

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 balance sheets as at December 31, 2008 and 2007, and the consolidated statements of 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, 2008, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

*** SGVMC111690 ***

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, 2008 and 2007, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2008 in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.

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

April 23, 2009

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
DMCI Holdings, Inc.

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April 23, 2009

DMCI HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31	
	2008	2007
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 4 and 34)	₱3,068,623,137	₱3,539,647,599
Available-for-sale financial assets - net (Notes 5 and 34)	202,933,071	202,673,060
Receivables - net (Notes 6, 22 and 34)	7,358,987,612	2,860,779,922
Costs and estimated earnings in excess of billings on uncompleted contracts (Note 7)	369,922,764	140,681,468
Inventories - net (Note 8)	8,869,737,344	6,375,959,003
Other current assets (Note 9)	1,265,127,100	568,933,917
Total Current Assets	21,135,331,028	13,688,674,969
Noncurrent assets held for sale (Note 20)	–	2,976,608,671
	21,135,331,028	16,665,283,640
Noncurrent Assets		
Noncurrent receivables - net (Notes 6, 22 and 34)	2,440,384,238	1,983,314,250
Investments in associates and jointly controlled entities - net (Note 10)	4,713,046,320	4,489,038,912
Investment properties - net (Note 11)	2,337,534,961	2,057,446,353
Property, plant and equipment - net (Note 12)	4,548,855,362	2,933,158,199
Deferred tax assets (Note 29)	34,899,053	17,146,597
Other noncurrent assets - net (Note 13)	522,458,695	161,118,901
Total Noncurrent Assets	14,597,178,629	11,641,223,212
	₱35,732,509,657	₱28,306,506,852
LIABILITIES AND EQUITY		
Current Liabilities		
Bank loans (Notes 14 and 34)	₱1,274,109,721	₱40,310,953
Current portion of liabilities for purchased land (Notes 15 and 34)	572,955,359	169,088,537
Accounts and other payables (Notes 16 and 34)	6,484,123,139	2,766,998,825
Current portion of long-term debt (Notes 18 and 34)	791,844,366	1,843,238,927
Billings in excess of costs and estimated earnings on uncompleted contracts (Note 7)	197,037,834	30,887,799
Customers' advances and deposits (Note 17)	1,295,265,665	1,271,183,687
Income tax payable (Note 29)	102,216,157	58,968,314
Total Current Liabilities	10,717,552,241	6,180,677,042
Liabilities directly associated with noncurrent assets held for sale (Note 20)	–	2,327,975,504
	10,717,552,241	8,508,652,546

(Forward)

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	December 31	
	2008	2007
Noncurrent Liabilities		
Long-term debt - net of current portion (Notes 18 and 34)	₱4,763,807,557	₱2,022,066,905
Liabilities for purchased land - net of current portion (Note 15)	353,776,981	433,851,564
Payable to related parties (Notes 22 and 34)	841,838,563	450,685,775
Deferred tax liability (Note 29)	462,267,897	83,079,808
Pension liabilities (Note 23)	109,245,994	127,411,427
Other noncurrent liabilities (Notes 19 and 34)	17,954,316	16,955,199
Total Noncurrent Liabilities	6,548,891,308	3,134,050,678
Total Liabilities	17,266,443,549	11,642,703,224
Equity		
Equity attributable to equity holders of the DMCI Holdings, Inc.		
Paid-up capital	7,421,414,451	7,421,640,006
Retained earnings	8,995,322,935	7,135,134,695
Revaluation increment	78,717,078	-
Cumulative translation adjustment	3,760,259	-
Net unrealized loss on available-for-sale financial assets (Note 5)	-	(35,880,000)
	16,499,214,723	14,520,894,701
Minority interests		
Minority interests - net of interest attributable to noncurrent assets held for sale	1,966,851,385	2,121,837,524
Minority interests attributable to noncurrent assets held for sale	-	21,071,403
Total Equity	18,466,066,108	16,663,803,628
	₱35,732,509,657	₱28,306,506,852

See accompanying Notes to Consolidated Financial Statements.

