435	7,829,816
Receivables from related parties (Note 20)	**941,971**	1,220,010
Advances to officers and employees	**60,280**	73,581
Other receivables	**115,509**	346,712
	8,038,195	9,470,119
Less allowance for doubtful accounts	**438,581**	430,764
	7,599,614	9,039,355
Less noncurrent receivables - net	**2,195,731**	2,440,384
	₱5,403,883	₱6,598,971

Receivables amounting to ₱84.89 million and ₱11.04 million as of December 31, 2009 and 2008, respectively, were impaired and fully provided for. Movements in the allowance for impairment losses are as follows (amounts in thousands):

2009

	Trade Receivables				
	Real Estate	**General Construction**	**Mining**	**Others**	**Total**
At January 1	**₱66,364**	**₱336,602**	**₱16,760**	**₱11,038**	**₱430,764**
Provision during the year	**–**	**3,098**	**–**	**73,850**	**76,948**
Reversal	**–**	**–**	**(3,191)**	**–**	**(3,191)**
Reclassification	**(4,231)**	**4,231**	**–**	**–**	**–**
Write-off	**–**	**(65,940)**	**–**	**–**	**(65,940)**
At December 31	**₱62,133**	**₱277,991**	**₱13,569**	**₱84,888**	**₱438,581**
Individually impaired	**₱4,656**	**₱277,991**	**₱13,569**	**₱84,888**	**₱381,104**
Collectively impaired	**57,477**	**–**	**–**	**–**	**57,477**
Total	**₱62,133**	**₱277,991**	**₱13,569**	**₱84,888**	**₱438,581**
Gross amounts of receivables, individually determined to be impaired, before deducting any individual assessed impairment allowance	**₱–**	**₱–**	**₱–**	**₱84,888**	**₱381,104**

2008

	Trade Receivables				
	Real Estate	General Construction	Coal Mining	Others	Total
At January 1	₱12,242	₱336,592	₱16,760	₱11,038	₱376,632
Provision during the year	54,122	10	–	–	54,132
At December 31	₱66,364	₱336,602	₱16,760	₱11,038	₱430,764
Individually impaired	₱4,973	₱336,602	₱16760	₱11,038	₱369,373
Collectively impaired	61,391	–		–	61,391
Total	₱66,364	₱336,602	₱16760	₱11,038	₱430,764
Gross amounts of loans, individually determined to be impaired, before deducting any individual assessed impairment allowance.	₱–	₱–	₱–	₱11,038	₱369,373

In 2009 and 2008, real estate receivables with a nominal amount of ₱1.54 billion and ₱1.35 billion, respectively, were initially recorded at fair value. The unamortized discount amounted to ₱60.71 million and ₱123.76 million as of December 31, 2009 and 2008, respectively.

Movement in the unamortized discount on real estate receivables is as follows:

	2009	2008
	(Amounts in Thousands)	
Balance at beginning of year	**₱123,764**	₱197,168
Accretion for the year (Note 25)	**(63,056)**	(73,404)
Balance at end of year	**₱60,708**	₱123,764

Trade Receivable

Real estate

Real estate receivables principally consist of amounts arising from sale of real estate subdivision units which are collectible within (ten) 10 years with interest at prevailing market rates. The corresponding titles to the subdivision units sold under this arrangement are transferred to the buyers only upon full payment of the contract price.

Certain subsidiaries are liable to local commercial banks relative to the discounting of real estate receivables (see Note 18). The purchase agreements provide that the Group should substitute defaulted contracts to sell with other contracts to sell of equivalent value. The carrying value of real estate receivables discounted amounted to ₱77.93 million in 2009 and ₱980.84 million as of ecember 31, 2009 and 2008, respectively (see Note 18).

In 2009, the Group entered into an agreement with Banco de Oro (BDO) to convert the receivables under purchased agreements into a without recourse basis. Total carrying value of trade receivables from real estate sales converted into a without recourse basis amounted to ₱3,621.87 million as of December 31, 2009 (see Note 18).

General construction
General construction receivables principally consist of receivables from third-party construction projects. These are normally on a 30-60 day term.

Mining
Receivable from coal mining pertains to receivables from the sale of coal both to domestic and international markets. These receivables are nonintinterest bearing and generally have 30-45 days credit terms.

Electricity sales
Receivables from electricity sales are claims from power distribution companies for supply and distribution of contracted energy and are generally carried at original invoice amounts less discounts and rebates.

7. Costs, Estimated Earnings and Billings on Uncompleted Contracts

The details of the costs, estimated earnings and billings on uncompleted contracts follow:

	2009	2008
	(Amounts in Thousands)	
Total costs incurred	**₱8,975,799**	₱2,493,011
Add estimated earnings recognized	**2,914,459**	689,724
	11,890,258	3,182,735
Less total billings (including unliquidated advances from contract owners of ₱2,399.42 million in 2009 and ₱27.07 million in 2008)	**11,642,494**	3,009,850
	₱247,764	₱172,885

The foregoing balances are reflected in the consolidated statements of financial position under the following accounts:

	2009	2008
	(Amounts in Thousands)	
Costs and estimated earnings in excess of billings on uncompleted contracts	**₱605,754**	₱369,923
Billings in excess of costs and estimated earnings on uncompleted contracts	**(357,990)**	(197,038)
	₱247,764	₱172,885

8. **Inventories**

This account consists of:

	2009	2008
	(Amounts in Thousands)	
At Cost:		
Real estate held for sale and development	**₱7,198,094**	₱7,202,765
Coal inventory	**1,743,045**	896,734
Equipment parts, materials in transit and supplies	**48,181**	132,335
Nickel ore	**14,038**	–
Chromites	**3,092**	2,218
At NRV:		
Nickel ore	**24,593**	100,494
Equipment parts, materials in transit and supplies	**1,629,086**	596,417
	₱10,660,129	₱8,930,963

Costs of equipment parts, materials and supplies carried at NRV amounted to ₱1.67 billion and ₱791.43 million as of December 31, 2009 and 2008, respectively. Costs of nickel ore carried at NRV amounted to ₱29.24 million and ₱101.16 million as of December 31, 2009 and 2008, respectively.

In 2009, the Group capitalized borrowing costs amounting to ₱45.03 million on all real estate projects that commenced development starting January 1, 2009. The rate used to determine the amount of borrowing costs eligible for capitalization was 10.99%, which is the effective interest rate of the Group's general borrowing.

The cost of inventories recognized as expense in the consolidated statements of income amounted to ₱22.18 billion, ₱16.07 billion and ₱10.07 billion for the years ended December 31, 2009, 2008 and 2007, respectively.

9. Other Current Assets

This account consists of:

	2009	2008
	(Amounts in Thousands)	
Advances to suppliers, brokers and contractors	**₱1,708,462**	₱760,017
Input value added tax (VAT)	**810,465**	783,020
Creditable taxes withheld	**389,390**	296,012
Security deposits - current portion (Note 13)	**270,766**	–
Prepaid expenses	**130,595**	117,362
Others	**40,660**	68,733
	₱3,350,338	₱2,025,144

Input value added tax (VAT)
Input VAT is fully recoverable and can be applied against output VAT, except for the output VAT erroneously withheld by National Power Corporation (NPC) in which the Group recognized provision for probable loss amounting to ₱42.38 million (see Note 24).

In 2007, the Group filed a total claim for refund of ₱190.50 million from the BIR representing VAT erroneously withheld by NPC from December 2005 to March 2007, which eventually was elevated to the Court of Tax Appeals (CTA). On October 13, 2009, CTA granted the Company's petition for a refund on erroneously withheld VAT initially on December 2005 sales amounting to ₱11.85 million. The Commissioner of Internal Revenue moved for reconsideration of the CTA's Decision. On November 21, 2009, the Company filed its comment thereon. The motion for reconsideration remains pending to date. Management has estimated that the refund will be recovered after three (3) to five (5) years.

Advances to Suppliers, Brokers and Contractors
Advances to suppliers, brokers and contractors are recouped upon every progress billing payment depending on the percentage of accomplishment.

10. Investments in Associates, Jointly Controlled Entities and Others

The details of the Group's investments in associates, jointly controlled entities and others follow:

	2009	2008
	(Amounts in Thousands)	
Investments - At Equity		
Investments in associates		
Acquisition cost:		
Balance at beginning of year	**₱3,253,835**	₱53,834
Additions	**472,397**	200,001
Reclassification of investment in PIDC	**12,500**	
Reclassification of investment in DMWC	–	3,000,000
Balance at end of year	**3,738,732**	3,253,835

(Forward)

	2009	2008
	(Amounts in Thousands)	
Accumulated equity in net losses:		
Balance at beginning of year	**₱1,328,764**	₱83,765
Equity in net income during the year	**1,680,147**	53,650
Reclassification of investment in DMWC	**–**	1,239,328
Dividends received (Note 27)	**(1,399)**	(47,979)
Balance at end of year	**3,007,512**	1,328,764
	6,746,244	4,582,599
Allowance for probable losses	**(16,864)**	(16,864)
	6,729,380	4,565,735
Jointly controlled entities:		
Acquisition cost		
Balance at beginning of year	**125**	3,000,125
Reclassification investment in DMWC	**–**	(3,000,000)
Balance at end of year	**125**	125
Accumulated equity in net earnings:		
Balance at beginning of year	**283**	1,209,188
Equity in net income during the year	**–**	30,423
Reclassification of investment in DMWC	**–**	(1,239,328)
Balance at end of year	**283**	283
	408	408
	6,729,788	4,566,143
Investment - At Cost		
Balance at beginning of year	**68,500**	68,150
Additions during the year	**–**	350
Reclassification to investment in associate	**(12,500)**	–
Balance at end of year	**56,000**	68,500
	₱6,785,788	₱4,634,643

The details of the Group's equity in the net assets of its associates and jointly controlled entities and the corresponding percentages of ownership follow:

	Percentages of Ownership		**Equity in Net Assets**	
	2009	2008	**2009**	2008
Associates:			(Amounts in Thousands)	
Bachy Soletanche Philippines Corporation (Bachy)	**49.00%**	49.00%	**₱43,061**	₱43,061
DMCI-MPIC Water Co. Inc. (DMCI-MPIC)	**44.59**	44.59	**5,931,761**	4,269,751
Subic Water and Sewerage Company, Inc. (Subic Water)	**40.00**	40.00	**126,710**	109,972
Bauan International Port, Inc. (BIPI)	**20.00**	20.00	**142,951**	142,951
Private Infra Dev Corporation (PIDC)	**33.00**	18.00	**484,897**	–
			6,729,380	4,565,735
Jointly Controlled Entities:				
Eco Process & Equipment Philippines, Inc.	**50.00**	50.00	**408**	408
			6,729,788	4,566,143
At Cost				
Balance at beginning of year			**68,500**	68,150
Additions			**–**	350
Reclassification to investment in associate			**(12,500)**	–
			56,000	68,500
Total			**₱6,785,788**	₱4,634,643

The following table summarizes the significant financial information of the Group's associates and jointly controlled entities:

2009

	Assets	**Liabilities**	**Net income (loss)**
	(Amounts in Thousands)		
Associates:			
Bachy Soletanche Philippines Corporation	**₱85,455**	**₱5,199**	**(₱93)**
Bauan International Port, Inc.	**1,071,700**	**9,400**	**26,600**
Subic Water and Sewerage Company, Inc	**829,696**	**255,872**	**152,191**
DMCI-MPIC Water Co. Inc.	**53,265**	**37,952**	**3,727**
Private Infra Dev Corporation	**1,592,064**	**10,785**	**(21,288)**
	3,632,180	**319,208**	**161,137**
Jointly Controlled Entities:			
Eco Process & Equipment Philippines, Inc.	**2,596**	**252**	**(2)**
	₱3,634,776	**₱319,460**	**₱161,135**

2008

	Assets	Liabilities	Net income (loss)
	(Amounts in Thousands)		
Associates:			
Bachy Soletanche Philippines Corporation	₱86,132	₱5,783	(₱7,623)
Bauan International Port, Inc.	1,075,700	10,000	25,700
Subic Water and Sewerage Company, Inc	800,964	282,346	125,710
DMCI-MPIC Water Co. Inc.	49,453	38,441	121
Private Infra Dev Corporation	477,596	47,461	3,570
	2,489,845	384,031	147,478
Jointly Controlled Entities:			
Eco Process & Equipment Philippines, Inc.	2,596	1,285	2
	₱2,492,441	₱385,316	₱147,480

BIPI

BIPI is a domestic corporation which functions as a multi-purpose facility primarily handling bulk cargo from industries in Bauan. BIPI's place of business is at Port Area, San Roque, Bauan, Batangas.

Subic Water

On January 22, 1997, PDI subscribed to 3,262,320 shares at the par value of ₱10 per share for an aggregate value of ₱32.62 million in Subic Water, a venture company with Subic Bay Metropolitan Authority (a government-owned corporation), Olongapo City Water District, and Cascal Services Limited (a company organized under the laws of England). The agreement executed by the parties on November 24, 1996 stipulated, among others, that PDI shall have an equity participation equivalent to 40% in Subic Water amounting to ₱74.80 million (based on the

initial subscribed and paid-in capital of ₱187.00 million). The balance of PDI's committed subscription to Subic Water of ₱38.18 million (net of additional subscription payment of ₱4.00 million in 1998) is expected to be paid on or before the second anniversary of the said effective date. As of December 31, 2009 and 2008, such committed subscription has not yet been paid.

Vulcan
On January 3, 2007, the BOD approved the sale of DMCI's 49% shareholdings in Vulcan in favor of Vulcan Industrial & Mining Corporation (Vulcan). On January 15, 2007, DMCI executed a Deed of Assignment with Vulcan, whereby the DMCI transferred and conveyed to Vulcan 700,700 shares in Vulcan with a total par value of ₱70.07 million for and in consideration of ₱70.07 million. Gain recognized arising from the assignment amounted to ₱70.07 million and was presented under other income (see Note 27).

Private Infra Dev Corporation (PIDC)
On September 26, 2007, DMCI entered into a Shareholders' Agreement along with other members of the Philippine Contractors Association, to which the Shareholders agree to establish a corporation to generally engage in and to undertake construction, operation and maintenance of the Tarlac-Pangasinan-La Union-Toll Expressway (TPLEX) Project of the DPWH and to perform such other activities related to the construction, operation and maintenance, or a combination of undertakings which are within the capabilities of the Consortium members.

On October 3, 2007, PIDC was incorporated and registered with the SEC.

On February 19, 2008, PIDC was awarded the contract for the financing, design, construction, operation and maintenance of the TPLEX, Phase 1, from La Paz, Tarlac to Rosario, La Union

On September 3, 2009, the BOD approved the Parent Company's additional subscription of 1,449,684 common shares out of PIDC's increase in authorized capital stock of ₱3.50 billion.

DMCI-MPIC Water Company, Inc. (DMWC)
Loss of Joint Control
DMCI-MPIC Water Company, Inc. is a 50% owned joint venture of the Parent Company until July 17, 2008 when Metro Pacific Investments Corporation (MPIC) acquired convertible note (herein referred to as Facility Loan B) which was issued by DMWC in 2007 to First Pacific Company Limited (FPC) and a foreign company (the original holders of the convertible note). The convertible note carries an option to convert the same to DMWC shares. The acquisition of the convertible note by the MPIC resulted to potential voting rights equivalent to approximately 12.0% interest in DMWC and control is thereby obtained by MPIC.

Pursuant to the Subscription Agreement by and among the Parent Company, MPIC and DMWC on November 27, 2008, the Parent Company and MPIC subscribed to additional 961.6 million common shares and 1.93 billion common shares, respectively, of DMWC (the "DMCI and MPIC Subscription Shares").

Simultaneous with the execution of the Subscription Agreement, DMWC, the Parent Company, MPIC and Maynilad entered into a Shareholders' Agreement outlining the relationship of the Parent Company and MPIC as shareholders of DMWC. In the same Shareholders' Agreement, which was immediately executory, the parties confirmed that each of the Parent Company and MPIC holds, on the date of said Shareholders' Agreement, equity interests in the form of shares and share entitlements in DMCI-MPIC equal to 44.59% and 55.41%, respectively.

Also on the same date and immediately upon execution of the Subscription Agreement and the Shareholders' Agreement, the stockholders and the BOD of DMCI-MPIC convened and approved the increase in authorized capital stock of DMWC from ₱6.00 billion divided into 6,000,000,000 common shares with par value of ₱1.00 per share to ₱8.88 billion divided into 8,884,800,000 common shares with par value of ₱1.00 per share.

As of December 31, 2008, deposit for future stock subscription representing the paid up portion of the Parent Company and MPIC subscription amounted to ₱2.13 billion.

Equity in net earnings in DMWC amounted to ₱1.66 billion in 2009, ₱30.42 million in 2008 and ₱1.24 billion in 2007 (including share in negative goodwill of ₱1.83 billion and IFRIC adjustment of ₱278.26 million).