DMCI HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the year ended December 31, 2008										
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)	Net Unrealized Gain (Loss) on Available-for- Sale Investments (Note 5)	Revaluation Increment	Cumulative Translation Adjustment		ATTRIBUTABLE TO MINORITY INTEREST Total	TOTAL EQUITY
As of January 1, 2008	P2,655,498,480	P4,766,141,526	P7,421,640,006	P7,701,472,463	(P35,880,000)	P-	P-	P15,087,232,469	P2,142,908,927	P16,663,803,628
Impact of IFRIC 12	-	-	-	(566,337,768)	-	-	-	(566,337,768)	-	-
As of January 1, 2008, as restated	-	-	-	7,135,134,695	-	-	-	14,520,894,701	2,142,908,927	16,663,803,628
Net income for the year	-	-	-	1,687,900,428	-	-	-	1,687,900,428	348,563,766	2,036,464,194
Transferred from revaluation increment	-	-	-	321,832,044	-	-	-	321,832,044	5,266,283	327,098,327
Transferred from APIC	-	-	-	115,985,397	-	-	-	115,985,397	1,897,921	117,883,318
Transferred to profit or loss	-	-	-	-	35,880,000	-	-	35,880,000	-	35,880,000
Revaluation increment	-	-	-	-	-	78,717,078	-	78,717,078	-	78,717,078
Cumulative translation adjustment	-	-	-	-	-	-	3,760,259	3,760,259	-	3,760,259
Redemption of preferred shares	(100)	(225,455)	(255,555)	-	-	-	-	(225,555)	-	(225,555)
Dividends	-	-	-	(265,529,629)	-	-	-	(265,529,629)	(483,420,788)	(748,950,417)
Decrease in minority interest	-	-	-	-	-	-	-	-	(48,364,724)	(48,364,724)
Balances at December 31, 2008	P2,655,498,380	P4,765,916,071	P7,421,414,451	P8,995,322,935	P-	P78,717,078	P3,760,259	P16,499,214,723	P1,966,851,385	P18,466,066,108

For the year ended December 31, 2007										
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)	Net Unrealized Gain (Loss) on Available-for- Sale Investments (Note 5)	Preferred Shares Held in Treasury (Note 21)		ATTRIBUTABLE TO MINORITY INTEREST Total	TOTAL EQUITY	
As of January 1, 2007	P2,255,499,480	P2,403,783,826	P4,659,283,306	P5,103,727,748	P39,872,880	(P1,100,000)	P9,801,783,934	P1,858,406,442	P11,660,190,376	
Cancellation/retirement of issued preferred shares (Note 22)	(1,000)	(1,099,000)	(1,100,000)	-	-	1,100,000	-	-	-	
Issuance of additional common shares)	400,000,000	2,363,456,700	2,763,456,700	-	-	-	2,763,456,700	-	2,763,456,700	
Net income for the year	-	-	-	2,273,756,347	-	-	2,273,756,347	286,832,064	2,560,588,411	
Change in fair value of assets	-	-	-	-	(35,880,000)	-	(35,880,000)	-	(35,880,000)	
Transferred to profit and loss	-	-	-	-	(39,872,880)	-	(39,872,880)	-	(39,872,880)	
Dividends	-	-	-	(242,349,400)	-	-	(242,349,400)	(138,859,093)	(381,208,493)	
Increase in minority interests	-	-	-	-	-	-	-	136,529,514	136,529,514	
Balances at December 31, 2007	P2,655,498,480	P4,766,141,526	P7,421,640,006	P7,135,134,695	(P35,880,000)	P-	P14,520,894,701	P2,142,908,927	P16,663,803,628	

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For the year ended December 31, 2007									
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)	Net Unrealized Gain on Available-for- Sale Investments (Note 5)	Preferred Shares Held in Treasury (Note 21)	Total	ATTRIBUTABLE TO MINORITY INTEREST	TOTAL EQUITY
As of January 1, 2006	P2,255,638,480	P2,593,474,326	P4,849,112,806	P4,193,977,659	P2,402,067	(P187,210,650)	P8,858,281,882	P1,621,315,883	P10,479,597,765
Cancellation/retirement of issued preferred shares (Note 22)	(139,000)	(189,690,500)	(189,829,500)	-	-	189,829,500	-	-	-
Redemption of preferred shares (Note 22)	-	-	-	-	-	(3,718,850)	(3,718,850)	-	(3,718,850)
Net income for the year	-	-	-	1,135,299,489	-	-	1,135,299,489	247,271,762	1,382,571,251
Change in fair value of assets (Note 7)	-	-	-	-	37,470,813	-	37,470,813	-	37,470,813
Dividends	-	-	-	(225,549,400)	-	-	(225,549,400)	-	(225,549,400)
Decrease in minority interests	-	-	-	-	-	-	-	(10,181,203)	(10,181,203)
Balances at December 31, 2006	P2,255,499,480	P2,403,783,826	P4,659,283,306	P5,103,727,748	P39,872,880	(P1,100,000)	P9,801,783,934	P1,858,406,442	P11,660,190,376