On January 19, 2007, the SEC approved all corporate actions of Maynilad required by Clause 2 of the Debt Capital and Restructuring Agreement (DCRA), as more specifically described in the succeeding paragraphs, for the full implementation thereof. These corporate actions approved by the SEC in relation to the Capital Restructuring are as follows:

a. decrease in the authorized capital stock of Maynilad through a reduction in the par value of its shares from ₱100 to ₱1 per share and the surrender of the shares of Benpres Holdings Corporation (BHC) and Suez Environnement (Suez Env);

b. increase in the authorized capital stock of Maynilad to ₱1.48 billion comprising of 1,475,000,000 shares with a par value of ₱1.00 per share, with DMCI-MPIC subscribing to 1,238,476,000 Class A common shares [inclusive of 88,500,000 Employees' Stock Option Plan (ESOP) shares representing 6% of the outstanding capital stock of Maynilad upon the effective date of the increase in capital of the Company], and Lyonnaise Asia Water (Holdings) Pte Ltd (LAWL) subscribing to an additional 225,520,000 Class B common shares (plus an additional paid-in capital of ₱56.00 million), paid for by way of conversion of debt to equity, in compliance with paragraphs a, b, c, d, e and f of Clause 2.6 of the DCRA;

c. confirmation of valuation under Section 62 of the Corporation Code for the issuance by Maynilad of 7,600,000 shares out of the unsubscribed portion of its authorized capital stock, paid for by way of conversion of debt to equity in relation to the subscriptions of DMCI-MPIC and LAWL;

d. creation of additional paid-in capital (APIC) aggregating ₱2.00 billion resulting from the write-off of BHC of its advances amounting to ₱658.00 million (or equivalent to approximately US$12 million) and from the write-off by the Suez Group [Suez Env and LAWL, excluding Ondeo Services Philippines, Inc. (OSPI)] of its loans and advances amounting to ₱1.40 billion (or equivalent to approximately US$25.00 million), which write-offs have been confirmed in writing by BHC and the Suez Group on December 22, 2006 and January 4, 2007, respectively, in compliance with paragraphs a, b and c of Clause 2.4 of the DCRA;

e. equity restructuring to wipe out the previously reported deficit of Maynilad as of December 31, 2005 amounting to ₱7.00 billion (such amount was retroactively adjusted to ₱6.50 billion in 2006 as discussed below) against the APIC amounting to ₱2.10 billion and reduction surplus amounting to ₱5.20 billion resulting from the decrease in capital, in compliance with Clause 2.5 of the DCRA, subject to the condition that the remaining APIC of ₱342.00 million shall not be used to wipe out losses that may be incurred in the future without prior SEC approval; and

f. corresponding amendments to the Articles of Incorporation of Maynilad to reflect the decrease and increase in capital stock of the Company, in compliance with paragraphs a and b of Clause 19.2 of the DCRA.

In full implementation and completion of the Capital Restructuring in accordance with the directive of the Rehabilitation Court, the corresponding certificates of stock evidencing the subscription of DMCI-MPIC and the additional subscription of LAWL have been duly issued by Maynilad and recorded in its stock and transfer book on January 19, 2007. Upon the completion of the Capital Restructuring on January 19, 2007, all the nominees of MWSS (pursuant to the Proxy) as well as two (2) directors of Suez Env have also effectively resigned.

As of December 31, 2007, the capital structure of Maynilad after the completion of the Capital Restructuring is as follows (amounts in thousands):

Shareholder	Class	Total Subscription (No. of Shares)	%
DMCI-MPIC*	Class A Common	1,149,976	77.97
DMCI-MPIC	ESOP	88,500	6.00
Metrobank	Class A Common	524	.03
LAWL*	Class B Common	236,000	16.00
	All classes	1,475,000	100.00

**including directors' qualifying shares*

Instead of exercising its right under the DCRA to subscribe to 83.97% of the shares of the Maynilad in consideration for the conversion of its receivables to equity as part of the Capital Restructuring, MWSS opted to assign such subscription right to a private investor. After a process of competitive public bidding conducted by MWSS from June 2006 to January 2007, DMCI-MPIC was designated by MWSS as its assignee. Such assignment was effected by MWSS (MWSS Assignment) through an Assignment & Assumption Agreement executed by MWSS and DMCI-MPIC on December 27, 2006, which was acknowledged by Maynilad on the same date.

Also on the same date, Maynilad, DMCI-MPIC and LAWL executed the Debt Conversion & Subscription Agreement which governed the agreement of the parties on the conversion of debt to equity required in connection with the Capital Restructuring. The MWSS Assignment became effective on January 10, 2007 (Closing Date).

Rehabilitation Exit Plan

On August 9, 2007, Maynilad entered into the Prepayment and Settlement Agreement (PSA) with the Sponsor, the Lenders under the DCRA, Suez, Suez Env and the MWSS. The PSA prescribed the procedure for the full prepayment of the USD Tranche, SBLC Tranche, Peso Tranche (collectively referred to as the Facility), Suez Loan and MWSS (with respect to Tranche A2 Concession Fees and Recognized Tranche B Concession Fees), to be funded from cash contribution to be provided by the Sponsor to Maynilad (see Note 14), for the purpose of enabling Maynilad to successfully effect an early exit from corporate rehabilitation. The PSA further sets out the procedure for the settlement of approved claims of contractors and suppliers and the resolution of the disputed claims of MWSS and Suez Env.

As mentioned, the PSA was executed to enable Maynilad to effect an early exit from corporate rehabilitation. As this rehabilitation exit will result in the termination of the 2005 Rehabilitation Plan and the DCRA, certain transitional arrangements, including those relating to the second Rate Rebasing, the Service Obligations of Maynilad as well as the recovery or compensation of foreign exchange losses or gains relating to the full prepayment of Maynilad's US$ Concessionaire Loans,

the Tranche A2 Concession Fees and the Recognized Tranche B Concession Fees (as defined below) were deemed necessary. Thus, contemporaneously with the signing of the PSA,

Maynilad entered into the TCA with MWSS for the purpose of providing for these transitional arrangements which will apply from and after the termination of the DCRA and the 2005 Rehabilitation Plan.

The TCA also prescribes the procedure for the resolution of the dispute between MWSS and Maynilad on MWSS' pending claims for additional Tranche B Concession Fees and for the 364-day Treasury Bill rate penalty interest under Section 6.9 of the Concession Agreement.

The terms and conditions of the TCA were thereafter acknowledged by the Republic of the Philippines, acting through Finance Secretary Margarito B. Teves in an acknowledgment letter dated January 7, 2008.

On August 16, 2007, Maynilad, together with the Lenders, Suez, Suez Env, OSPI and MWSS filed the Joint Omnibus Motion dated August 14, 2007 (Joint Omnibus Motion) praying for the Rehabilitation Court's approval of the PSA and seeking further the termination of the rehabilitation proceedings on account of the successful implementation of the 2005 Rehabilitation Plan following the implementation of the requirements of the PSA, citing that upon such implementation, Maynilad shall have already completed both the Capital Restructuring and the Debt Restructuring which are the key elements mandated by the 2005 Rehabilitation Plan for the rehabilitation of Maynilad and the restoration of its financial viability.

On December 19, 2007, the Rehabilitation Court issued an Order approving the PSA and declaring that Maynilad has successfully implemented the 2005 Rehabilitation Plan on the date it has implemented the "Full Prepayment" and the "Settlement" as set forth in the PSA and has satisfied all other payment requirements under Clause 5 of the PSA, all in accordance with the terms of the PSA, and that accordingly, the rehabilitation proceedings are terminated, effective on such date, pursuant to the last sentence of Section 27 of Rule 4 of the Interim Rules of Procedure on Corporate Rehabilitation upon issuance by the Rehabilitation Court of a subsequent Order confirming the termination of the rehabilitation proceedings after submission by Maynilad and the

Receiver of separate sworn certifications on the said implementation of the PSA and submission of proof of payment of the proper filing/docket fees. The Rehabilitation Court further resolved the disputed claims of the Suez Group and MWSS in favor of Maynilad, ruling that no amount is due to the said claimants for their respective disputed claims, upholding the recommendations of the Receiver.

After receiving the Monetary Board approval of the proposed prepayment under the PSA, Maynilad implemented the full prepayment of the Facility, Suez Loan, Tranche A2 Concession Fees and the Recognized Tranche B Concession Fees pursuant to the PSA on January 16, 2008. Further, on January 17, 2008, Maynilad implemented the full settlement of the discounted amount of approved claims of contractors/suppliers who have granted Maynilad a 10% discount prior to the effective date of the PSA and satisfied all other payment requirements under Clause 5 of the PSA. Through a Manifestation with Motion (for Issuance of Order Confirming Termination of Corporate Rehabilitation Proceedings) dated January 18, 2008, Maynilad submitted to the Rehabilitation Court the required sworn certification on the implementation of the PSA. The Receiver also submitted on such date to the Rehabilitation Court the required sworn certification on Maynilad's implementation of the PSA. On February 6, 2008, the Rehabilitation Court finally issued the Order confirming the termination of Maynilad's corporate rehabilitation proceedings on account of its successful implementation of the 2005 Rehabilitation Plan, in accordance with

Section 27 of Rule 4 of the Interim Rules of Procedure on Corporate Rehabilitation. In view of the immediately executory nature of orders issued by the Rehabilitation Court, Maynilad is considered officially out of corporate rehabilitation on the date of such confirmation order, which is February 6, 2008.

Pending Case on Maynilad's Corporate Rehabilitation Proceedings

A case involving two consolidated petitions previously filed by certain so called public interest groups and other persons claiming to be interested parties questioning the Rehabilitation Court's approval of Maynilad's 2005 Rehabilitation Plan and issuance of order barring such petitioners from participating in the rehabilitation proceedings, remains pending before the Second Division of the Supreme Court. However, Maynilad believes that the termination of its rehabilitation proceedings has now rendered this case moot and academic and is set to formally apprise the Supreme Court of such matter.

Pending Case Assailing the Approval and Implementation of the ₱30.19 Rebased Tariff of Maynilad

A complaint with prayer for the issuance of a cease and desist order against Maynilad, MWSS and the MWSS-RO was filed by certain civil society groups before the National Water Resources Board (NWRB) contesting the approval by the MWSS Board of Trustees of the MWSS-RO resolution approving the rebased tariff of ₱30.19 per cubic meter (all-in average tariff) effective January 1, 2005 for Maynilad. The complaint alleges, among others, that the increase in the water tariff rate was without adequate public consultation and sufficient basis and that the application filed by Maynilad for the said rate increase had no imprimatur from the Receiver. Claiming that the NWRB had no jurisdiction to hear and decide the aforesaid complaint, Maynilad and MWSS filed separate motions to dismiss, which were both denied. The NWRB has yet to rule on the said complaint. Following the denial of its motion to dismiss, Maynilad filed a petition for certiorari with the Court of Appeals. Alleging grave abuse of discretion on the part of the NWRB, Maynilad claims that there is no law conferring any power upon the NWRB to assume jurisdiction over disputes relating to water tariff rates for MWSS' concessionaires and that the powers of the Public Service Commission were not transferred to the NWRB. In a decision dated May 28, 2007, the Court of Appeals dismissed Maynilad's petition for certiorari and declared that the NWRB is empowered to review the subject all-in average tariff rate of ₱30.19 per cubic meter. Maynilad has sought a reconsideration of the said decision. In a subsequent development, MWSS filed a motion seeking to intervene in the certiorari proceedings. On February 20, 2008, the Court of Appeals denied Maynilad's motion for reconsideration and MWSS' motion for intervention. MWSS filed a motion for reconsideration of the denial of its motion for intervention, which is currently pending. Maynilad is set to file with the Supreme Court its petition for review to assail the rulings of the Court of Appeals in this case.

Contingent Liabilities

Following are the significant contingent liabilities of the Company as of December 31, 2009:

a. Additional Tranche B Concession Fees and interest penalty are being claimed by MWSS in excess of the amount recommended by the rehabilitation receiver (Receiver). Such additional charges being claimed by MWSS (in addition to other miscellaneous claims) amounts to ₱3.8 billion as of December 31, 2009 and ₱3.5 billion as of December 31, 2008. The Rehabilitation Court has resolved to deny and disallow the said disputed claims of MWSS in its December 19, 2007 Order, upholding the recommendations of the Receiver on the matter. Following the issuance of the Rehabilitation Court's Order on December 19, 2007 disallowing

the MWSS' disputed claims and the termination of the Company's rehabilitation proceedings, MWSS has not yet indicated to the Company the amount of additional Tranche B Concession Fees that it is still claiming, which amount is therefore undeterminable as of this time. The Company and MWSS are seeking to resolve this matter in accordance with the dispute resolution requirements of the Transitional and Clarificatory Agreement.

b. In a decision dated September 7, 2007, the National Labor Relations Commission (NLRC) dismissed the complaint filed by the Maynilad Waters Supervisors Association (MWSA) for alleged nonpayment of cost of living allowance (COLA) in NLRC NCR CN 00-03-03620-2003. In the said case, the Labor Arbiter had earlier issued a decision ordering the payment of COLA to the supervisor-employees "retroactive to the date when they were hired by the respondent company in 1997, with legal interest from the date of promulgation of [the] decision" until full payment of the award, which decision was reversed and set aside by the NLRC. On December 10, 2007, in pursuance of its efforts to effect an early exit from corporate rehabilitation, the Company executed a Compromise Agreement with the MWSA (Compromise Agreement) for the settlement of certain claims of the MWSA, wherein the Company agreed to pay to MWSA residual benefits equivalent to its claim for COLA for 23 months from August 1997 to June 1999. On January 15, 2008, the Company received a copy of the petition for certiorari filed by the MWSA with the Court of Appeals alleging grave abuse of discretion on the part of the NLRC and praying that the Labor Arbiter's decision dated November 10, 2006 be affirmed in toto, but only in relation to the MWSA's claim for COLA from July 1999 up to the present time. The Company filed its comment on the said petition on March 6, 2008. The case remains pending with the Court of Appeals as of February 22, 2010.

c. On October 13, 2005, the Company and Manila Water Company, Inc. (the East Concessionaire) were jointly assessed by the Municipality of Norzagaray, Bulacan, for real property taxes on certain common purpose facilities purportedly due from 1998 to 2005 amounting to ₱357.1 million. Accordingly, the Company and the East Concessionaire filed a joint appeal of the said assessment with the Local Board of Assessment Appeals (LBAA). An appeal-in-intervention was also filed by MWSS with the LBAA. MWSS maintains the position that these properties are owned by the Republic of the Philippines and that the same are exempt from taxation. On February 2, 2007, the Company and the East Concessionaire received an updated assessment of real property tax from the Municipality of Norzagaray, Bulacan, which included real property tax purportedly due for 2006 of ₱35.70 million and interest of 2% per month of ₱93.60 million.

   On May 2, 2007, the LBAA denied the joint appeal of the Company and the East Concessionaire. The LBAA also denied the appeal-in-intervention filed by MWSS. Subsequently, the Company and the East Concessionaire elevated the case to the Central Board of Assessment Appeals (CBAA) by filing separate appeals. The CBAA, through the board secretary, issued a "First Endorsement" addressed to the Company stating that the LBAA order was "not in accordance with Sec. 227 of the Local Government Code of 1991" as it was signed only by the chairman "without the concurrence of at least one member to constitute a majority." In an order dated July 9, 2007, the LBAA explained the lack of signatures of the other members of the LBAA in the May 2, 2006 order and reiterated the previous denial of the separate appeals filed by the Company and the East Concessionaire. Responding to a letter from the Company, the municipal treasurer of Norzagaray, insisted on the concessionaires' liability to pay the subject real property tax. According to the letter dated July 17, 2007, the supposed joint liability of the Company and the East Concessionaire for real property tax, including interest, as of June 30, 2007 amounts to ₱554.20 million. On August 21, 2007, the Company filed a second appeal on the LBAA order dated July 9, 2007.

During the hearing on November 27, 2007, the presiding commissioner encouraged the parties to enter into an amicable settlement. At the subsequent hearing on February 12, 2008, the parties agreed to (i) set an ocular inspection of the area where the subject common purpose facilities are situated; and (ii) continue exploring the possibility of an amicable settlement. However, due to the parties' failure to report any development regarding the amicable settlement suggested by the commissioner, an order/notice of hearing dated June 27, 2008 was issued by the CBAA setting a hearing on July 30, 2008. During such hearing, an agreement was arrived at on the holding of a meeting on August 20, 2008 to be attended by officials of the Company and the East Concessionaire for the purpose of entering into a possible compromise agreement. It was also agreed that a formal hearing will then be set on a date to be agreed upon during the meeting. Eventually, a hearing with the CBAA was held on October 21, 2008. Pursuant to the Order dated October 23, 2008, the CBAA required the parties to file their respective Memoranda on whether or not CBAA should hear and proceed with the case or remand the same to the LBAA of the Province of Bulacan to be heard and proceeded on the merit. The Company filed its Memorandum dated November 5, 2008 stating that the CBAA has the authority to hear, proceed and decide the appeal on the merits without the need of remanding the matter to the LBAA. In such Memorandum, the Company likewise prayed that the LBAA Orders dated May 2, 2006 and July 9, 2007 be reversed and set aside and that the subject properties be declared as part of public dominion and therefore, tax-exempt. In an order dated May 12, 2009, the CBAA granted the Company's prayer in its Memorandum, in so far as the CBAA decided to: (1) set aside the assailed LBAA Resolutions dated May 2, 2006 and July 9, 2007; and (2) give due course to the Company's appeal and hear the same on merit.

d. A complaint with prayer for the issuance of a CDO against the Company, MWSS and the MWSS-RO was filed by certain civil society groups before the National Water Resources Board (NWRB) contesting the approval by the MWSS Board of Trustees of the MWSS-RO resolution approving the rebased tariff of ₱30.19 per cubic meter (average all-in tariff) effective January 1, 2005 for the Company. The complaint alleges, among others, that the increase in the water tariff rate was without adequate public consultation and sufficient basis and that the application filed by the Company for the said rate increase had no imprimatur from the Receiver. Claiming that the NWRB had no jurisdiction to hear and decide the aforesaid complaint, the Company and MWSS filed separate motions to dismiss, which were both denied. The NWRB has yet to rule on the said complaint. Following the denial of its motion to dismiss, the Company filed a petition for certiorari with the Court of Appeals. Alleging grave abuse of discretion on the part of the NWRB, the Company claims that there is no law conferring any power upon the NWRB to assume jurisdiction over disputes relating to water tariff rates for MWSS' concessionaires and that the powers of the Public Service Commission were not transferred to the NWRB. In a decision dated May 28, 2007, the Court of Appeals dismissed the Company's petition for certiorari and declared that the NWRB is empowered to review the subject average all-in tariff rate of ₱30.19 per cubic meter. The Company has sought a reconsideration of the said decision. In a subsequent development, MWSS filed a motion seeking to intervene in the certiorari proceedings. On February 20, 2008, the Court of Appeals issued an Omnibus Resolution denying the Company's motion for reconsideration and MWSS' motion for intervention. The Company has filed with the Supreme Court its petition for review on certiorari to assail the rulings of the Court of Appeals that found, among others, that the NWRB is empowered to review the subject average all-in tariff rate of ₱30.19 per cubic meter. Comments to the petition for review on certiorari were filed by the civil society groups concerned and the Office of the Solicitor General (on behalf of the NWRB). The Company filed its Reply to the Comments on October 20, 2009. MWSS also filed a motion for reconsideration of the denial of its motion for intervention before the Court of Appeals, which the appellate court denied on March 9, 2009. In view of the denial,

MWSS filed a petition for review on certiorari before the Supreme Court. In its resolution dated July 1, 2009, the Supreme Court issued a resolution consolidating the cases filed by the Company and MWSS, considering that both petitions assailed the same Omnibus Resolution of the Court of Appeals dated February 20, 2008, in relation to CA-G. R. SP No. 92743. The consolidated case remains pending as of February 22, 2010.

e. The Company is a party to various civil and labor cases relating to breach of contracts with damages, illegal dismissal of employees, and nonpayment of backwages, benefits and performance bonus, among others.