See accompanying Notes to Consolidated Financial Statements.

DMCI HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31		
	2008	2007	2006
REVENUE			
Coal sales	₱8,490,045,381	₱6,466,700,620	₱4,687,694,870
Real estate sales	4,736,635,397	2,455,167,228	1,905,080,720
Construction contracts	6,727,609,838	4,685,196,331	2,932,982,072
Merchandise sales and others	1,203,785,994	568,564,114	362,079,443
	21,158,076,610	14,175,628,293	9,887,837,105
COSTS OF SALES AND SERVICES (Note 24)			
Coal sales	6,943,585,844	5,193,989,609	3,713,161,109
Real estate sales	2,984,328,644	1,258,497,532	1,130,883,288
Construction contracts	6,024,191,346	3,462,058,449	2,199,461,403
Merchandise sales and others	553,734,466	441,883,273	335,404,802
	16,505,840,300	10,356,428,863	7,378,910,602
GROSS PROFIT	4,652,236,310	3,819,199,430	2,508,926,503
OPERATING EXPENSES (Note 25)	2,397,261,102	1,871,325,453	1,337,805,962
	2,254,975,208	1,947,873,977	1,171,120,541
OTHER INCOME (LOSSES)			
Equity in net earnings of associates, jointly controlled entities and others (Note 10)	84,072,533	1,259,900,180	(27,608,828)
Finance income (Note 26)	572,552,020	371,535,619	358,314,865
Gain on sale of investments	44,999,214	178,975,915	356,049,626
Finance costs (Note 27)	(552,067,273)	(515,366,848)	(428,701,300)
Other income (charges) - net (Note 28)	327,082,863	(137,278,679)	416,125,403
INCOME BEFORE INCOME TAX	2,731,614,565	3,105,640,164	1,845,300,307
PROVISION FOR INCOME TAX (Note 29)	695,150,371	545,051,753	482,729,056
NET INCOME (Note 33)	₱2,036,464,194	₱2,560,588,411	₱1,382,571,251
NET INCOME ATTRIBUTABLE TO			
Equity holders of DMCI Holdings, Inc.	₱1,687,900,427	₱2,273,756,347	₱1,135,299,489
Minority interests	348,563,767	286,832,064	247,271,762
	₱2,036,464,194	₱2,560,588,411	₱1,382,571,251
Basic/Diluted Earnings Per Share (Note 30)	₱0.64	₱0.94	₱0.50

See accompanying Notes to Consolidated Financial Statements.

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DMCI HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2008	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	₱2,731,614,564	₱3,603,826,174	₱1,845,199,054
Adjustments for:			
Depreciation, depletion and amortization (Notes 11, 12 and 25)	1,532,811,564	1,679,972,724	1,419,254,315
Finance costs (Note 27)	552,067,273	444,742,891	351,688,635
Write-off of other noncurrent assets	-	300,000,000	-
Provisions for:			
Inventory obsolescence (Note 8)	-	-	39,787,613
Doubtful accounts (Note 25)	54,123,351	4,434,241	105,840,759
Probable losses on investments	-	(39,872,880)	103,388,649
Equity in net losses (earnings) of associates and jointly controlled entities (Note 10)	(84,072,533)	(1,826,237,948)	(27,839,119)
Gain on disposals of:			
Property and equipment	-	-	(379,301,077)
Investments	(44,999,214)	-	-
Interest income (Note 27)	(572,552,020)	(366,996,843)	(357,997,191)
Pension expense (Note 23)	52,953,859	166,018,128	31,126,773
Operating income before changes in working capital	4,221,946,844	3,961,949,121	3,045,535,454
Decrease (increase) in:			
Receivables	(4,306,367,898)	493,966,461	(433,729,309)
Inventories	(2,519,937,351)	(148,585,962)	(1,895,490,549)
Costs and estimated earnings in excess of billings	(229,241,296)	(123,665,274)	7,962,640
Other current assets	(663,670,785)	(189,877,080)	(235,879,358)
Increase (decrease) in:			
Accounts and other payables	2,963,236,481	868,041,135	(123,202,098)
Customer's advances and deposits	24,081,978	538,239,570	659,075,659
Billings in excess of costs and estimated earnings on uncompleted contracts	150,851,858	10,322,060	1,678,010
Contribution to pension liability	(60,795,994)	(85,777,878)	-
Cash generated from operations	(419,896,163)	4,024,612,153	1,025,950,449
Interest received	572,552,020	366,996,843	421,148,736
Interest paid	(552,067,273)	(444,742,891)	(321,433,930)
Income taxes paid	(578,272,372)	(439,790,243)	(812,154,035)
Net cash provided by operating activities	(977,683,788)	3,507,075,862	313,511,220