Extension of Maynilad's Concession Agreement
On September 10, 2009, the MWSS Board of Trustees (BOT) approved the extension of the expiry of its Concession Agreement with the Company by an additional (15) years or from May 6, 2022 to May 6, 2037. Subsequently, on September 16, 2009, the MWSS Administrator wrote the Department of Finance (DOF) to inform them of the Board's decision and seek DOF's written consent to the extension, as well its extension of the letter of undertaking covering the government's obligation under the Concession Agreement. The DOF is presently reviewing the extension but the Company expects to receive the DOF's Letter of Consent and Undertaking within six months from the MWSS BOT approval, similar to the timeframe established when the East Concessionaire received its extension.

11. Investment Properties

The movements in this account follow (amounts in thousands):

2009

	Land	Buildings and Building Improvements	Condominium units	Total
Cost				
At January 1	**₱2,259,121**	**₱102,748**	**₱22,519**	**₱2,384,388**
Additions	**431,501**	–	**1,930**	**433,431**
Transfers from property, plant and equipment	–	**7,102**	–	**7,102**
Transfers to real estate held for sale and development	**(206,098)**	–	–	**(206,098)**
At December 31	**2,484,524**	**109,850**	**24,449**	**2,618,823**
Accumulated Depreciation and Amortization				
At January 1	–	**32,118**	**2,269**	**34,387**
Transfers from property, plant and equipment	–	**456**	–	**456**
Depreciation and amortization (Note 23)	–	**5,747**	–	**5,747**
At December 31	–	**38,321**	**2,269**	**40,590**
Net Book Value	**₱2,484,524**	**₱71,529**	**₱22,180**	**₱2,578,233**

2008

	Land	Buildings and Building Improvements	Condominium units	Total
Cost				
At January 1	₱2,167,797	₱56,350	₱62,925	₱2,287,072
Additions	798,724	46,398	–	845,122
Transfers to real estate held for sale and development	(707,400)	–	(40,406)	(747,806)
At December 31	2,259,121	102,748	22,519	2,384,388
Accumulated Depreciation and Amortization				
At January 1	–	29,057	1,360	30,417
Depreciation and amortization (Note 23)	–	3,061	909	3,970
At December 31	–	32,118	2,269	34,387
Net Book Value	₱2,259,121	₱70,630	₱20,250	₱2,350,001

The fair value of investment properties, which has been determined based on valuations performed by independent professional qualified appraisers as of February 12, 2009, exceeds its carrying cost. The fair value represents the amount at which the assets could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction at the date of valuation. Investment properties with total carrying value amounting to ₱2.35 billion was appraised to have an aggregate fair value ₱2.25 billion.

The value of the investment properties was arrived at using the Market Data Approach. In this approach, the value of the investment properties is based on sales and listings of comparable property registered in the vicinity. The technique of this approach requires the establishment of comparable property by reducing reasonable comparative sales and listings to a common denominator. This is done by adjusting the differences between the subject property and those actual sales and listings regarded as comparable. The properties used as basis of comparison are situated within the immediate vicinity of the subject property.

Rental income from investment properties (included under 'Other income') amounted to ₱76.48 million, ₱96.41 million and ₱16.07 million for the years ended December 31, 2009, 2008 and 2007, respectively (see Note 27). Direct operating expenses (included under 'Operating expenses' in the consolidated statement of income) arising from investment properties amounted to ₱5.75 million, ₱3.97 million and ₱3.48 million in 2009, 2008 and 2007, respectively.

12. Property, Plant and Equipment

The movements in this account follow (amounts in thousands):

2009

	Land and Land Improvements	Power Plant, Buildings and Building Improvements	Construction Equipment, Machinery and Tools	Office Furniture, Fixtures and Equipment	Transportation Equipment	Conventional and Continuous Mining Properties and Equipment	Leasehold Improvements	Construction in Progress	Total
Cost									
At January 1	**₱2,354,670**	**₱2,103,468**	**₱3,372,820**	**₱365,476**	**₱219,820**	**₱8,927,359**	**₱69,940**	**₱368,259**	**₱17,781,812**
Additions	**57,905**	**3,617**	**986,465**	**23,761**	**30,457**	**2,191,704**	**29,753**	**1,052,290**	**4,375,952**
Acquisition of a business (Note 32)	**–**	**15,634,200**	**–**	**–**	**–**	**–**	**–**	**62,826**	**15,697,026**
Transfers and retirements/disposals	**(73,693)**	**111,807**	**(10,081)**	**(191)**	**(20,354)**	**(843,602)**	**(1,214)**	**(398,238)**	**(1,235,566)**
At December 31	**2,338,882**	**17,853,092**	**4,349,204**	**389,046**	**229,923**	**10,275,461**	**98,479**	**1,085,137**	**36,619,224**
Accumulated Depreciation, Depletion and Amortization									
At January 1	**549,874**	**1,338,150**	**2,450,593**	**297,100**	**152,661**	**8,458,905**	**59,366**	**–**	**13,306,649**
Depreciation, depletion and amortization (Note 23)	**21,512**	**356,688**	**437,196**	**37,919**	**24,882**	**804,854**	**1,748**	**–**	**1,684,799**
Transfers and retirements/disposals	**(1,040)**	**(20,721)**	**(9,341)**	**(15,774)**	**(18,508)**	**(275,512)**	**(1,214)**	**–**	**(342,110)**
At December 31	**570,346**	**1,674,117**	**2,878,448**	**319,245**	**159,035**	**8,988,247**	**59,900**	**–**	**14,649,338**
Net Book Value	**₱1,768,536**	**₱16,178,975**	**₱1,470,756**	**₱69,801**	**₱70,888**	**₱1,287,214**	**₱38,579**	**₱1,085,137**	**₱21,969,886**

2008

	Land and Land Improvements	Power Plant, Buildings and Building Improvements	Construction Equipment, Machinery and Tools	Office Furniture, Fixtures and Equipment	Transportation Equipment	Conventional and Continuous Mining Properties and Equipment	Leasehold Improvements	Construction in Progress	Total
Cost									
At January 1	₱2,136,921	₱1,940,138	₱3,432,192	₱339,779	₱195,445	₱8,932,390	₱59,559	₱292,203	₱17,328,627
Additions	223,610	163,330	389,874	40,194	25,600	1,550,116	10,381	223,706	2,626,811
Transfers and retirements/disposals	(5,861)	–	(449,246)	(14,497)	(1,225)	(1,555,147)	–	(147,650)	(2,173,626)
At December 31	2,354,670	2,103,468	3,372,820	365,476	219,820	8,927,359	69,940	368,259	17,781,812
Accumulated Depreciation, Depletion and Amortization									
At January 1	490,815	1,170,695	2,515,871	268,444	132,950	7,770,916	59,188	–	12,408,879
Depreciation, depletion and amortization (Note 23)	73,304	167,455	282,157	39,839	22,809	943,371	178	–	1,529,113
Transfers and retirements/disposals	(14,245)	–	(347,435)	(11,183)	(3,098)	(255,382)	–	–	(631,343)
At December 31	549,874	1,338,150	2,450,593	297,100	152,661	8,458,905	59,366	–	13,306,649
Net Book Value	₱1,804,796	₱765,318	₱922,227	₱68,376	₱67,159	₱468,454	₱10,574	₱368,259	₱4,475,163

Certain conventional and continuous mining equipment items have been pledged as collaterals to secure the indebtedness of Semirara to local banks.

Depreciation, depletion and amortization expense on property, plant and equipment amounted to ₱1.68 billion, ₱1.53 billion and ₱1.68 billion in 2009, 2008 and 2007, respectively (see Notes 23 and 24).

The construction-in-progress accounts pertains to mining equipment in transit. As such, no borrowing cost was capitalized in 2009.

13. **Other Noncurrent Assets**

The details of other noncurrent assets follow:

	2009	2008
	(Amounts in Thousands)	
Security deposits (Notes 28, 29 and 30)	**₱522,956**	₱430,068
Prepaid rent - noncurrent (Note 30)	**150,568**	11,131
Deferred charges	**132,633**	36,012
Software cost - net	**19,086**	27,748
Others	**25,593**	17,500
	850,836	₱522,459
Less current portion of		
Security deposits	**270,751**	–
Prepaid rent (Note 7)	**6,525**	–
	277,276	–
	₱573,560	₱522,459

Deferred input VAT pertains to acquisition of capital assets.

Security deposits represent payments to and held by the lessor as security for the faithful and timely performance by the Group of all its obligations and compliance with all provisions of the equipment rental agreement. These deposits shall be returned by the lessor to the Group after deducting any unpaid rental, and/or any other amounts due to the lessor for any damage and expense incurred to put the vehicle in good working condition.

As of December 31, 2009 and 2008, security deposits with a nominal amount of ₱22.20 million and ₱282.37 million, respectively, were initially recorded at fair value. Movement in the unamortized discount of security deposits follows:

	2009	2008
	(Amounts in Thousands)	
At January 1	**₱31,280**	₱–
Additions	**2,300**	34,273
Accretion (Note 25)	**(20,624)**	(2,993)
At December 31	**₱12,956**	₱31,280

Movements in software cost account follow:

	2009	2008
	(Amounts in Thousands)	
At Cost		
At January 1	**₱32,477**	₱4,610
Additions	**6,010**	27,867
At December 31	**38,487**	32,477
Accumulated Amortization		
At January 1	**4,729**	2,879
Amortization (Note 19)	**3,848**	1,850
At December 31	**8,577**	4,729
Net Book Value	**₱29,910**	₱27,748

14. Bank Loans

The Group's bank loans in 2009 and 2008 consist of peso-denominated short-term borrowings from local banks which bear interest at prevailing market rates and are payable on monthly, quarterly and lump sum bases on various maturity dates within the next 12 months after the reporting date. The bank loans are generally secured by a real estate mortgage over the Group's housing and condominium units; a deed of assignment on certain real estate receivables (see Note 6); corporate guarantee and suretyship agreement issued by the Parent Company and DMCI; and customers' post-dated checks.

The Group's agreements with local banks contain some or all of the following restrictions relating to, among others: purchase of issued and outstanding capital stock; disposal of encumbered properties; change in the ownership or management and nature of its business; dividend declaration and distribution; guarantees; incurrence of additional liabilities; and merger and consolidation.

As of December 31, 2009 and 2008, the Group was in compliance with the loan covenants required by the banks.

15. Liabilities for Purchased Land

Liabilities for purchased land represent the balance of the Group's obligations to various real estate property sellers for the acquisition of certain parcels of land. The terms of the deeds of absolute sale covering the land acquisitions provided that such obligations are payable only after the following conditions, among others, have been complied with: (a) presentation by the property sellers of the original transfer certificates of title covering the purchased parcels of land; (b) submission of certificates of non-delinquency on real estate taxes; and (c) physical turnover of the acquired parcels of land to the Group.

In 2009 and 2008, the Group acquired certain land properties which are payable over a period of 3 to 4 years. Such liabilities for purchased land with a nominal amount of ₱460.95 million in 2009 and ₱484.64 million in 2008 were recorded at amortized cost amounting to ₱417.99 million and ₱358.24 million, as of December 31, 2009 and 2008, respectively. The fair value is derived using discounted cash flow model using the discount rate ranging from 6.03% to 8.544% with effective

interest rates ranging from 7.21% to 8.37%. The unamortized discount amounted to ₱89.81 million and ₱81.22 million as of December 31, 2009 and 2008, respectively.Movements in the unamortized discount follow:

	2009	2008
	(Amounts in Thousands)	
Balance at beginning of year	**₱81,215**	₱68,487
Addition	**41,428**	48,232
Accretion for the year	**(32,837)**	(35,504)
	₱89,806	₱81,215

Accretion of ₱32.84 million and ₱35.50 million is recorded as interest expense in 2009 and 2008, respectively.

16. **Accounts and Other Payables**

This account consists of the following:

	2009	2008
	(Amounts in Thousands)	
Trade and other payables		
Suppliers	**₱5,777,230**	₱3,617,412
Subcontractors	**326,920**	421,701
Others	**514,770**	967,307
Accrued costs and expenses	**1,522,540**	644,201
	₱8,141,460	₱5,650,621

<u>Suppliers</u>
Payable to suppliers include liabilities to various foreign and local suppliers for open account purchases of equipment and equipment parts and supplies. These are noninterest bearing and are normally settled on a 30 to 60-day credit terms.

<u>Subcontractor</u>
Subcontractor payable arises when the Group receives progress billing from its subcontractors for the construction cost of a certain project. These subcontractors were selected by the contract owners to provide materials, labor and other services necessary for the completion of a project.

<u>Accrued costs and expenses</u>
Accrued costs and expenses consist mainly of accrual of expenses, costs of construction contracts and Semirara's liability to the Department of Energy (DOE).

This account consists of the following:

	2009	2008
	(Amounts in Thousands)	
Output VAT payable	**₱509,927**	₱154,032
Accrued salaries	**260,640**	253,755
Payable to DOE	**216,517**	52,734
Accrued interest	**135,516**	64,012
Accrued rental	**125,776**	–
Withholding taxes	**74,403**	81,118
Accrued real property tax	**18,829**	–
Accrued professional fees	**7,621**	1,262
Others	**173,311**	37,288
	₱1,522,540	₱644,201

Semirara's liability to the DOE and local government units represents the share of DOE and local government units in the gross revenue from Semirara's coal production (including accrued interest on the outstanding balance) computed in accordance with the coal operating contract between Semirara and DOE and local government units dated July 11, 1997 as amended on January 16, 1981. The contract is for a maximum period of 35 years (inclusive of the developmental stage and renewals) up to July 2012. Total payable to DOE and local government units amounted to ₱216.52 million and ₱52.73 million in 2009 and 2008, respectively.

17. Customers' Advances and Deposits

The customers' advances and deposits are due to the following:

	2009	2008
	(Amounts in Thousands)	
Contract owners	**₱2,399,423**	₱755,099
Real estate customers	**1,695,276**	1,294,059
Coal supply contract	**1,207**	1,207
	₱4,095,906	₱2,050,365

Contract owners
Advances from contract-owners pertain to unliquidated down payments which are being recouped upon every progress billing depending on the percentage of accomplishment.

Real estate customers
Customers' advances and deposits from real estate customers represent reservation fees and initial collections received from customers before the two parties enter into a sale transaction. These were payments from buyers which has not reached the minimum required percentage. When the level of required percentage is reached by the buyer, sale is recognized and these deposits and downpayments will be recognized as revenue and will be applied against the receivable balance.

Coal supply contracts
These deposits represent advances from customers of Semirara, mainly, NPC. These deposits are applied against future coal deliveries which occur within one year from the dates the deposits were made.

18. **Long-term Debt**

Long-term debt pertains to the following obligations:

	2009	2008
	(Amounts in Thousands)	
Parent Company		
Term loan facility	**₱2,970,058**	₱–
Other subsidiaries:		
PSALM (Note 32)	**9,571,202**	–
Bank loans	**4,954,744**	6,316,638
Deferred purchase payment	**474,364**	–
Finance lease	**99,000**	–
Acceptances and trust receipts payable	**54,915**	74,717
	18,124,283	6,391,355
Less current portion of:		
Term loan facility	**800,000**	–
PSALM	**1,681,082**	–
Bank loans	**1,286,339**	2,427,326
Finance lease	**21,077**	–
Acceptances and trust receipts payable	**51,450**	11,281
	3,839,948	2,438,607
	₱14,284,335	₱3,952,748

Term Loan Facility
To partially finance the acquisition of the Power Plant in Calaca, on October 28, 2009, the Parent Company obtained the following loan facilities from BDO Capital & Investment Corporation (BDO Capital).

(a) Term Loan facility up to ₱3.00 billion
   i. Interest: At a floating rate per annum equivalent to the three (3) months Philippine Dealing System Treasury-Fixing (PDST-F) benchmark yield for treasury securities as published on the PDEx page of Bloomberg (or such successor electronic service provider) at approximately 11:30a.m. (Manila Time) on business day prior to drawdown date or interest period, as applicable, plus 275 basis points. Interest period is every three months commencing from initial drawdown date.
   ii. Repayment: The principal amount shall be payable in fifteen equal quarterly installments commencing on the sixth month from the initial drawdown date.
   iii. Front end fee: 0.75% flat of the gross Term Loan Facility amount, payable upon receipt of the BDO Capital's written advice of the approval of the Term Loan Facility
   iv. Security: Deed of Pledge on (a) listed Semirara shares owned by the Parent Company, DFC Holdings Inc. and Dacon Corp. and (b) listed Parent Company shares owned by Dacon Corp. at a minimum collateral cover of 200% with top up provisions

The term loan facility was drawn in full on December 2, 2009. Capitalized debt issuance costs amounted to ₱31.09 million and is amortized using the effective interest rate method. Amortization of debt issuance cost recognized as part of "Interest cost" account in the consolidated statement of income amounted to ₱1.15 milion.