(Forward)

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	Years Ended December 31		
	2008	2007	2006
CASH FLOWS FROM INVESTING			
ACTIVITIES			
Decrease (increase) in:			
Investments in associates, jointly controlled entities and others	(P75,189,378)	P13,531,843	(P2,734,369,225)
Noncurrent receivables	(457,069,988)	(1,295,673,555)	324,907,718
Investment properties	(18,326,547)	218,128,932	674,115,305
Other noncurrent assets	(361,339,794)	(56,103,874)	13,080,898
Proceeds from disposals of:			
Available-for-sale financial assets (Note 5)	46,635,389	21,038,450	510,088,533
Property and equipment	1,587,281,205	-	23,425,061
Additions to:			
Available-for-sale financial assets (Note 5)	-	-	(17,602,963)
Property, plant and equipment (Note 12)	(2,626,810,396)	(1,232,883,828)	(818,017,618)
Dividends received	-	3,937,366	-
Net cash used in investing activities	(1,904,819,509)	(2,328,024,666)	(2,024,372,291)
CASH FLOWS FROM FINANCING			
ACTIVITIES			
Availments of long-term debt	3,817,805,248	1,248,442,770	2,919,140,201
Payments of long-term debt	(2,127,459,157)	(2,012,503,054)	(1,965,530,632)
Payments of bank loans	-	(763,357,235)	(132,039,359)
Redemption of preferred shares	(225,555)	-	(2,618,850)
Dividends paid	(265,529,629)	(381,208,493)	(243,007,220)
Proceeds from:			
Bank loans	229,500,658	749,857,219	71,191,728
Additional subscriptions to capital stock	-	2,763,456,700	-
Increase (decrease) in:			
Payable to related parties	756,388,152	(497,069,277)	294,453,909
Other noncurrent liabilities	999,118	1,066,588	71,471,488
Net cash provided by financing activities	2,411,478,835	1,108,685,218	1,013,061,265
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(471,024,462)	2,287,736,414	(697,799,806)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	3,539,647,599	1,251,911,185	1,949,710,991
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	P3,068,623,137	P3,539,647,599	P1,251,911,185

See accompanying Notes to Consolidated Financial Statements.

DMCI HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

DMCI Holdings, Inc. (the Parent Company) is incorporated in the Philippines. The Parent Company's registered office address is 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, coal mining, power generation, infrastructure and real estate development and manufacturing.

The consolidated financial statements of DMCI Holdings, Inc. and Subsidiaries as of December 31, 2008 and 2007 and for each of the three years in the period ended December 31, 2008 were endorsed for approval by the Audit Committee on April 20, 2009 and authorized for issue by the Board of Directors (BOD) on April 23, 2009 .

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 (₱).

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, 2008 and 2007 and for each of the three years in the period ended December 31, 2008. 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.

All intra-company balances and transactions, including income, expenses and dividends, are eliminated in full. Profits and losses resulting from intra-company 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 the consolidated statement of income and consolidated statement of changes in equity and within equity in the consolidated balance sheet, separately from equity holders' of the Parent Company.

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

	Effective Percentages of Ownership	
	2008	2007
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	46.00
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
Coal Mining:		
Semirara Mining Corporation (Semirara)	56.46	56.46
DMCI Mining Corporation (DMC)	78.23	100.00
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
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.) *	78.23	100.00
DMCI Masbate Power Corporation (DMCI Masbate)	100.00	100.00

* 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

PDI

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

DPC and DMC

On February 28, 2008, the BOD 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.

The BOD 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 stock of DPC and DMC. In relation to the increase in the capital stocks of DPC and DMC, the BOD of the Parent Company, in its meeting on February 28, 2008, approved subscriptions to an additional 105 million shares and 80 million shares at par value of ₱1.00 per share in DPC and DMC, respectively.

Semirara subscribed to the increase in the authorized capital stocks of DPC and DMC and infused a total of ₱125 million and ₱100 million in DPC and DMC, respectively. Such investments resulted in a 50:50 equity sharing of the Parent Company with Semirara.

Changes in Accounting Policies

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those of the previous financial year except for the adoption of the following Philippine Interpretations of International Financial Reporting Interpretations Committee (IFRIC) which became effective on January 1, 2008, and amendments to existing standards that became effective on July 1, 2008.

- Philippine Interpretation IFRIC 11, *PFRS 2 - Group and Treasury Share Transactions*
- Philippine Interpretation IFRIC 12, *Service Concession Arrangement*
- Philippine Interpretation IFRIC 14, *PAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*
- Amendments to Philippine Accounting Standards (PAS) 39, *Financial Instruments: Recognition and Measurement*, and PFRS 7, *Financial Instruments: Disclosures - Reclassification of Financial Assets*

Adoption of these changes in PFRS did not have any significant effect to the Group, except for Philippine Interpretation IFRIC 12 which covers contractual arrangements arising from public-to-private service concession arrangements if control of the assets remains in public hands but the private sector operator is responsible for construction activities as well as for operating and maintaining the public sector infrastructure.

The adoption of IFRIC 12 resulted in the restatement of the January 1, 2008 retained earnings amounting to ₱278.26 million in the consolidated financial statements.

Future Changes in Accounting Policies

The Group will adopt the following standards and interpretations enumerated below when these become effective. Except as otherwise indicated, the Group does not expect the adoption of these new and amended PFRS and Philippine Interpretations to have significant impact on the consolidated financial statements.

Effective in 2009

- PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*
The amended PFRS 1 allows an entity, in its separate financial statements, to determine the cost of investments in subsidiaries, jointly controlled entities or associates (in its opening PFRS financial statements) as one of the following amounts: a) cost determined in accordance with PAS 27, *Consolidated and Separate Financial Statements*; b) at the fair value of the investment at the date of transition to PFRS, determined in accordance with PAS 39; or

c) previous carrying amount (as determined under generally accepted accounting principles) of the investment at the date of transition to PFRS.

- *Amendment to PFRS 2, Share-based Payment - Vesting Condition and Cancellations*
The Standard has been revised to clarify the definition of a vesting condition and prescribes the treatment for an award that is effectively cancelled. It defines a vesting condition as a condition that includes an explicit or implicit requirement to provide services. It further requires nonvesting conditions to be treated in a similar fashion to market conditions. Failure to satisfy a nonvesting condition that is within the control of either the entity or the counterparty is accounted for as a cancellation. However, failure to satisfy a nonvesting condition that is beyond the control of either party does not give rise to a cancellation.
- *PFRS 8, Operating Segments*
PFRS 8 will replace PAS 14, *Segment Reporting*, and adopts a full management approach to identifying, measuring and disclosing the results of an entity's operating segments. The information reported would be that which management uses internally for evaluating the performance of operating segments and allocating resources to those segments. Such information may be different from that reported in the consolidated balance sheet and consolidated statement of income and the Group will provide explanations and reconciliations of the differences. This Standard is only applicable to an entity that has debt or equity instruments that are traded in a public market or that files (or is in the process of filing) its consolidated financial statements with a securities commission or similar party. The Group is in the process of assessing the impact of the Standard on its current manner of reporting segment information.
- *Amendment to PAS 1, Presentation of Financial Statements*
It introduces a new statement of comprehensive income that combines all items of income and expenses recognized in the profit or loss together with 'other 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 Amendment also requires additional requirements in the presentation of the balance sheet and equity as well as additional disclosures to be included in the consolidated financial statements. Adoption of this Amendment will not have significant impact on the Group except for the presentation of a statement of comprehensive income.
- *PAS 23 (Revised), Borrowing Costs*
The Standard has been revised to require capitalization of borrowing costs when such costs relate to a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. In accordance with the transitional requirements in the Standard, the Group will adopt this as a prospective change. Accordingly, borrowing costs will be capitalized on qualifying assets with a commencement date after January 1, 2009. No changes will be made for borrowing costs incurred to this date that have been expensed.