(b) Case to Case Standby Letter of Credit (SBLC) for Deferred Payment Security up to $22.66 million, equivalent to a semi-annual deferred payment due to PSALM.
   i. Commitment fee: 100 basis points flat of the gross amount of SBLC amount, payable quarterly in advance in equal amortization until expiry of the SBLC
   ii. Front end fee:0.30% flat on the gross amount of Deferred Payment SBLC, payable upon the receipt of BDO Capital's written advice of the approval of SBLC Facility
   iii. Security: Deed of Pledge on (a) listed Semirara shares owned by the Parent Company, DFC Holdings Inc. and Dacon Corp. and (b) listed Parent Company shares owned by Dacon Corp. at a minimum collateral cover of 200% with top up provisions
   iv. Security: As a first priority, Deed of Pledge by the Parent Company/third party on listed Semirara shares at a minimum collateral cover of 200% with top up provisions

(c) Case to Case SBLC for Land Lease Performance Security up to $0.74 million.
   i. SBLC term is one year
   ii. Commitment fee: Commitment fee: 100 basis points flat of the gross amount of SBLC amount, payable quarterly in advance in equal amortization until expiry of the SBLC
   iii. Front end fee:0.30% flat on the gross amount of Deferred Payment SBLC, payable upon the receipt of BDO Capital's written advice of the approval of SBLC Facility
   iv. Security: Deed of Pledge on (a) listed Semirara shares owned by the Parent Company, DFC Holdings Inc. and Dacon Corp. and (b) listed the Parent Company shares owned by Dacon Corp. at a minimum collateral cover of 200% with top up provisions

Long-term debt to PSALM pertains to the deferred portion of the purchase price for the acquisition of the Power Plant with principal balance amounting to US$226.26 million translated using ₱46.20 peso-dollar closing exchange rate as of December 31, 2009 (see Notes 36 and 39).

There is another SBLC, the SBLC-Performance Bond Security of approximately US$7.02 million issued on August 12, 2009 with terms: 1 year, Commitment Fee is 100 basis points and Security is listed Semirara shares owned by the Parent Company. This SBLC is not yet cancelled as of April 19, 2010

Details of the bank loans follow (amounts in millions):

Loan Type	Date of Availment	Outstanding Balance 2009	2008	Maturity	Interest Rate	Payment Terms	Covenants/Collaterals
Foreign bank loan							
Mizuho Bank	December 14, 2005	**₱72.20**	₱148.53	November 30, 2010	Based on SIBOR plus 1.95% p.a.	Repriceable and payable in 16 equal quarterly installments to commence 2 months after the draw down dates	Unconditional and irrevocable guarantee issued by Komatsu Asia and Pacific Pte Ltd. and other covenants
Bayerrische Hypo-Und Vereinsbank Aktiengesellschaft (HVB)	Various availments in 2004 and 2005	**61.06**	206.67	Various maturities in 2009 and2010	Based on 6-month US$ LIBOR plus 1.5% p.a.	Payable in 10 equal consecutive semi-annual installments, the first of which was due and payable 6 months after the starting point	Unconditional and irrevocable guarantee issued by the Parent Company
Local bank loans							
Agreement to purchase receivables (with recourse)	Various	**3,913.92**	3,214.12	Various	10% to 13% p.a.	Payable in equal monthly installments over a period ranging from 5 to 15 years	Real estate receivables
Working capital loan	Various	**404.90**	1,935.53	Various	7%-10% p.a.	Payable in equal monthly installments over a period more than one year	None
Notes payable	November 25, 2009	**502.66**	754.47	November 25, 2014	8.42% to 9.90%	Payable in unqual quarterly payments	Related real estate properties mortgaged in amount of ₱1.1 billion as a security for the previously loan to BDO and transferred to this loan
Loan under collateral	September 30, 2005	–	57.32	October 5, 2009	9% fixed p.a.	Payable in 48 equal monthly installments commencing on November 5, 2005	Secured by collaterals on mining equipment
		₱4,954.74	₱6,316.64				

The Parent Company

In 2006, the Parent Company borrowed ₱1.50 billion from BDO (Lender) to partially finance its share of the total purchase price in its joint bid to acquire Maynilad Water Services, Inc. (MWSI). As security for the prompt and full payment by the Parent Company, real estate receivables amounting to ₱750.00 million were pledged as collateral. Further, the Parent Company investments in Semirara shares were also mortgaged to secure the ₱1.50 billion loan.

The Parent Company and the Lender agreed that the real estate receivables pledged shall be at 110% cover, based on outstanding balance while the cover on the Semirara shares shall be at 200%, based on latest market price or 100.00 million shares, whichever is higher. As of December 31, 2007, the Parent Company has fully this debt.

The BOD, in its special meeting on June 25, 2008, made the following resolutions:

(1) The Parent Company entered into the Omnibus Notes Facility and Security Agreement by and among Maynilad as Issuer, MPIC, DMCI-MPIC and the Parent Company as Third-Party Mortgagors, BDO and DBP as Noteholders, BDO Capital and Investment Corporation and DBP as Joint Lead Arrangers, BDO Unibank, Inc.-Trust and Investments Group as Facility Agent, Registrar and Paying Agent, Collateral Agent and DSRA Agent.

(2) In order to secure the performance of the Secured Obligations under the Omnibus Agreement, the Parent Company was authorized to constitute: (a) a first-ranking chattel mortgage over 1.47 billion common shares of DMCI-MPIC held and owned by the Parent Company; and (b) a voting trust over 1.53 billion common shares of DMCI-MPIC held by the Parent Company, for the benefit of the secured parties.

(3) As required under the Omnibus Agreement, the Parent Company is authorized to enter into a Sponsors' Agreement with the Noteholders, whereby, the Parent Company agreed that so long as any Note is outstanding under the Omnibus Agreement and until payment in full of all amounts payable by the Issuer under the Omnibus Agreement and other related documents, it shall not directly or indirectly incur or suffer to exist any Lien upon any of the Sponsor Shares, or enter into any loan agreement secured by or to be secured by a Lien upon any of the Sponsor Shares, except for Permitted Liens.

On January 30, 2009, the Parent Company obtained ₱550.00 million short-term loan facility from Banco de Oro Unibank, Inc. and consequently, entered into a Deed of Undertaking and Indemnity Agreement among the latter and AG&P. This loan was collateralized by various properties of AG&P as well as the Parent Company's held AG&P shares.

Of the said loan, ₱500.00 million was used for the payment of AG&P's loans payable to PNB and Cameron Grandville, while the remaining ₱50.00 was used for AG&P's capital requirements. PNB and Cameron Granville accepted the compromise amounts of ₱560.00 million and ₱90.00 million, respectively, in full settlement of AG&P's loans including accrued interest, charges, fees and penalties as of that date. Consequently, PNB and Cameron Granville issued Instrument of Discharge of Lien in favor of AG&P's Mortgage Trust Indenture (MTI's) dated March 5, 1992 and April 18, 2008 with a local bank to fully and irrevocably extinguish their interests and participation on the collateral under the said MTI's.

The settlement of the loan obligation likewise extinguishes all of the related accrued interest and penalties.

On November 25, 2009, AG&P obtained a 5-year term notes payable from UCPB amounting to ₱500.00 million. This loan was used by AG&P in settlement of its advances from the Parent Company amounting to ₱650.00 million. Accordingly, the corresponding mortgage participation certificates previously issued was cancelled and re-issued in favor of UCPB. The Parent Company consequently settled its loan from Banco de Oro Unibank, Inc. on November 25, 2009.

Subsidiaries

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

HVB
Semirara availed a loan facility to finance 85% of the EUR importation cost of certain conventional and mining equipments amounting to EUR 17.81 million for the expansion of Semirara's production capacity. Total loan contract amounted to EUR 15.14 million.

Agreement to purchase receivables
Certain subsidiaries entered into various purchase agreements with financial institutions whereby the subsidiaries sold its receivables. The purchase agreements provide that the subsidiaries should substitute defaulted contracts to sell with other contracts to sell of equivalent value.

The subsidiaries still retain the sold receivables in the receivables account and record the proceeds from these sales as loans payable which amounted to ₱836.52 million and ₱615.62 million as of December 31, 2009 and 2008, respectively. These loans bear fixed interest rates ranging from 10% to 13% and are payable on equal monthly installments over a period ranging from 5 to 15 years depending on the terms of the related installment contracts receivable (see Note 6).

On May 2009, the subsidiaries entered into a Memorandum of Agreement (MOA) with Recourse with BDO Unibank, Inc. (the Bank), whereby the Bank agreed to purchase from time to time and has purchased from the Developer, on a with recourse basis, certain CTS Accounts up to an aggregate amount of ₱3.74 billion. Subsequently, in December 2009, both parties of the MOA decided to amend the agreement under a with recourse basis to a without recourse arrangement with an amount in consideration not to exceed ₱3.74 billion. Total amount of receivables sold under the without recourse arrangement amounted to ₱3.62 billion (see Note 6).

Working capital loan
The Group availed of various working capital loans including car financing and leasing.

Deferred purchase payment
On November 16, 2009, Semirara entered into a Deferred Payment Sale and Purchase Agreement with Marubeni Corporation (MC) for the purchase of various equipment intended for enhancing its mining activities. The amounts corresponding to the units or pieces of equipment that are shipped to Semirara shall be paid by the Semirara to MC within seven hundred twenty (720) days after the date of the bill of lading for the relevant shipment of such units or pieces of equipment.

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

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

19. **Other Noncurrent Liabilities**

The details of this account consist of:

	2009	2008
	(Amounts in Thousands)	
Provision for decommissioning and site rehabilitation - net	**₱14,773**	₱13,204
Subscriptions payable	**4,938**	4,750
	₱19,711	₱17,954

The rollforward analysis of the provision for decommissioning and site rehabilitation account follows:

	2009	2008
	(Amounts in Thousands)	
At January 1	**₱13,204**	₱12,205
Addition	**408**	–
Accretion of interest	**1,161**	999
At December 31	**₱14,773**	₱13,204

20. **Related Party Transactions**

In the regular course of business, the Group's significant transactions with related parties, which are accounted for at market prices normally charged to unaffiliated customers for similar goods and services, consisted primarily of interest and noninterest-bearing cash and operating advances made by the Group to and from various associates and other related parties.

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 financing and operating activities. Parties are also considered to be related if they are subject to common control of common significant influence.

Related parties may be individual or corporate entities.

(a) DMC-Construction Equipment Resources, Inc. (DMC-CERI), an affiliate, has transactions with Semirara for services rendered relating to Semirara'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 ₱166.22 million, ₱117.72 million and ₱113.14 million for the years ended in 2009, 2008, and 2007, respectively. These are included under Cost of sales - Outside services (see Note 23).

DMC-CERI also provides to Semirara marine vessels for use in the delivery of coal to its various customers. The coal freight billing is on a per metric ton basis plus demurrage charges when delay will be incurred in the loading and unloading of coal cargoes. Expenses (at gross amount) incurred for these services amounted to ₱500.75 million, ₱246.94 million and ₱241.25 million in 2009, 2008 and 2007, respectively, and are included under Cost of sales - Shipping, hauling and shiploading costs (see Note 23). The reported expense of the Group is net of freight payment by NPC (billing is C&F);

Land lease rental by Semirara with DMC-CERI amounting to ₱13.44 million was accrued during the year.

(b) M&S Company, Inc. rent out various equipments used in Semirara's operations. Also, M&S Company supplies the rough lumber used by Semirara in its various projects and the seedlings to be planted on the areas surrounding the pit, in compliance with the agreement between the Parent Company and DENR. Rough lumbers purchased amounted to ₱39.01 million, ₱50.99 million and ₱8.38 million for years ended December 31, 2009, 2008, and 2007, respectively. The related rental expense amounted to ₱91.49 million for the years ended December 31, 2009, 2008 and 2007. This is included under other expenses of the production cost for the year.

(c) DMC Urban Property Developers, Inc. (UPDI) had transactions with Semirara representing long-term lease on office space and other transactions rendered to Semirara necessary for the coal operations. Office rental expense amounted to ₱7.78 million, ₱1.84 million and ₱5.00 million for the years ended December 31, 2009, 2008 and 2007, respectively.

(d) Semirara has transactions with Royal Star Aviation, Inc. for the year aggregating to ₱3.55 million. This amount represents the flight charges for employees and visitors to and from Manila and the mine site located at Semirara Island, Antique.

(e) DMCI has various construction contracts with Maynilad for the rehabilitation and refurbishment of its water transmission and supply lines. Total construction revenue earned amounted to ₱1.11 billion, ₱536.00 million and ₱339.00 million in 2009, 2008 and 2007, respectively.

The consolidated statements of financial position as of December 31, 2009 and 2008 include the following amounts relating to transactions with related parties

	2009	2008
	(Amounts in Thousands)	
Receivables from related parties		
Entities significantly influenced by certain individuals	**₱612,792**	₱618,782
Joint venture	**329,179**	601,228
	941,971	1,220,010
Payable to related parties		
Entities significantly influenced by certain individuals	**443,394**	709,609
Joint venture	**250,184**	45,769
Parent	**1,171**	86,461
	₱694,749	₱841,839
	₱247,222	₱378,171

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

Key management personnel of the Group include all directors and senior management. The aggregate compensation and benefits of key management personnel of the Group follows:

	2009	2008
	(Amounts in Thousands)	
Short-term employee benefits	**₱46,055**	₱58,559
Post employment benefits (Note 22)	**8,700**	9,755
	₱54,755	₱68,314

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

21. **Equity**

The Parent Company's capital stock consists of:

	2009		2008	
	Shares	**Amount**	Shares	Amount
	(Amounts in Thousands)			
Preferred stock - ₱1 par value cumulative and convertible				
Authorized - 180,000				
Issued	**4**	**₱4**	4	₱4
Common stock - ₱1 par value				
Authorized - 5,900,00				
Issued				
Balance at beginning of year	**2,655,494**	**₱2,655,494**	2,255,494	₱2,255,494
Issuance of shares	**–**	**–**	400,000	400,000
Balance at end of year	**2,655,494**	**₱2,655,494**	2,655,494	₱2,655,494

The preferred stock is redeemable, convertible, non-voting, non-participating and cumulative with par value of ₱1.00 per share. The preferred shareholders' right of converting the preferred shares to common shares expired in March 2002.

In 2008, the Parent Company retired 100 preferred shares. The difference between the redemption price amounting ₱0.23 million was charged against the additional paid-in capital account.

The BOD, at various dates, approved the issuance of additional 400,000,000 common shares out of the Parent Company's existing unissued authorized capital stock in favor of Dacon Corporation (Dacon) at prices ranging from ₱6.70 per share to ₱7.52 per share or a total price of ₱1.90 billion. As required by the PSE Listing Rules, the stockholders approved the issuance of new 400 million voting common shares in favor of Dacon. Likewise, the waiver of the rights/public offering of the new 400 million voting common shares to be issued to Dacon was approved by the majority of the minority stockholders.

<u>Retained Earnings</u>
On June 5, 1997, the SEC approved the use of the revaluation increment in property amounting to ₱1.30 billion to reduce the accumulated deficit of AG&P as of December 31, 1996. Pursuant to the SEC approval of the foregoing, the future retained earnings of AG&P shall be restricted to the extent of the deficit wiped out (and not recovered by accumulated depreciation on appraisal increment) by the revaluation increment of ₱1.30 billion.

On May 21, 2008, the AG&P petition to effect another quasi-reorganization by applying the APIC amounting to ₱117.90 million and the revaluation increment in property and equipment and investment properties amounting to ₱340.70 million against the accumulated deficit in the amount of ₱458.60 million as of August 31, 2007 provided that the following conditions are met:

a. AG&P's deficit amounting to ₱458.60 million as of August 31, 2007 shall decrease on December 31, 2007, the amount of deficit reflected therein shall first be reduced by applying it against the APIC of ₱117.90 million, and only the remaining deficit shall be applied against the revaluation increment;
b. the remaining revaluation increment set up after the deficit have been offset will not be used to wipe out losses that may be incurred in the future without the prior approval of SEC; and
c. for purposes of dividend declaration, the retained earnings shall be restricted to the extent of the deficit wiped out by the appraisal surplus.

Any future retained earnings is also restricted for dividend declaration to the extent of the cost of the shares held in treasury amounting to ₱20.00 million. In 2007, treasury shares are divided into 14,275 class A shares and 75,205 class B shares. In 2008, pursuant to the removal of the classification of the shares, all of the treasury shares are considered as common shares.

Dividends declared
On May 21, 2009 and April 24, 2008, the Parent Company's BOD approved and declared cash dividend of ₱0.20 per share or ₱542.10 million and ₱0.10 per share or ₱265.53 million, out of the unrestricted retained earnings of the Company, to stockholders of record as of June 5, 2009 and May 12, 2008, respectively. The 2009 and 2008 cash dividends were paid on June 30, 2009 and May 30, 2008, respectively.

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

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders or issue new shares. The Group considers total stockholders' equity as capital

22. Employee Benefits

Retirement Plans

The Group has both unfunded and funded, noncontributory, defined benefit pension plans covering substantially all of their regular employees. The latest actuarial valuation reports of the retirement plans were made on December 31, 2009.