- *Amendments to PAS 27, Consolidated and Separate Financial Statements - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*
These Amendments introduce changes in respect of the holding companies' separate financial statements, including (a) the deletion of 'cost method', making the distinction between pre- and post-acquisition profits no longer required; and (b) in cases of reorganizations where a new parent is inserted above an existing parent of the group (subject to meeting specific requirements), the cost of the subsidiary is the previous carrying amount of its share of equity items in the subsidiary rather than its fair value. All dividends will be recognized in the statement of income. However, the payment of such dividends requires the entity to consider whether there is an indicator of impairment.
- *Amendment to PAS 32, Financial Instruments: Presentation and PAS 1, Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation*
These Amendments specify, among others, that puttable financial instruments will be classified as equity if they have all of the following specified features: (a) the instrument entitles the holder to require the entity to repurchase or redeem the instrument (either on an ongoing basis or on liquidation) for a pro rata share of the entity's net assets; (b) the instrument is in the most subordinate class of instruments, with no priority over other claims to the assets of the entity on liquidation; (c) all instruments in the subordinate class have identical features; (d) the instrument does not include any contractual obligation to pay cash or financial assets other than the holder's right to a pro rata share of the entity's net assets; and (e) the total expected cash flows attributable to the instrument over its life are based substantially on the profit or loss, a change in recognized net assets, or a change in the fair value of the recognized and unrecognized net assets of the entity over the life of the instrument.
- *Philippine Interpretation IFRIC 13, Customer Loyalty Programmes*
This Interpretation requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore part of the fair value of the consideration received is allocated to the award credits and realized in income over the period that the award credits are redeemed or expire.
- *Philippine Interpretation IFRIC 16, Hedges of a Net Investment in a Foreign Operation*
This interpretation provides guidance on identifying foreign currency risks that qualify for hedge accounting in the hedge of net investment; where within the group the hedging instrument can be held in the hedge of a net investment; and how an entity should determine the amount of foreign currency gains or losses, relating to both the net investment and the hedging instrument, to be recycled on disposal of the net investment.

Improvements to PFRS

In May 2008, the International Accounting Standards Board issued its first omnibus of amendments to certain standards, primarily with a view to removing inconsistencies and clarifying wordings. These are the separate transitional provisions for each standard, which became effective January 1, 2009:

- *PFRS 5, Noncurrent Assets Held for Sale and Discontinued Operations*
When a subsidiary is held for sale, all of its assets and liabilities will be classified as held for sale under PFRS 5, even when the entity retains a noncontrolling interest in the subsidiary after the sale.

- *PAS 1, Presentation of Financial Statements*
Assets and liabilities classified as held for trading are not automatically classified as current in the consolidated balance sheet.
- *PAS 16, Property, Plant and Equipment*
This Amendment replaces the term ‘net selling price’ with ‘fair value less costs to sell’, to be consistent with PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations* and PAS 36, *Impairment of Assets*. Items of property, plant and equipment held for rental that are routinely sold in the ordinary course of business after rental, are transferred to inventory when rental ceases and they are held for sale. Proceeds of such sales are subsequently shown as revenue. Cash payments on initial recognition of such items, the cash receipts from rents, and subsequent sales are all shown as cash flows from operating activities.
- *PAS 19, Employee Benefits*
This revises the definition of ‘past service cost’ to include reduction in benefits related to past services (‘negative past service cost’) and to exclude reduction in benefits related to future services that arise from plan amendments. Amendments to plans that result in a reduction in benefits related to future services are accounted for as a curtailment.

It revises the definition of ‘return on plan assets’ to exclude plan administration costs if they have already been included in the actuarial assumptions used to measure the defined benefit obligation.

It also revises the definition of ‘short-term’ and ‘other long-term’ employee benefits to focus on the point in time at which the liability is due to be settled and it deletes the reference to the recognition of contingent liabilities to ensure consistency with PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*.