The following table summarizes the components of net pension expense (included in "Salaries, wages and employee benefits" account) in the consolidated statement of income:

	2009	2008	2007
	(Amounts in Thousands)		
Current service cost	**₱29,197**	₱31,277	₱25,115
Interest cost on benefit obligation	**34,046**	36,039	20,580
Expected return on plan assets	**(26,086)**	(31,513)	(32,587)
Net actuarial loss (gain) recognized during the year	**18,882**	14,721	106,114
Past service cost - non vested benefit	**2,031**	2,031	1,995
Past service cost - vested benefit	**–**	–	44,400
Amortization of transition obligation recognized during the year	**–**	400	400
Total pension expense	**₱58,070**	₱52,955	₱166,017
Actual return on plan assets	**₱219,653**	₱177,981	₱69,133

Movements in the fair value of plan assets of the Group follow:

	2009	2008	2007
	(Amounts in Thousands)		
Balance at beginning of year	**₱340,065**	₱430,071	₱277,392
Expected return on plan assets	**26,086**	31,513	32,587
Actual contributions	**61,964**	60,796	84,280
Benefits paid	**(50,559)**	(25,676)	(716)
Transfer of assets	**34**	(145)	(18)
Actuarial gain – net	**193,567**	(156,494)	36,546
Balance at end of year	**₱571,157**	₱340,065	₱430,071

Changes in the present value of the defined benefit obligation follow:

	2009	2008	2007
	(Amounts in Thousands)		
Balance at beginning of year	**₱328,414**	₱337,317	₱250,164
Interest cost	**34,046**	36,039	20,580
Current service cost	**29,197**	31,277	25,115
Past service cost - non vested benefit	**–**	–	17,052
Past service cost - vested benefit	**–**	–	44,400
Benefits paid	**(51,070)**	(25,676)	(2,213)
Transfer of obligations	**34**	(145)	(18)
Actuarial (gain) loss – net	**56,987**	(50,398)	(17,763)
Balance at end of year	**₱397,608**	₱328,414	₱337,317

Net pension liability to be recognized in the consolidated statements of financial position:

	2009	2008	2007
	(Amounts in Thousands)		
Fair value of plan assets	**₱571,157**	₱340,065	₱430,071
Present value of unfunded obligation	**397,608**	328,414	337,317
Excess of fair value of plan assets over present value of unfunded obligation	**173,549**	11,652	92,754
Unrecognized actuarial gain - net	**(294,152)**	(135,674)	(236,689)
Unrecognized past service cost - non vested	**12,746**	14,776	16,383
Unrecognized net transition obligation	**–**	–	140
Liabilities to be recognized in the consolidated statements of financial positions	**₱107,857**	₱109,246	₱127,412

The Group expects to contribute about ₱46.96 million into the pension fund in 2010.

The amounts for the current and the previous four periods follow:

	2009	2008	2007	2006	2005
	(Amounts in Thousands)				
Present value of defined benefit obligation	**₱397,608**	₱328,414	₱337,317	₱250,164	₱194,657
Fair value of plan assets	**571,157**	340,065	430,071	277,392	171,856
Excess of fair value of plan assets over present value of unfunded obligation	**173,549**	11,652	92,754	27,228	(22,801)
Experience adjustments on plan obligation	**6,254**	(85,486)	1,664	(5,117)	–
Experience adjustments on plan assets	**164,737**	(209,130)	68,458	–	–

The assumptions used to determine pension benefits of the Group follow:

	2009	2008	2007
Discount rate	**8.60% to 11.26%**	8.00% to 12.93%	7.97% to 10.43%
Salary increase rate	**3% to 10.75%**	10%	10%
Expected rate of return on plan assets	**6% to 7%**	7%	7%

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

As of December 31, 2009 and 2008, the Group's plan assets consist primarily of the following:

	2009	2008
Cash and cash equivalents	**7.49%**	12.00%
Investments in stocks	**62.00**	48.00
Debt instruments	**29.87**	39.00
Other assets	**0.64**	1.00
	100.00%	100.00%

23. **Costs of Sales and Services**

Depreciation, depletion and amortization included in the consolidated statements of income follow:

	2009	2008	2007
	(Amounts in Thousands)		
Included in:			
Mining	**₱1,037,072**	₱1,154,232	₱1,651,861
Construction contracts	**352,925**	181,274	105,138
Operating expenses (Note 24)	**103,005**	231,254	148,641
	₱1,493,002	₱1,566,760	₱1,905,640
Depreciation, depletion and amortization of:			
Property, plant and equipment (Note 12)	**₱1,684,799**	₱1,529,113	₱1,675,636
Other noncurrent assets (Note 13)	**–**	1,049	853
Investment properties (Note 11)	**5,747**	3,970	3,479
	₱1,690,546	₱1,534,132	₱1,679,968

Salaries, wages and employee benefits included in the consolidated statement of income follow:

	2009	2008	2007
	(Amounts in Thousands)		
Presented under:			
Costs of construction contracts	**₱1,907,831**	₱782,638	₱698,880
Operating expenses (Note 24)	**598,245**	450,938	414,599
Costs of mining	**366,772**	264,844	244,504
	₱2,872,848	₱1,498,420	₱1,357,983

24. **Operating Expenses**

This account consists of:

	2009	2008	2007
	(Amounts in Thousands)		
Salaries, wages and employee benefits (Notes 22 and 23)	**₱598,245**	₱450,938	₱414,599
Government share	**450,152**	253,382	191,290
Taxes and licenses	**339,619**	220,016	135,976
Commission	**316,456**	218,228	140,300
Advertising and marketing	**248,718**	243,343	347,921
Outside services	**219,080**	108,187	156,757
Depreciation and amortization (Notes 11, 12 and 23)	**103,005**	231,254	148,641
Provision for doubtful accounts (Note 6)	**76,948**	54,132	4,434
Repairs and maintenance	**71,651**	96,893	51,356
Supplies	**62,260**	63,405	38,376
Communication, light and water	**58,453**	59,890	37,147
Entertainment, amusement and recreation	**40,136**	33,413	28,267

(Forward)

	2009	2008	2007
	(Amounts in Thousands)		
Rent (Note 36)	**₱36,815**	₱64,518	₱44,093
Transportation and travel	**29,760**	97,919	35,834
Insurance	**17,310**	12,519	9,455
Probable losses on noncurrent assets	**–**	–	20,188
Miscellaneous	**213,543**	189,224	66,691
	₱2,882,151	₱2,397,261	₱1,871,325

25. **Finance Income**

Finance income is derived from the following sources:

	2009	2008	2007
	(Amounts in Thousands)		
Interest on:			
Real estate receivables	**₱656,922**	₱340,120	₱176,782
Short-term placements	**82,389**	125,150	88,600
Accretion on real estate receivables (Note 6)	**63,056**	73,404	81,776
Accretion on other assets (Notes 9 and 13)	**22,634**	2,993	–
Bank savings account	**15,034**	30,885	24,378
	₱840,035	₱572,552	₱371,536

26. **Finance Costs**

The finance costs are incurred from the following:

	2009	2008	2007
	(Amounts in Thousands)		
Long-term borrowings	**₱537,882**	₱97,625	₱251,134
Accretion of interest on long-term loan	**51,797**	–	–
Bank loans and short-term borrowings	**856**	452,857	200,032
Loans to affiliated entities	**–**	972	63,496
Purchase contracts	**–**	613	705
	₱590,535	₱552,067	₱515,367

27. **Other Income (Charges)**

This account consists of:

	2009	2008	2007
	(Amounts in Thousands)		
Rental income (Note 11)	**₱76,483**	₱96,407	₱61,067
Foreign exchange gain - net	**52,570**	12,749	21,841
Gain on sale of property, plant and equipment - net	**13,735**	43	11,396
Dividend income	**1,399**	47,979	3,937
Commission income	**205**	1,974	–
Write-off of deposits	**–**	–	(300,000)
Others (Note 10)	**79,213**	167,931	64,480
	₱223,605	₱327,083	(₱137,279)

Deposits in Northrail of ₱300.00 million represent contributions made by the Group relative to a joint venture with the Bases Conversion Development Authority (BCDA) (a government-owned corporation), Philippine National Railways and a consortium of foreign investors and local partners which would undertake the construction of a multi-phase double-track railway system. The covering joint venture agreement provided, among others, the increase in capitalization of Northrail, the primary purpose of which is to construct, operate and manage such railway system. The deposits on subscriptions made by the joint venture partners are committed to be converted into equity upon the approval of increase in capital stock of Northrail.

In 2001, due to the uncertainty surrounding the Northrail project, the Subsidiary decided to pull out of the joint venture. In 2006, a claim has been filed and is still pending with the court for the recovery of its contribution to the Northrail Project as of December 31, 2007.

In 2007, the subsidiary decided to write-off the deposits in the Northrail project.

28. **Income Tax**

The components of net deferred tax assets as of December 31, 2009 and 2008 follow:

	2009	2008
	(Amounts in Thousands)	
Deferred tax assets on:		
Allowance for:		
Doubtful accounts	**₱1,156**	₱1,786
Inventory obsolescence	**1,727**	1,926
Probable loss	**18,872**	–
Pension liabilities	**35,312**	5,155
Accrued expenses and other expense	**–**	481
Unrealized forex loss	**24**	1,310
Unamortized discount on receivables	**7,634**	–
NOLCO	**25,967**	25,600
MCIT	**1,719**	481
	92,411	36,739

(Forward)

	2009	2008
	(Amounts in Thousands)	
Deferred tax liabilities on:		
Excess of book over tax income pertaining to construction contracts and real estate sales	**(₱52,926)**	₱–
Unamortized discount on payable to landowners	**(303)**	(573)
Borrowing cost	–	
Others - net unrealized gain	**(653)**	(1,267)
	(53,882)	(1,840)
	₱38,529	₱34,899

The components of net deferred tax liabilities as of December 31, 2009 and 2008 follow:

	2009	2008
	(Amounts in Thousands)	
Deferred tax assets on:		
Allowance for:		
Doubtful accounts	**₱70,567**	₱88,133
Inventory obsolescence	–	15,986
Probable loss	**7,648**	14,413
Unamortized discount on receivables	**10,579**	34,173
Pension liabilities	**11,076**	51,654
Accrued expenses and other expense	**23,626**	5,645
Provision for decommissioning and site rehabilitation	–	3,961
Unamortized discount on security deposits	–	9,384
Unearned rental income	**4,085**	6,456
Unrealized forex loss	**2,471**	–
NOLCO	**2,271**	–
MCIT	**34,129**	40,885
	166,452	270,690
Deferred tax liabilities on:		
Incremental cost of property, plant and equipment	**(25,353)**	(46,952)
Excess of book over tax income pertaining to construction contracts and real estate sales	**(145,080)**	(187,963)
Unamortized discount on payable to landowners	**(23,227)**	(25,734)
Unamortized prepaid rent	**(3,339)**	(9,330)
Excess of pension contributions over pension cost	**(5,781)**	(4,597)
Asset revaluation - appraisal increase on Investment properties and property and equipment	**(401,920)**	(438,593)
Capitalized interest on real estate for sale and development deducted in advance	**(13,510)**	(2,262)
Others - net unrealized gain	**(67,028)**	(17,527)
	(685,238)	(732,958)
	(₱518,786)	(₱462,268)

The Group has the following deductible temporary differences and MCIT that are available for offset against future taxable income or tax payable for which deferred tax assets have not been recognized:

	2009	2008
	(Amounts in Thousands)	
Temporary differences:		
Allowance for losses on assets	**₱199,507**	₱115,326
Allowance for doubtful accounts	**129,156**	143,932
Pension costs	**51,065**	–
Preoperating expenses	**25,327**	–
Provision for decommissioning and site rehabilitation	**14,365**	–
Unamortized discount on refundable deposits	**10,656**	–
NOLCO	**6,443**	82,946
Accrued expenses	**–**	79,481
MCIT	**–**	3,891
	₱436,519	₱425,576

The deferred income tax effects of the above deductible temporary differences for which no deferred tax assets are recognized amounted to ₱130.96 million and ₱130.40 million as of December 31, 2008 and December 31, 2007, respectively. Deferred tax assets are recognized only to the extent that taxable income will be available against which the deferred tax assets can be used.

The Group 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 2007, the Group recognized portion of deferred income tax effects of the deductible temporary differences not recognized in prior years and this amounted to ₱14.58 million.

The provision for income tax shown in the consolidated statement of income consists of:

	2009	2008	2007
	(Amounts in Thousands)		
Final	**₱13,128**	₱5,996	₱13,826
Current	**548,332**	615,524	497,865
Deferred	**52,888**	73,630	33,361
	₱614,348	₱695,150	₱545,052

The reconciliation of the statutory income tax rate to the effective income tax rate follows:

	2009	2008	2007
Statutory income tax rate	**30.00%**	35.00%	35.00%
Adjustments for:			
Changes in unrecognized deferred tax assets	**1.45**	4.41	0.79
Nondeductible interest expense	**0.09**	0.47	0.11
Nondeductible expenses	**0.28**	0.26	0.20
Nondeductible (nontaxable) equity in net losses (earnings) of associates and jointly controlled entities	**(8.34)**	3.08	(18.50)
Interest income subjected to final tax at a lower rate - net	**(0.13)**	(0.91)	(1.21)
Additional deductible expenses	**–**	(0.09)	(0.10)
Gain on sale of investments in shares of stock subjected to final tax	**(0.20)**	–	(2.01)
Non taxable dividend income	**(0.01)**	(0.02)	(1.21)
Tax-exempt income	**(12.98)**	(10.64)	–
Gain on dilution	**–**	–	(1.81)
Change in tax rate	**–**	(6.11)	6.29
Effective income tax rate	**10.16%**	25.45%	17.55%

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

Board of Investments (BOI) Incentives

New Developer of Mass Housing Project
In 2009 and 2008, the BOI issued in favor of PDI a Certificate of Registration as a New Developer of Mass Housing Project for several of its real estate projects in accordance with the Omnibus Investment Code of 1987. Pursuant thereto, the projects has been granted an Income Tax Holiday for a period of four (4) years.

Expanding Producer of Coal
On September 26, 2008, the BOI issued in favor of Semirara a Certificate of Registration as an Expanding Producer of Coal in accordance with the provisions of the Omnibus Investments Code of 1987. Pursuant thereto, the Semirara shall be entitled to Income Tax Holiday for six (6) years. Semirara shall initially be granted a four (4) year ITH. The additional two (2) year ITH shall be granted upon submission of completed or on-going projects in compliance with its Corporate Social Responsibility (CSR), which shall be submitted before the lapse of its initial four (4) year ITH.

29. Basic / Diluted Earnings Per Share

The following table presents information necessary to calculate basic earnings per share on net income attributable to equity holders of the Parent Company (in thousands except basic earnings per share):

	2009	2008	2007
	(Amounts in Thousands)		
Net income	**₱4,682,518**	₱1,687,900	₱2,273,756
Divided by weighted average number of common shares	**2,655,494**	2,655,494	2,409,577
Basic earnings per share	**₱1.76**	₱0.64	₱0.94

The assumed conversion of the Group's preferred shares has no dilutive effect. Accordingly, no diluted earnings per share is presented in 2009, 2008 and 2007.

30. Coal Operating Contract with DOE

Semirara has a Coal Operating Contract with DOE dated July 11, 1977, as amended on January 16, 1981, for the exploration, development, mining and utilization of coal over Semirara Island, Antique under the terms and conditions provided therein and pursuant to the provisions of Presidential Decree No. 972, otherwise known as the Coal Development Act of 1976. The contract is for a maximum period of 35 years (inclusive of the developmental stage and renewals) up to July 2012. The contract also provides for the manner and basis of sharing the gross proceeds from coal production between the Company and DOE. The Company's provision for DOE's share (including accrued interest computed at 14% per annum on outstanding balance) under this contract and to the different local government units in the province of Antique, under the provisions of the Local Government Code of 1991, amounted to ₱450.15 million and ₱253.38 million as of December 31, 2009 and 2008, respectively. The liabilities, amounting to ₱216.52 million and ₱52.73 million are included under the "Accounts and other payables" account in the statement of financial position (see Note 16).

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

31. Investment in DM-FB Joint Venture

DMFB Joint Venture (the Joint Venture) is a joint venture agreement between DMCI and First Balfour Inc. (FBI). The Joint Venture was formed in January 18, 2008 for the purpose of entering into a construction contract with Light Rail Transit Authority (LRTA). The Joint Venture is unincorporated and is not registered with the Philippine SEC. However, the Joint Venture was registered with the Bureau of Internal Revenue on May 27, 2008 as builder of constructions or parts, civil engineering. The Joint Venture's principal place of business is at 3rd Floor, NIA Bldg. A, EDSA corner NIA Road 1, Barangay Pinyahan, Quezon City.

On May 16, 2008, the Joint Venture was declared as the winning bidder for the construction and completion of the LRT Line 1North Extension Project (the Project).

The respective financial interest of the Parties in the Joint Venture shall be 51% to DMCI and 49% to FBI. It shall be adjusted from time to time based on the ratio of the Parties' respective aggregate capital contribution. Irrespective of the financial contribution, management should be of unanimous decision.

The Group's share of the Joint Venture's assets and liabilities are as follows:

	2009	2008
	(Amounts in Thousands)	
Current assets	**₱922,312**	₱341,812
Noncurrent assets	**2,517**	2,074
	924,829	343,886
Current liabilities	**684,255**	89,849
Noncurrent liabilities	**111,829**	246,235
	796,084	336,084
	₱128,870	₱7,802

The Group's share of the Joint Venture's profits are as follows:

	2009	2008
	(Amounts inThousands)	
Revenue	**₱1,224,921**	₱119,360
Construction cost	**929,217**	80,309
	295,704	39,051
Operating expenses	**174,556**	37,070
	₱121,148	₱1,981

Exemption to Corporate Income Tax
Persuant to Section 22 (Paragraph B) of the Tax Code of 1997, the term "corporation" shall include partnerships, no matter how created or organized, joint stock companies, joint accounts, associations or insurance companies; but does not include general professional partnerships and a joint venture or consortium formed for the purpose of undertaking construction project. Such being the case, the Joint Venture formed as a result of joint venture agreement between DMCI and First Balfour, Inc. (the Parties) for the construction of LRT Line 1 North Extension Project, is not subject to the corporate income tax.