- *PAS 23, Borrowing Costs*
This revises the definition of borrowing costs to consolidate the types of items that are considered components of ‘borrowing costs’, i.e., components of the interest expense calculated using the effective interest rate method.
- *PAS 20, Accounting for Government Grants and Disclosures of Government Assistance*
Loans granted with no or low interest rates will not be exempt from the requirement to impute interest. The difference between the amount received and the discounted amount is accounted for as a government grant.
- *PAS 28, Investments in Associates*
If an associate is accounted for at fair value in accordance with PAS 39, only the requirement of PAS 28 to disclose the nature and extent of any significant restrictions on the ability of the associate to transfer funds to the entity in the form of cash or repayment of loans applies.

An investment in an associate is a single asset for the purpose of conducting the impairment test. Therefore, any impairment test is not separately allocated to the goodwill included in the investment balance.

- PAS 29, *Financial Reporting in Hyperinflationary Economies*
The reference to the exception that assets and liabilities should be measured at historical cost, such that it notes property, plant and equipment as being an example, rather than implying that it is a definitive list is revised.
- PAS 31, *Interests in Joint Ventures*
If a joint venture is accounted for at fair value, in accordance with PAS 39, only the requirements of PAS 31 to disclose the commitments of the venturer and the joint venture, as well as summary financial information about the assets, liabilities, income and expense will apply.
- PAS 36, *Impairment of Assets*
When discounted cash flows are used to estimate 'fair value less costs to sell', additional disclosure is required about the discount rate, consistent with disclosures required when the discounted cash flows are used to estimate 'value in use'.
- PAS 38, *Intangible Assets*
Expenditure on advertising and promotional activities is recognized as an expense when the Company either has the right to access the goods or has received the services. Advertising and promotional activities now specifically include mail order catalogues.

It deletes references to there being rarely, if ever, persuasive evidence to support an amortization method for intangible assets with finite lives that results in a lower amount of accumulated amortization than under the straight-line method, thereby effectively allowing the use of the unit-of-production method.

- PAS 39, *Financial Instruments: Recognition and Measurement*
Changes in circumstances relating to derivatives, specifically derivatives designated or de-designated as hedging instruments after initial recognition, are not reclassifications.

When financial assets are reclassified as a result of an insurance company changing its accounting policy in accordance with paragraph 45 of PFRS 4, *Insurance Contracts*, this is a change in circumstance, not a reclassification.

It removes the reference to a 'segment' when determining whether an instrument qualifies as a hedge.

It requires use of the revised effective interest rate (rather than the original effective interest rate) when re-measuring a debt instrument on the cessation of fair value hedge accounting.

- PAS 40, *Investment Properties*
It revises the scope (and the scope of PAS 16) to include property that is being constructed or developed for future use as an investment property.

Where an entity is unable to determine the fair value of an investment property under construction, but expects to be able to determine its fair value on completion, the investment under construction will be measured at cost until such time as fair value can be determined or construction is complete.

- *PAS 41, Agriculture*
This improvement removes the reference to the use of a pre-tax discount rate to determine fair value, thereby allowing use of either a pre-tax or post-tax discount rate depending on the valuation methodology used. It also removes the prohibition to take into account cash flows resulting from any additional transformations when estimating fair value. Instead, cash flows that are expected to be generated in the 'most relevant market' are taken into account.

Effective in 2010

- *Revised PFRS 3, Business Combinations and PAS 27, Consolidated and Separate Financial Statements*
Revised PFRS 3 introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs, and future reported results. Revised PAS 27 requires, among others, that: (a) change in ownership interests of a subsidiary (that do not result in loss of control) will be accounted for as an equity transaction and will have no impact on goodwill nor will it give rise to a gain or loss; (b) losses incurred by the subsidiary will be allocated between the controlling and noncontrolling interests (previously referred to as 'minority interests'); even if the losses exceed the noncontrolling equity investment in the subsidiary; and (c) on loss of control of a subsidiary, any retained interest will be remeasured to fair value and this will impact the gain or loss recognized on disposal. The changes introduced by revised PFRS 3 and PAS 27 must be applied prospectively and will affect future acquisitions and transactions with noncontrolling interests.
- *Amendment to PAS 39, Financial Instruments: Recognition and Measurement - Eligible Hedged Items*
Amendment to PAS 39 will be effective on July 1, 2009, which addresses only the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. The Amendment clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item.
- *Philippine Interpretation IFRIC 17, Distribution of Non-cash Assets to Owners*
This Interpretation covers accounting for two types of non-reciprocal distributions of assets by an entity to its owners acting in their capacity as owners. The two types of distribution are:
 - a) distributions of non-cash assets (e.g., items of property, plant and equipment, businesses as defined in PFRS 3, ownership interests in another entity or disposal groups as defined in PFRS 5); and
 - b) distributions that give owners a choice of receiving either non-cash assets or a cash alternative.