32. Acquisition of Calaca Power Plant

On July 8, 2009, Power Sector Assets and Liabilities Management (PSALM) awarded the Parent Company as the winning bidder for the sale of the 600-megawatt (MW) Batangas Coal-Fired Thermal Power Plant (the Power Plant) located in San Rafael Calaca, Batangas.

On December 2, 2009, the Parent Company entered into an Asset Purchase Agreement with PSALM. Pursuant to the provision of the Asset Purchase Agreement (APA), PSALM agreed to sell and transfer to the Parent Company on an "as is where is" basis, the Power Plant with an agreed purchase price of US$368.87 million.

On the same date, through the Accession Assignment Agreement (the Agreement) between the Parent Company, Sem-Calaca Power Corporation (SCPC) , a wholly-owned subsidiary of Semirara), and PSALM, SCPC acquired the 2 x 300-MW Power Plant from PSALM. The total cash payments made to PSALM are broken down as follows:

1. ₱6.62 billion in peso equivalent using the exchange rate of ₱47.13 representing 40% down payment for US$351.0 million purchase price of the Power Plant (see Note 18); and
2. ₱0.49 billion in peso equivalent using the exchange rate of ₱47.20 representing 40% down payment for US$10.39 million advance rental payment for the 25-year lease of the premises underlying the Power Plant and for purchase orders for parts and services for the Power Plant.

Other provisions of the Agreement include:
a. Parent Company undertakes that it shall own at least 57% of the voting capital of Semrara; and
b. SCPC shall be a wholly owned subsidiary of the Semirara.

A breach of any of the above shall constitute a breach by the Parent Company of the APA.

Relative to the assignment of the APA and Land Lease Agreement (LLA) by the Parent Company to SCPC, total consideration recognized by SCPC as due to the Parent Company amounted to ₱54.34 million (see Note 12).

Below are the significant provisions of the APA, among others:
a. All liabilities, obligations, taxes, fees, fines or penalties pertaining to the Power Plant and operating contracts accruing or incurred prior to closing date, regardless of the date when the demand for payment or assessment is made, shall be for the account of PSALM;
b. SCPC must hire as contractual employees all of the separated NPC employees for a period of five (5) months;
c. During the deferred payment period, SCPC shall at the end of each fiscal year shall at the end of each fiscal year, maintain a debt service ratio of at least 1.1:1.0 and debt-equity ratio not exceeding 2.5:1.0; and
d. Should there be (i) Semirara coal; (ii) diesel fuel and (iii) bunker fuel on site on closing date, SCPC shall pay PSALM the value of those based on the price paid by NPC for the same.

As embedded in the APA, the Parent Company will also enter into a Land Lease Agreement (LLA) with PSALM for the lease of land in which the Power Plant is situated, for the period of 25 years, renewable for another period of 25 years, upon mutual agreement of both Parties.

In a letter dated December 18, 2009, PSALM claims an additional amount of ₱9.55 million representing the difference between the US$ to Peso exchange rate used for the 40% down-payment of the purchase price versus the ₱47.2 US$ to Peso exchange rate PSALM alleges to be in accordance with the APA. The assessed amount was accrued in 2009 as additional acquisition cost allocated to Property, plant and equipment. Subsequently, the amount was paid by the Parent Company in February 8, 2010.

The principal amount of the Deferred Payment is equivalent to 60% of the purchase price for the Power Plant. The Deferred Payment will be paid to PSALM via 14 equal semi-annual payments beginning June 2, 2010 with an interest rate of 11% per annum, compounded semi-annually. Under the APA, upon prior written notice to PSALM, and on the condition that SCPC is not in breach of any of its substantial obligations to PSALM under the APA and LLA, SCPC may prepay any portion of the Deferred Payment in Philippine Pesos (see Note 18).

Under a Memorandum of Agreement dated December 2, 2009 between PSALM and SCPC, the amounts of ₱288.39 million representing parts identified as required to achieve 350 MW capability of the Power Plant and ₱247.55 million as unawarded purchase orders will be deducted from the principal amount of the Deferred Payment.

After considering the above adjustments, the fair value of the identifiable assets and liabilities as at the date of acquisition were (amounts in thousands):

Property, plant and equipment (Note 12)	₱15,697,026
Materials and supplies (Note 8)	720,932
Coal (Note 8)	273,936
Prepaid rent (Note 9)	150,568
Fuel and diesel (Note 8)	86,705
Total assets acquired	₱16,929,167

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

Cash consideration	₱7,107,741
Payable to PSALM (Note 18)	9,767,083
Transaction cost (Note 20)	54,343
Total cost	₱16,929,167

The accounting for business combination was done provisionally for the property, plant and equipment due to lack of proper fair value estimate of fixed assets acquired as of to date.

33. Operating Segments

Business Segment Information

For management purposes, the Group is organized into six major business units that are largely organized and managed separately according to industry.

Construction - engaged in various construction component businesses such as production and trading of concrete products, handling steel fabrication and electrical and foundation works.

Coal mining - engaged in the exploration, mining and development of coal resources on Semirara Island in Caluya, Antique and nickel extraction in Zambales.

Real estate - focused in mid-income residential development carried under the brand name DMCI Homes

Power - engaged in the business of a generation company which designs, constructs, invest in, and operate power plants.

Water - recognized through a consortium with Metro Pacific Investments Corp. or MPIC (the "Consortium") and operated through Maynilad Water Services, Inc. (Maynilad), the water utility for the west portion of Metro Manila.

Others - includes the Parent Company and other industry (i.e., manufacturing)

No operating segments have been aggregated to form the above reportable operating segments. Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on revenue, earnings before interest, income taxes and depreciation and amortization (EBITDA) and operating profit or loss, and is measured consistently with the consolidated financial statements.

However, Group financing (including finance costs and finance income) and income taxes are managed on a group basis and are not allocated to operating segments. Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

Business Segments

The following tables present revenue, net income (loss) and depreciation, depletion and amortization information regarding business segments for the years ended December 31, 2009, 2008 and 2007 and property, plant and equipment additions, total assets and total liabilities for the business segments as of December 31, 2009, 2008 and 2007:

Year ended December 31, 2009 (Amounts in Thousands)

	Construction	Mining	Real Estate Development	Power	Water	Parent Company and Others	Total
Revenue	**₱10,442,043**	**₱11,602,130**	**₱6,963,108**	**₱443,493**	**₱–**	**₱260,054**	**₱29,710,828**
Other income (expense) - net	**43,192**	**(56,301)**	**83,018**	**200,467**	**1,674,873**	**(1,085)**	**1,944,164**
	10,485,235	**11,545,829**	**7,046,126**	**643,960**	**1,674,873**	**258,969**	**31,654,992**
Cost of sales and services	**8,286,838**	**7,836,117**	**4,756,934**	**440,471**	**–**	**197,957**	**21,518,317**
General and administrative expense (before depreciation and amortization)	**685,654**	**758,085**	**1,172,899**	**44,422**	**–**	**118,085**	**2,779,145**
	8,972,492	**8,594,202**	**5,929,833**	**484,893**	**–**	**316,042**	**24,297,462**
EBITDA	**1,512,743**	**2,951,627**	**1,116,293**	**159,067**	**1,674,873**	**(57,073)**	**7,357,530**
Other income (expenses)							
Interest income (expense)	**(58,390)**	**19,777**	**307,619**	**(77,920)**	**–**	**58,414**	**249,500**
Depreciation and amortization	**(460,620)**	**(1,045,863)**	**(51,111)**	**(2,330)**	**–**	**(3,125)**	**(1,563,049)**
Pretax income	**993,733**	**1,925,541**	**1,372,801**	**78,817**	**1,674,873**	**(1,784)**	**6,043,981**
Provision for income tax	**188,030**	**27,343**	**352,943**	**36,159**	**–**	**9,873**	**614,348**
Net income	**₱805,703**	**₱1,898,200**	**₱1,019,858**	**₱42,658**	**₱1,674,873**	**(₱11,657)**	**₱5,429,633**
Net income attributable to minority interest	**₱11,601**	**₱733,808**	**₱–**	**(₱4,169)**	**₱–**	**₱5,874**	**₱747,114**
Net income attributable to equity holders	**₱794,102**	**₱1,164,392**	**₱1,019,858**	**₱46,827**	**₱1,674,873**	**(₱17,531)**	**₱4,682,519**
Segment Assets							
Receivables	**₱1,631,613**	**₱865,679**	**₱4,317,353**	**₱491,197**	**₱–**	**₱293,772**	**₱7,599,614**
Inventories	**503,754**	**2,035,423**	**6,979,981**	**1,101,978**	**–**	**38,993**	**10,660,129**
Investment in associates and joint venture	**721,899**	**45,650**	**–**	**–**	**6,018,239**	**–**	**6,785,788**
Property, plant and equipment	**3,262,940**	**2,288,959**	**393,889**	**16,018,170**	**–**	**5,929**	**21,969,887**
Others	**3,581,123**	**1,315,883**	**4,756,271**	**230,266**	**–**	**739,334**	**10,622,877**
	₱9,701,329	**₱6,551,594**	**₱16,447,494**	**₱17,841,611**	**₱6,018,239**	**₱1,078,028**	**₱57,638,295**
Segment Liabilities							
Customers' advances and deposits	**₱2,399,423**	**₱1,207**	**₱1,695,276**	**₱–**	**₱–**	**₱–**	**₱4,095,906**
Loans payable	**972,561**	**1,267,555**	**4,202,965**	**9,571,203**	**–**	**3,218,114**	**19,232,398**
Finance lease payable	**99,000**	**–**	**–**	**–**	**–**	**–**	**99,000**
Others	**3,740,085**	**2,568,594**	**4,109,886**	**408,289**	**–**	**57,375**	**10,884,229**
	₱7,211,069	**₱3,837,356**	**₱10,008,127**	**₱9,979,492**	**₱–**	**₱3,275,489**	**₱34,311,533**
Other disclosures							
Acquisition of raw land	**₱–**	**₱–**	**₱431,501**	**₱–**	**₱–**	**₱–**	**₱431,501**
PPE additions	**1,105,289**	**18,533,661**	**64,660**	**366,410**	**–**	**2,958**	**20,072,978**

Year ended December 31, 2008 (Amounts in Thousands)

	Construction	Mining	Real Estate Development	Power	Water	Parent Company and Others	Total
Revenue	₱6,727,610	₱8,940,812	₱4,736,635	₱–	₱–	₱753,018	₱21,158,075
Other income (expense) - net	315,023	(22,184)	70,054	–	80,707	12,555	456,155
	7,042,633	8,918,628	4,806,689	–	80,707	765,574	21,614,231
Cost of sales and services	5,427,155	6,011,139	2,984,329	–	–	747,712	15,170,335
General and administrative expense (before depreciation and amortization)	563,376	664,921	892,889	27,182	–	17,639	2,166,007
	5,990,531	6,676,060	3,877,218	27,182	–	765,351	17,336,342
EBITDA	1,052,102	2,242,568	929,471	(27,182)	80,707	223	4,277,889
Other income (expenses)							
Interest income (expenses)	(72,924)	(25,407)	82,209	1,773	–	34,834	20,485
Depreciation and amortization	(366,210)	(1,163,061)	(34,871)	–	–	(2,619)	(1,566,761)
Pretax income	612,968	1,054,100	976,809	(25,409)	80,707	32,438	2,731,613
Provision for income tax	218,913	244,249	218,421	355	–	13,212	695,150
Net income	₱394,055	₱809,851	₱758,388	(₱25,764)	₱80,707	₱19,226	₱2,036,463
Net income attributable to minority interest	₱3,109	₱349,681	₱–	(₱5,609)	₱–	₱1,382	₱348,563
Net income attributable to equity holders	₱390,946	₱460,170	₱758,388	(₱20,155)	₱80,707	₱17,844	₱1,687,900
Segment Assets							
Receivables	₱2,214,915	₱2,075,602	₱4,444,775	₱18,996	₱–	₱285,067	₱9,039,355
Inventories	355,240	1,497,239	7,037,913	181	–	40,390	8,930,963
Investment in associates and joint venture	227,377	–	–	–	4,338,766	68,500	4,634,643
Property, plant and equipment	2,817,257	1,144,731	371,152	136,035	–	5,988	4,475,163
Others	2,936,361	1,786,420	3,607,066	63,025	–	181,110	8,573,982
	₱8,551,150	₱6,503,992	₱15,460,906	₱218,237	₱4,338,766	₱581,055	₱35,654,106
Segment Liabilities							
Customers' advances and deposits	₱755,099	₱1,207	₱1,294,059	₱–	₱–	₱–	₱2,050,365
Loans payable	1,348,781	137,065	3,140,747	–	–	63,435	4,690,028
Others	3,660,046	1,795,603	4,531,430	6,004	–	454,565	10,447,648
	₱5,763,926	₱1,933,875	₱8,966,236	₱6,004	₱–	₱518,000	₱17,188,041
Other disclosures							
Acquisition of raw land	₱–	₱–	₱798,724	₱–	₱–	₱–	₱798,724
PPE additions	576,738	1,720,970	189,086	–	–	140,017	2,626,811

Year ended December 31, 2007 (Amounts in Thousands)

	Construction	Mining	Real Estate Development	Power	Water	Parent Company and Others	Total
Revenue	₱4,685,196	₱6,470,846	₱2,455,167	₱–	₱–	₱564,419	₱14,175,628
Other income (expense) - net	33,306	114,389	34,761	(6)	1,239,330	113,733	1,535,513
	4,718,502	6,585,235	2,489,928	(6)	1,239,330	678,152	15,711,141
Cost of sales and services	3,326,062	3,657,309	1,258,498	–	–	473,617	8,715,486
General and administrative expense (before depreciation and amortization)	577,124	322,981	1,245,950	11,506	–	(134,877)	2,022,684
	3,903,186	3,980,290	2,504,448	11,506	–	338,740	10,738,170
EBITDA	815,316	2,604,945	14,520	(11,512)	1,239,330	339,412	4,972,971
Other income (expenses)							
Interest income (expenses)	(16,066)	(102,549)	78,479	(498)	–	(37,113)	(77,747)
Depreciation and amortization	(224,762)	(1,542,544)	(20,362)	–	–	(1,916)	(1,789,584)
Pretax income	574,488	959,852	43,597	(12,010)	1,239,330	300,383	3,105,640
Provision for income tax	249,977	327,489	(17,724)	–	–	(14,690)	545,052
Net income	₱324,511	₱632,363	₱61,321	(₱12,010)	₱1,239,330	₱315,073	₱2,560,588
Net income attributable to minority interest	(₱1,144)	₱283,078	₱–	₱–	₱–	₱4,898	₱286,832
Net income attributable to equity holders	₱325,655	₱349,285	₱61,321	(₱12,010)	₱1,239,330	₱310,175	₱2,273,756
Segment Assets							
Receivables	₱2,032,954	₱1,194,260	₱1,540,298	₱6,339	₱–	₱70,243	₱4,844,094
Inventories	1,521,219	1,546,006	3,268,344	–	–	40,390	6,375,959
Investment in associates and joint venture	84,426	–	–	–	4,336,463	68,150	4,489,039
Property, plant and equipment	669,197	1,935,930	271,927	20,527	–	8,523	2,906,104
Others	1,050,830	1,936,707	2,614,885	9,960	–	4,078,929	9,691,311
	₱5,358,626	₱6,612,903	₱7,695,454	₱36,826	₱4,336,463	₱4,266,235	₱28,306,507
Segment Liabilities							
Customers' advances and deposits	₱608,883	₱8,867	₱1,271,184	₱–	₱–	₱–	₱1,888,934
Loans payable	1,027,971	397,581	805,837	–	–	77	2,231,465
Others	1,645,307	1,572,586	4,530,216	38,835	–	(264,641)	7,522,303
	₱3,282,161	₱1,979,034	₱6,607,237	₱38,835	₱–	₱(264,564)	₱11,642,703
Other disclosures							
Acquisition of raw land	₱–	₱–	₱798,724	₱–	₱–	₱–	₱798,724
PPE additions	576,737	1,720,970	189,086	–	–	140,017	2,626,810

The Group's management reporting and controlling systems use accounting policies that are the same as those described in Note 1 in the summary of significant accounting policies under IFRS.

The Group measures the performance of its operating segments through a measure of segment profit or loss which is referred to as “EBITDA” in the management and reporting system.

EBITDA is the measure of segment profit (loss) used in segment reporting and comprises gross profit, selling and general administrative expenses, research and non-capitalized development costs, other operating income (expense), net, as well as other financial income (expense), net.

Intersegment revenue is generally recorded at values that approximate third-party selling prices.

Segment assets principally comprise all assets. The industrial business segments' assets exclude income tax assets, assets from defined benefit plans and certain financial assets (including liquidity).

Segment liabilities principally comprise all liabilities. The industrial business segments' liabilities exclude income tax liabilities, liabilities from defined benefit plans and certain financial liabilities (including financing liabilities).

Geographic Information

Analysis of sales and revenue by geographical location

The financial information about the operation of the Group as of December 31, 2009, 2008 and 2007 reviewed by the management follows:

Customer Location	**2009**	2008	2007
	(Amounts in Thousands)		
Revenue			
Local	**₱7,252,952**	₱6,648,580	₱5,332,725
Export	**4,247,241**	1,841,465	1,133,976
	₱11,500,193	₱8,490,045	₱6,466,701

Substantially all revenue from external customers are from open cut mining and sales of thermal coal. Local and export classification above is based on the geographic location of the customer. All non-current assets other than financial instruments are located in the Philippines.

Sales to power company amounted to ₱4.30 billion, ₱3.41 billion and ₱2.86 billion for the years ended December 31, 2009, 2008 and 2007, respectively. All these revenue were from Coal mining segment.

34. **Financial Instruments**

Fair Value of Financial Instruments

Financial assets and liabilities are recognized initially at cost which is the fair value of the consideration given (in the case of the asset) or received (in the case of liability). Debt issuance costs are included in the initial measurement of all financial assets and liabilities except those that are designated as fair value through profit and loss. Subsequent to initial recognition, assets and liabilities are either valued at amortized cost using effective interest rate method or at fair value depending on their classification.

The table below presents a comparison by category of carrying amounts and estimated fair values of all the Group's financial instruments as of December 31, 2009 and 2008 (amounts in thousands):

	2009		2008	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Loans and Receivables				
Cash and cash equivalents				
Cash on hand and in banks	**₱1,899,827**	**₱1,899,827**	₱1,377,402	₱1,377,402
Cash equivalents	**1,348,882**	**1,348,882**	1,681,375	1,681,375
Receivables - net				
Trade				
Real estate	**2,726,260**	**4,364,138**	4,323,986	5,535,888
General construction	**2,612,663**	**2,612,663**	1,329,446	1,329,446
Coal mining	**738,573**	**738,573**	1,756,658	1,756,658
Electricity sales	**489,246**	**489,246**	–	–
Receivable from related parties	**941,971**	**941,971**	1,220,010	1,220,010
Advances to officers and employees	**60,280**	**60,280**	73,581	73,581
Other receivables	**30,621**	**30,621**	345,817	345,817
Security deposits	**522,956**	**522,956**	430,068	430,068
	11,371,279	**13,009,157**	12,538,343	13,750,245
AFS investments				
Quoted securities	**34,251**	**34,251**	25,727	25,727
Unquoted securities	**179,923**	**179,923**	177,206	177,206
	214,174	**214,174**	202,933	202,933
	₱11,585,453	**₱13,223,331**	₱12,741,276	₱13,953,178
Other Financial Liabilities				
Accounts and other payables	**₱8,067,057**	**₱8,067,057**	₱5,569,503	₱5,569,503
Liabilities for purchased land	**838,103**	**686,018**	926,732	758,564
Payable to related parties	**694,749**	**694,749**	841,839	841,839
Loans payable and long-term debt - including current portion	**19,331,399**	**20,274,475**	6,829,762	6,865,443
Other noncurrent liabilities	**4,938**	**4,938**	4,750	4,750
	₱28,936,246	**₱29,727,237**	₱14,172,586	₱14,040,099

Fair Value of Financial Instruments
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
The fair values of cash and short-term receivables approximate their carrying amounts as of reporting dates due to the short-term nature of the transactions.

The fair values of real estate receivable are calculated by discounting expected future cash flows at applicable rates for similar instruments using the remaining terms of maturity. The discount rate used in 2009 and 2008 ranged from 15.50% to 16.50% and 10.00% to 13.00%, respectively.

For AFS investment in unquoted equity securities, these are carried and presented at cost since fair value is not reasonably determine due to the unpredictable nature of future cash flows and without any other suitable methods of arriving at a reliable fair value approximate its fair value.

Refundable deposits are carried at cost since these are mostly deposits to a utility company as a consequence of its subscription to the electricity services of the said utility company needed for the Group's residential units.

Financial Liabilities
The fair values of accounts and other payables and accrued expenses and payables to affiliated companies approximate their carrying amounts as of reporting dates due to the short-term nature of the transactions.

Estimated fair value of long-term fixed rate loans is based on the discounted value of future cash flows using the applicable rates for similar types of loans. For floating rate loans, the carrying value approximates the fair value because of recent and regular repricing (quarterly) based on market conditions.

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

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

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

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

As at December 31, 2009, the Group's AFS financial assets amounting to ₱34.25 million are carried at fair value based on Level 1 (Note 5).

Financial Risk Management Objectives and Policies
The Group's principal financial instruments comprise interest-bearing loans and borrowings. The main purpose of these financial instruments is to raise financing for its operations and capital expenditures. The Group has various other financial assets and liabilities, such as receivables and payables which arise directly from its operations.

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

Equity price risk
Equity price risk is the risk that the fair values of equities decrease as a result of changes in the levels of equity indices and the value of individual stocks. The Group manages the equity price risk through diversification and placing limits on individual and total equity instruments.

The effect on equity (as a result of a change in fair value of quoted equity instruments held as AFS investments as of December 31, 2009 due to a reasonably possible change in equity indices, with all other variables held constant, will have an increase on profit before tax ₱11.46 million and increase equity by ₱11.40 million, respectively, if equity indices will increase by 10%. An equal change in the opposite direction would have decreased equity by the same amount.

The effect on equity (as a result of a change in fair value of quoted equity instruments held as AFS investments as of December 31, 2008 due to a reasonably possible change in equity indices, with all other variables held constant, will have an increase on profit before tax ₱6.57 million and increase equity by ₱6.54 million, respectively, if equity indices will increase by 10%. An equal change in the opposite direction would have decreased equity by the same amount.

Foreign exchange risk
Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Approximately 56.46% and 6.39% of debts as of December 31, 2009 and 2008, respectively, were denominated in US$. The Group also has investment in a foreign subsidiary, AG&P Nouvelle Caledonie.

The Group does not have any foreign currency hedging arrangements.

Information on the Group's foreign currency-denominated monetary assets and liabilities and their Philippine peso equivalents as of December 31, 2009 and 2008 follows (amounts in thousands):

	2009				
	U.S. Dollar	**Japanese Yen**	**UK Pounds**	**Pacific Franc**	**Php Equivalent**
Assets					
Cash and cash equivalents	**$11,441**	**¥2,739**	**£179**	**XPF35,874**	**₱583,826**
Trade receivables					
Coal mining	**8,920**	**–**	**–**		**412,099**
General construction	**8,564**	**–**	**–**	**56,506**	**427,283**
	$28,925	**2,739**	**179**	**92,380**	**1,423,208**
Liabilities					
Accounts and other payables	**2,276**	**–**	**–**	**58,216**	**137,769**
Long-term debt (including current portion)	**213,401**	**–**	**–**	**–**	**9,859,115**
	215,677	**–**	**–**	**58,216**	**9,996,884**
Net foreign currency denominated assets	**($186,752)**	**¥2,739**	**£179**	**XPF34,164**	**(₱8,573,676)**

	2008				
	U.S. Dollar	Japanese Yen	UK Pounds	Pacific Franc	Php Equivalent
Assets					
Cash and cash equivalents	$4,910	¥789	£35	XPF1,849	₱237,222
Trade receivables					
Coal mining	155	–	–	–	7,366
General construction	5,147	–	–	30,337	261,574
	$10,212	789	35	32,186	506,162
Liabilities					
Accounts and other payables	4,402	–	–	483,556	479,974
Long-term debt (including current portion)	7,475	–	–	–	355,212
	11,877	–	–	483,556	835,186
Net foreign currency denominated assets	($1,665)	¥789	£35	(XPF451,370)	₱(329,024)

The exchange rates used to restate the Group's foreign currency-denominated assets and liabilities as of December 31, 2009 and 2008 follow:

	2009	2008
US Dollar - Philippine Peso	**₱46.20 to US$1.00**	₱47.52 to US$1.00
Japanese Yen - Philippine Peso	**₱0.51 to ¥1.00**	₱0.52 to ¥1.00
UK Pounds - Philippine Peso	**₱74.19 to £1.00**	₱70.09 to £1.00
Pacific Franc - Philippine Peso	**₱0.56 to XPF1.00**	₱0.56 to XPF1.00

The following table demonstrates the sensitivity to a reasonably possible change in foreign exchange rates, with all variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities) and equity on December 31, 2009 and 2008 (amounts in thousands).

2009

	Basis pts	Effect on profit	Effect on equity
In Peso per U.S. Dollar			
Increase	2	**(₱373,504)**	**(₱261,453)**
Decrease	(2)	**373,504**	**261,453**
In Peso per Japanese Yen			
Increase	2	**5,478**	**3,835**
Decrease	(2)	**(5,478)**	**(3,835)**
In Peso per UK Pounds			
Increase	8	**1,432**	**1,002**
Decrease	(8)	**(1,432)**	**(1,002)**
In Peso per Pacific Franc			
Increase	2	**68,328**	**47,830**
Decrease	(2)	**(68,328)**	**(47,830)**

2008

	Basis pts	Effect on profit	Effect on equity
In Peso per U.S. Dollar			
Increase	2	(₱3,330)	(₱2,331)
Decrease	(2)	3,330	2,331
In Peso per Japanese Yen			
Increase	2	1,578	1,105
Decrease	(2)	(1,578)	(1,105)
In Peso per UK Pounds			
Increase	8	280	196
Decrease	(8)	(280)	(196)
In Peso per Pacific Franc			
Increase	2	(902,740)	(631,918)
Decrease	(2)	902,740	631,918

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

The Group recognized ₱52.57 million and ₱9.70 million foreign exchange gain for the years ended December 31, 2009 and 2008, respectively, arising from the translation of the Group's cash and cash equivalents, trade receivables and long-term debt.

Credit risk
Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Group's exposure to credit risk arises from default of the counterparties which include certain financial institutions, real estate buyers, subcontractors, suppliers and various electric companies. Credit risk management involves dealing only with institutions or individuals for which credit limits have been established, and with subcontractors and suppliers whose paying and performance capabilities are rigorously screened. The Treasury policy sets a credit limit for each counterparty. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

Real estate contracts
The credit risk for real estate receivable is mitigated as the Group has the right to cancel the sales contract without need for any court action and take possession of the subject house in case of refusal by the buyer to pay on time the due installment contracts receivable. This risk is further mitigated because the corresponding title to the subdivision units sold under this arrangement is transferred to the buyers only upon full payment of the contract price.

Electricity sales
The Group earns substantially all of its revenue from the Wholesale Electricity Spot Market (WESM) and from various electric companies. WESM and the various electric companies are committed to pay for the energy generated by the power plant facilities.

Under the current regulatory regime, the generation rate charged by the Group to WESM is not regulated but is determined in accordance with the WESM Price Determination Methodology (PDM) approved by the Energy Regulatory Commission (ERC) and are complete pass-through charges to WESM. Likewise, the generation rate charged by the Group to various electric companies is not subject to regulations and are complete pass-through charges to various electric companies.

Mining
The Group evaluates the financial condition of the local customers before deliveries are made to them. On the other hand, export sales are covered by sight letters of credit issued by foreign banks subject to the Group's approval, hence, mitigating the risk on collection.

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

Construction contracts
The credit risk for contruction receivables is mitigated by the fact that the Group can resort to carry out its contructor's lien over the project with varying degrees of effectiveness depending on the jurisprudence applicable on location of the project. A contructor's lien is the legal right of the Group to takeover the projects-in-progress and have priority in the settlement of contructor's receivables and claims on the projects in progress is usually higher than receivables from and future commitments with the project owners. Trade and retention receivables from project owners are normally high standard because of the creditworthiness of project owners and collection remedy of contructor's lien accorded contructor in certain cases.

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

Given the Group's diverse base of counterparties, it is not exposed to large concentrations of credit risk.

The table below shows the gross maximum exposure to credit risk for the components of the statement of financial position.

	2009	2008
	(Amounts in Thousands)	
Cash and cash equivalents		
Cash on hand and in banks	**₱1,899,827**	₱1,377,402
Cash equivalents	**1,348,882**	1,681,375
Available-for-sale financial assets		
Quoted securities	**34,251**	25,727
Unquoted securities	**179,923**	177,206
Receivables		
Trade		
Real estate	**2,788,393**	4,390,350
General construction	**2,890,654**	1,666,048
Coal mining	**752,142**	1,773,418
Electricity sales	**489,246**	–
Receivable from related parties	**941,971**	1,220,010
Advances to officers and employees	**60,280**	73,581
Other receivables	**115,509**	346,712
Security deposits	**522,956**	430,068
Total credit risk exposure	**₱12,024,034**	₱13,161,897

As of December 31, 2009 and 2008, the credit quality per class of financial assets that were neither past due nor impaired is as follows (amounts in thousands):

2009

	Neither past due nor impaired			**Past due or Individually**	
	Grade A	**Grade B**	**Grade C**	**Impaired**	**Total**
Cash and cash equivalents	**₱3,248,709**	**₱–**	**₱–**	**₱–**	**₱3,248,709**
Available-for-sale financial assets	**214,174**	**–**	**–**	**–**	**214,174**
Trade:					
Real estate	**1,304,587**	**34,337**	**369,480**	**1,079,989**	**2,788,393**
General construction	**1,858,260**	**19,297**	**–**	**1,013,097**	**2,890,654**
Coal mining	**459,685**	**145,754**	**–**	**146,703**	**752,142**
Electricity sales	**489,246**	**–**	**–**	**–**	**489,246**
Receivable from related parties	**941,971**	**–**	**–**	**–**	**941,971**
Advances to officers and employees	**19,609**	**978**	**35,133**	**4,560**	**60,280**
Other receivables	**1,725**	**14,988**	**12,364**	**86,432**	**115,509**
Security deposits	**522,956**	**–**	**–**	**–**	**522,956**
Total	**₱9,060,922**	**₱215,354**	**₱416,977**	**₱2,330,781**	**₱12,024,034**

2008

	Neither past due nor impaired			Past due or Individually	
	Grade A	Grade B	Grade C	Impaired	Total
Cash and cash equivalents	₱3,068,623	₱–	₱–	₱–	₱3,068,623
Available-for-sale financial assets	202,933	–	–	–	202,933
Trade:					
Real estate	2,888,630	506,082	20,158	975,480	4,390,350
General construction	1,309,644	19,802	–	336,602	1,666,048
Coal mining	767,844	72,668	9,071	941,977	1,791,560
Electricity sales	–	–	–	–	–
Receivable from related parties	935,198	–	284,812	–	1,220,010
Advances to officers and employees	73,157	–	–	424	73,581
Other receivables	12,955	126,895	195,824	11,038	346,712
Security deposits	430,068	–	–	–	430,068
Total	₱9,689,052	₱725,447	₱509,865	₱2,265,521	₱13,189,885

For real estate receivables, Grade A are classified as financial assets with high credit worthiness and probability of default is minimal. While receivables under Grade B and C are have favorable and acceptable risk attributes, respectively, with average credit worthiness. Neither past due nor impaired trade receivables other than real estate receivables (including retention receivables) and other receivables are classified into ‘high grade’ and ‘standard grade’. Neither past due nor impaired advances to officers and employees and due from related parties are normally ‘high grade’ in nature. The Group sets financial assets as ‘high grade’ based on the Group’s positive collection experience. On the other hand, ‘standard grade’ are those which have credit history of default in payments. The Group’s AFS financial assets and other noncurrent assets are classified as standard grade financial assets because these assets are susceptible to untoward consequences due to the current financial positions of counterparties.

As of December 31, 2009 and 2008, the aging analysis of the Group’s receivables presented per class follows (amounts in thousands):

2009

	Past due but not impaired					**Impaired**	
	<30 days	**30-60 days**	**60-90 days**	**90-120 days**	**>120 days**	**Assets**	**Total**
Receivables							
Trade							
Real estate	**₱34,903**	**₱31,512**	**₱36,938**	**₱33,922**	**₱880,581**	**₱62,133**	**₱1,079,989**
General construction	**324,970**	**152,274**	**257,862**	–	–	**277,991**	**1,013,097**
Coal mining	**122,776**	–	**10,358**	–	–	**13,569**	**146,703**
Electricity sales	–	–	–	–	–	–	–
Due from related parties	–	–	–	–	–	–	–
Advances to officers and employees	–	–	–	–	**4,560**	–	**4,560**
Other receivables	**1,544**	–	–	–	–	**84,888**	**86,432**
Security deposits	**522,956**	–	–	–	–	–	**522,956**
Total	**₱1,007,149**	**₱183,786**	**₱305,158**	**₱33,922**	**₱885,141**	**₱438,581**	**₱2,853,737**

2008

	Past due but not impaired					Impaired	
	<30 days	30-60 days	60-90 days	90-120 days	>120 days	Assets	Total
Receivables							
Trade							
Real estate	₱362,081	₱155,110	₱99,758	₱292,167	₱–	₱66,364	₱975,480
General construction	–	–	–	–	–	336,602	336,602
Coal mining	880,447	44,770	–	–	–	16,760	941,977
Electricity sales	–	–	–	–	–	–	–
Due from related parties	–	–	–	–	–	–	–
Advances to officers and employees	424.00	–	–	–	–	–	424
Other receivables	–	–	–	–	–	11,038	11,038
Security deposits	430,068	–	–	–	–	–	430,068
Total	₱1,673,020	₱199,880	₱99,758	₱292,167	₱–	₱430,764	₱2,695,589

The repossessed lots and residential houses are transferred back to inventory under the account Real Estate for Sale and Held for Development and are held for sale in the ordinary course of business. The total of these inventories is ₱148.42 million and ₱229.19 million as of December 31, 2009 and 2008, respectively. The Group performs certain repair activities on the said reposed assets in order to put their condition at a marketable state. Costs incurred in bringing the repossessed assets to its marketable state are included in their carrying amounts.

The Group did not accrue any interest income on impaired financial assets.

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Group seeks to manage its liquidity profile to be able to service its maturing debts and to finance capital requirements. The Group maintains a level of cash and cash equivalents deemed sufficient to finance operations. As part of its liquidity risk management, the Group regularly evaluates its projected and actual cash flows. It also continuously assesses conditions in the financial markets for opportunities to pursue fund-raising activities. Fund-raising activities may include bank loans and capital market issues both on-shore and off-shore.

The following table summarizes the maturity profile of the Group's financial liabilities as of December 31, 2009 and 2008, based on contractual undiscounted cash flows. The table also analyses the maturity profile of the Group's financial assets in order to provide a complete view of the Group's contractual commitments (amounts in thousands).

2009

	On Demand	**Within 1 year**	**1-2 years**	**2-3 years**	**3-4 years**	**Total**
Loans and Receivable						
Cash and cash equivalents	**₱3,262,290**	**₱–**	**₱–**	**₱–**	**₱–**	**₱3,262,290**
Receivables						
Trade:						
Real estate	–	**699,858**	**515,327**	**607,598**	**1,513,755**	**3,336,538**
General construction	–	**2,890,654**	–	–	–	**2,890,654**
Coal mining	–	**752,142**	–	–	–	**752,142**
Electricity sales	–	**489,246**	–	–	–	**489,246**
Receivable from related parties	**941,971**	–	–	–	–	**941,971**
Advances to officers and employees	**47,755**	**12,525**	–	–	–	**60,280**
Other receivables	**115,509**	–	–	–	–	**115,509**
Security deposits	**218,387**	**270,751**	**33,818**	–	–	**522,956**
	4,585,912	**5,115,176**	**549,145**	**607,598**	**1,513,755**	**12,371,586**

(Forward)

	On Demand	Within 1 year	1-2 years	2-3 years	3-4 years	Total
AFS financial assets						
Quoted securities	**₱34,251**	**₱–**	**₱–**	**₱–**	**₱–**	**₱34,251**
Unquoted securities	**179,923**	–	–	–	–	**179,923**
	214,174	–	–	–	–	**214,174**
Total undiscounted financial Assets	**₱4,800,086**	**₱5,115,176**	**₱549,145**	**₱607,598**	**₱1,513,755**	**₱12,585,760**
Other Financial Liabilities						
Bank loans	**₱–**	**₱1,207,116**	**₱–**	**₱–**	**₱–**	**₱1,207,116**
Accounts payable and other payables	**8,067,057**	–	–	–	–	**8,067,057**
Liabilities for purchased land	**154,597**	**272,535**	**87,001**	**19,532**	**304,438**	**838,103**
Payable to related parties	**694,749**	–	–	–	–	**694,749**
Long -term Debt						
Term loan facility	–	**800,000**	**800,000**	**800,000**	**570,058**	**2,970,058**
$361,481,091 payable to PSALM, 11% compounded semi-annually	–	**1,681,082**	**1,315,020**	**1,315,020**	**5,260,080**	**9,571,202**
US$15.14 million loan 6 month USD LIBOR plus 1.5% per annum	–	**61,055**	–	–	–	**61,055**
US$6.64 million loan 3 month SIBOR plus 1.95% per annum	–	**72,202**	–	–	–	**72,202**
$4.63 million deferred purchase payment, p.a.over the rate180 days BBA LIBOR on 2 business days prior to 1st day of interest period	–	–	**1,345**	**473,019**	–	**474,364**
Various letters of credits and suppliers debt with various interest rates	–	**52,670**	**450,000**	–	–	**502,670**
Various local bank loans 7.88% to 14.4%	–	**145,019**	**259,881**	–	–	**404,900**
Agreement to purchase - 7.5% to 10%	–	**955,393**	**885,203**	**888,566**	**1,184,755**	**3,913,917**
Finance lease 6.00% to 6.57%	–	**21,077**	**43,202**	**34,721**	–	**99,000**
Acceptances and trust receipts payable	–	**51,450**	**3,465**	–	–	**54,915**
Total undiscounted financial Liabilities	**₱8,916,403**	**₱5,319,599**	**₱3,845,117**	**₱3,530,858**	**₱7,319,331**	**₱28,931,308**
Liquidity gap	**(₱4,116,317)**	**(₱204,423)**	**(₱3,295,972)**	**(₱2,923,260)**	**(₱5,805,576)**	**(₱16,345,548)**

2008

	On Demand	Within 1 year	1-2 years	2-3 years	3-4 years	Total
Loans and Receivable						
Cash and cash equivalents	₱3,068,623	₱–	₱–	₱–	₱–	₱3,068,623
Trade:						
Real estate	2,878,705	420,437	364,706	726,502	–	4,390,350
General construction	953,287	275,181	385,005	531	52,044	1,666,048
Coal mining	1,773,418	–	–	–	–	1,773,418
Electricity sales	–	–	–	–	–	–
Receivable from related parties	983,725	173,201	3,628	6,870	52,586	1,220,010
Advances to officers and employees	10,745	49,825	–	–	–	60,570
Other receivables	288,310	609	20,612	–	37,181	346,712
Security deposits	261,755	73,024	32,694	26,237	36,358	430,068
	10,218,568	992,277	806,645	760,140	178,169	12,955,799
AFS financial assets						
Quoted securities	25,727	–	–	–	–	25,727
Unquoted securities	177,206	–	–	–	–	177,206
	202,933	–	–	–	–	202,933
Total undiscounted financial Assets	₱10,421,501	₱992,277	₱806,645	₱760,140	₱178,169	₱13,158,732
Financial Liabilities						
Financial Liabilities at amortized cost						
Bank loans	–	438,407	–	–	–	438,407
Accounts payable and other payables	5,650,621	–	–	–	–	5,650,621
Liabilities for purchased land	572,955	141,062	45,031	10,110	157,574	926,732
Payable to related parties	69,568	139,137	294,643	331,473	7,018	841,839
	6,293,144	1,554,309	5,820,609	341,583	164,592	14,174,237
Other Financial Liabilities						
Long-term Debt						
Floating Rate						
US$15.14 million loan 6 month USD LIBOR plus 1.5% per annum	₱–	₱143,875	₱62,800	₱–	₱–	₱206,675
US$6.64 million loan 3 month SIBOR plus 1.95% per annum	–	74,265	74,265	–		148,530
Fixed Rate						
Various letters of credits and suppliers debt with various interest rates	–	725	753,740	–	–	754,465
Various local bank loans 7.88% to 14.4%	–	464,701	963,506	507,320	–	1,935,527
Long-term debt (contracts receivables discounting) 7.5% to 10%	–	921,419	928,482	737,364	626,856	3,214,121
Loan under collateral 9% fixed p.a	–	57,320	–	–	–	57,320
Acceptances and trust receipts payable	–	11,281	63,436	–	–	74,717
	–	1,673,586	2,846,229	1,244,684	626,856	6,391,355
Total undiscounted financial liabilities	₱6,293,144	₱3,227,895	₱8,666,838	₱1,586,267	₱791,448	₱20,565,592
Liquidity gap	(₱4,128,357)	(₱2,235,618)	(₱7,860,193)	(₱826,127)	(₱613,279)	(₱7,406,860)

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to market risk for changes in interest rates relates primarily to the Group's long-term debt obligations. The Group's policy is to manage its interest cost using a mix of fixed and variable rate debt.

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

	Change in basis points	Effect on income before income tax	Effect on equity
		(Amounts in Thousands)	
2009			
Dollar floating rate borrowings	**+100**	**(₱101,788)**	**(₱94,154)**
	-100	**101,788**	**94,154**
Peso floating rate borrowings	**+100**	**(29,701)**	**(20,791)**
	-100	**29,701**	**20,791**
2008			
Dollar floating rate borrowings	**+100**	**(3,500)**	**(3,238)**
	-100	**3,500**	**3,238**

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

35. Other Comprehensive Income

The Group does not recognize income tax on the components of other comprehensive income as presented in the following table (amounts in thousands):

	Other Comprehensive Income					
	Net Unrealized Gain (Loss) on Available-for-Sale Financial Assets (Note 5)	Cumulative Translation Adjustment	Revaluation increment in nonfinancial assets	Total	**Attributable to Parent Company**	**Attributable to minority interests**
As of January 1, 2009	**₱–**	**₱3,822**	**₱80,005**	**₱83,827**	**₱82,477**	**₱1,350**
Other comprehensive income:						
Exchange differences on translating foreign operations	–	**(3,797)**	–	**(3,797)**	**(3,735)**	**(62)**
Unrealized loss on AFS financial assets (Note 5)	**(6,649)**	–	–	**(6,649)**	**(6,649)**	–
	(6,649)	**(3,797)**	–	**(10,446)**	**(10,384)**	**(62)**
Balances at December 31, 2009	**(₱6,649)**	**₱25**	**₱80,005**	**₱73,381**	**₱72,093**	**₱1,288**
As of January 1, 2008	**(₱35,880)**	**₱–**	**₱–**	**(₱35,880)**	**(₱35,880)**	**₱–**
Other comprehensive income:						
Transferred to statement of income	**35,880**	–	–	**35,880**	**35,880**	–
Recognized revaluation increment	–	–	**80,005**	**80,005**	**78,717**	**1,288**
Increase in cumulative translation adjustment	–	**3,822**	–	**3,822**	**3,760**	**62**
	35,880	**3,822**	**80,005**	**119,707**	**118,357**	**1,350**
Balances at December 31, 2008	**₱–**	**₱3,822**	**₱80,005**	**₱83,827**	**₱82,477**	**₱1,350**

(Forward)

	Net Unrealized Gain (Loss) on Available-for-Sale Financial Assets (Note 5)	Cumulative Translation Adjustment	Revaluation increment in nonfinancial assets	Total	**Attributable to Parent Company**	**Attributable to minority interests**
As of January 1, 2007	**₱39,873**	**₱–**	**₱–**	**₱39,873**	**₱39,873**	**₱–**
Other comprehensive income:						
Change in fair value of available for sale financial asset	**(35,880)**	**–**	**–**	**(35,880)**	**(35,880)**	**–**
Transferred to statement of income	**(39,873)**	**–**	**–**	**(39,873)**	**(39,873)**	**–**
	(75,753)			**(75,753)**	**(75,753)**	**–**
Balances at December 31, 2007	**(₱35,880)**	**₱–**	**₱–**	**(₱35,880)**	**(₱35,880)**	**₱–**

36. Contingencies and Commitments

Contingencies

The Group 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 consolidated 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.

DMCI has a contingent claim from URPHI representing interest on contract receivables, the recoverability of which is dependent on the successful implementation of URPHI's rehabilitation plan.

Lease Commitments

As Lessee

The Group leases a portion of its office premises that are renewed under the terms and condition agreed with the lessors.

As of December 31, 2009, future minimum lease payments under the aforementioned finance lease and the present value of the net minimum lease payments (in thousands) are as follows:

	Minimum Payments	Present value of payments
Within one year	₱26,912	₱25,993
After one year but not more than five years	72,088	65,230
Total minimum lease payments	99,000	91,223
Less finance charges	7,777	–
	₱91,223	₱91,223

Also as discussed in Notes 18 and 38, the Group entered into a Land Lease Agreement with PSALM for the lease of land with which the plant is situated, for the period of 25 years, renewable for other 25 years with the mutual agreement of both parties. The Group paid US$3.19 million or its peso equivalent ₱150.57 million as payment for the 25 years of rental.

Part of the agreement, the Group has the option to buy an Option Assets. Option assets are parcels of land that form part of the leased premises which the lessor offers for the sale to the lease for which the lessor issues an Option Existence Notice. As of to date, no Option Existence Notice was issued for the parcel of land where the plant is located. The Group was also required to deliver and submit to the lessor a performace security amounting to ₱34.83 million in the form of Stand by Letter of Credits (SBLC). The performance security shall be maintained by the Group in full force and effect continuously without any interruption until the Performance Security expiration date. The Performance Security initially must be effective for the period of one year from the date of issue, to be replaced prior to expiration every year thereafter and shall at all times remain valid.

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

Commitment on Electricity Sales Contracts
The APA included a number of electricity sales contracts to electric cooperative located in close proximity to the plant. These sales agreements are full-requirement supply in nature. There pricing is tied to the NPC cost of electricity tariff which is allowed to be modified for the changes in foreign exchange and fuel cost. This tariff rate commonly referred to us as NPC time of use (TOU) rate. Also included in PSCs is Manila Electric Company (Meralco), largest distribution utility in Manila. This agreement also tied to NPC TOU rate but the monthly volumes are prescribed. In addition, the Group also acquired a bilateral contract with industrial customer. This agreement is tied to a basic rate which is then adjusted for changes in fuel cost, foreign exchange and inflation. In total, the capacity of these sales agreements covers a total of approximately 365MW of non-coincidental peak summer demand.

Capital Commitments
As of December 31, 2010, the Group has capital commitments on acquisition of mining equipment amounted to ₱1.91 million in relation to its income tax holiday registration with BOI.

37. **Note to Consolidated Statements of Cash Flows**

The Group's significant noncash investing and financing activities follow:

	2009	2008
	(Amounts in Thousands)	
Acquisition of business (Note 32)	₱9,571,203	₱60,678
Acquisition of conventional and other mining equipment on account (Notes 12 and 13)	474,364	–
Assignment of APA and LLA (Note 32)	54,343	–

38. Other Matters

a. Electric Power Industry Reform Act (EPIRA)

In June 2001, Congress approved and passed into law the EPIRA, providing the mandate and the framework to introduce competition in the electricity market. EPIRA also provides for the privatization of the assets of NPC, including its generation and transmission assets, as well as its contract with Independent Power Producers (IPPs). EPIRA provides that competition in the retail supply of electricity and open access to the transmission and distribution systems would occur within three years from EPIRA's effective date June 2001. Prior to June 2002, concerned government agencies were to establish a wholesale electricity spot market, ensure the unbundling of transmission and distribution wheeling rates and remove existing cross subsidies provided by industrial and commercial users to residential customers. The Wholesale Electricity Spot Market (WESM) was officially launched on June 23, 2006 and began commercial operations for Luzon. The Energy Regulatory Commission (ERC) has already implemented a cross subsidy removal scheme. The inter-regional grid cross subsidy was fully phased-out in June 2002. ERC has already approved unbundled rates for TRANSCO and majority of the distribution utilities.

Under EPIRA, NPC's generation assets are to be sold through transparent, competitive public bidding, while all transmission assets are to be transferred to the Transmission Company, initially a government-owned entity that is eventually be privatized. The privatization of these NPC assets has been delayed and is considerably behind the schedule set by the Department of Energy (DOE). EPIRA also created PSALM, which is to accept transfers of all assets and assume all outstanding obligations of NPC, including its obligations to IPPs. One of PSALM's responsibilities is to manage these contracts with IPPs after NPC's privatization. PSALM also is responsible for the privatizing at least 70% of the transferred generating assets and IPP contracts no later than three years from the effective date of the law.

The Group believes that it has complied with all the requirements of EPIRA.

In August 2005, the ERC issued a resolution reiterating the statutory mandate under the EPIRA law for the generation and distribution companies, which are not publicly listed, to make an initial public offering (IPO) of at least 15% of their common shares by June 26, 2006. For Companies which operated after the implementation of EPIRA, the IPO shall be implemented not later than five years from the issuance of the Certificate of Compliance (COC) by the ERC. The Company received its COC on October 14, 2005. On May 10, 2006, ERC issued Resolution 21, suspending, under further notice, the implementation of the 15% issuance of common shares. The suspension continues to remain in effect as of December 31, 2009.

b. Clean Air Act

On November 25, 2000, the IRR of the Philippine Clean Air Act (PCAA) took effect. The IRR contains provisions that have an impact on the industry as a whole and on SCPC in particular, that need to be complied with within 44 months (or July 2004) from the effectivity date, subject to approval by the DENR. The power plant of SCPC uses thermal coal and uses a facility to test and monitor gas emissions to conform with Ambient and Source Emissions Standards and other provisions of the Clean Air Act and its Implementing Rules and

Regulations. Based on SCPC's initial assessment of its power plant's existing facilities, SCPC believes that it is in full compliance with the applicable provisions of the IRR of the PCAA as of December 31, 2009. SCPC is currently complying wvaluith the provisions of the Clean Air Act and its IRR.

c. **Contract for the Fly Ash of the Power Plant**

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

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

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

39. **Subsequent Event**

Subsequent to the reporting date, on various dates, Semirara paid PSALM the 60% deferred balance of the Purchased Assets's Purchase Price, net of the unawarded purchase orders and the financial settlement, to wit (in millions, except for exchange rate):

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

As of March 5, 2010, Semirara has fully paid PSALM the Purchase Price of the Purchased Assets.

The funds used by the Semirara to extinguish its Loans Payable to PSALM in relation to the Purchase Price of the Purchased Assets came from its short-term loans with various banks and advances from the Parent Company (see Note 18).

40. **Approval of Consolidated Financial Statements**

The consolidated financial statements of DMCI Holdings, Inc. and Subsidiaries as of December 31, 2009 and 2008 and for each of the three years in the period ended December 31, 2009 were endorsed for approval by the Audit Committee on April 19, 2010 and authorized for issue by the BOD on April 19, 2010.

SGV & Co
Ernst & Young

SyCip Gorres Velayo & Co.
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1226 Makati City
Philippines

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www.sgv.com.ph

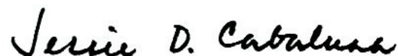
BOA/PRC Reg. No. 0001
SEC Accreditation No. 0012-FR-2

INDEPENDENT AUDITORS' REPORT
ON SUPPLEMENTARY SCHEDULES

The Stockholders and the Board of Directors
DMCI Holdings, Inc.
3rd Floor, Dacon Building
2281 Don Chino Roces Avenue
Makati City

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of DMCI Holdings, Inc. and subsidiaries included in this Form 17-A and have issued our report thereon dated April 19, 2010. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the Index to Financial Statements and Supplementary Schedules are the responsibility of the Company's management. These schedules are presented for purposes of complying with Securities Regulation Code Rule No. 68.1 and SEC Memorandum Circular No. 11, Series of 2008 and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state in all material respect the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.



Jessie D. Cabaluna
Partner
CPA Certificate No. 36317
SEC Accreditation No. 0069-AR-2
Tax Identification No. 102-082-365
PTR No. 2087369, January 4, 2010, Makati City

April 19, 2010

DMCI HOLDINGS, INC.

SUPPLEMENTARY SCHEDULE OF RETAINED EARNINGS

FOR THE YEAR ENDED DECEMBER 31, 2009

Unappropriated Retained Earnings, as adjusted to available for dividend distribution, beginning		₱2,836,543,264
Add: Net income actually earned/realized during the year		
Net income during the year closed to Retained Earnings	653,557,491	
Add: Non-actual losses		
Amortization of discount on payable to landowners	2,399,968	
Net income actually earned during the period		655,957,459
Add (less):		
Dividend declarations during the period		(531,098,800)
Unappropriated Retained Earnings, available for dividend distribution, ending		₱2,961,401,923