This Interpretation addresses only the accounting by an entity that makes a non-cash asset distribution. It does not address the accounting by shareholders who receive such a distribution.

- *Philippine Interpretation IFRIC 18, Transfers of Assets from Customers*
This Interpretation covers accounting for transfers of items of property, plant and equipment by entities that receive such transfers from their customers. Agreements within the scope of this Interpretation are agreements in which an entity receives from a customer an item of property, plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services, or to do both. This Interpretation also applies to agreements in which an entity receives cash from a customer when that amount of cash must be used only to construct or acquire an item of property, plant and equipment and the entity must then use the item of property, plant and equipment either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services, or to do both.

Effective in 2012

- *Philippine Interpretation IFRIC 15, Agreements for the Construction of Real Estate*
This Interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. This 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 rewards of ownership are transferred to the buyer on a continuous basis, will also be accounted for based on the stage of completion. This Interpretation will not have a significant impact on the consolidated financial statements since the Group's already accounts for its revenue and associated expenses using the completed contract method.

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

Initial recognition of financial instruments

All financial assets are initially recognized at fair value. Except for 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.

As of December 31, 2008 and 2007, the Group's financial instruments are classified as AFS financial assets, loans and receivables and other financial liabilities.

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

Determination of fair value

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

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

Day 1 profit

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 profit) in the consolidated statement of income unless it qualifies for recognition as some other type of asset. In cases where the valuation technique used is made of data which is not observable, the difference between the transaction price and model value is only recognized in the 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' profit amount.

Loans and receivables

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

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

AFS financial assets

AFS financial assets are those non-derivative financial assets that are designated as AFS FA or are not classified in any of the three preceding categories. After initial measurement, AFS FA are measured at fair value with unrealized gains or losses being recognized directly in equity under net unrealized gain on AFS financial assets. account 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).

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 balance sheet 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 balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. 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 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 profit or loss, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

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

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 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. Interest continues to be accrued at the original effective interest rate on the reduced carrying amount of the asset and is recorded as part of “Interest income” 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 assets and financial liabilities are only offset and the net amount reported in the consolidated balance sheet 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 has 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 expires.

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

Inventories

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

Real estate held for sale and development consists of residential units for sale and development, subdivision land for sale and development, and undeveloped land carried at the lower of aggregate cost or NRV. 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. NRV is the selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale such as commissions.

Noncurrent Assets Held for Sale

The Group classifies assets as held for sale (disposal group) when their carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the asset must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets and its sale must be highly probable.

For the sale to be highly probable, the appropriate level of management must be committed to a plan to sell the asset and an active programme to locate a buyer and complete the plan must have been initiated. Further, the asset must be actively marketed for sale at a price that is reasonable in relation to its current fair value. In addition, the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification.

The related results of operations and cash flows of the disposal group that qualified as discontinued operation are separated from the results of those that would be recovered principally through continuing use, and prior years' consolidated statement of income and cash flows are re-presented. Results of operations and cashflows of the disposal group that qualified as discontinued operation are presented in the consolidated statements of income and cashflows as items associated with noncurrent assets held for sale.

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 balance sheet 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 consolidated statement of income reflects the share of the results of the operations of the investee companies. 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.

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.

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.

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

	Years
Buildings and building improvements	5-25
Condominium units	5

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

Depreciation and amortization of property, plant and equipment are calculated on the straight-line basis over the following estimated useful lives (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 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 is determined based on 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 balance sheet.

Mine Exploration and Development Costs

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

Mine development costs are derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the assets. Any gain or loss arising on 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.

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 balance sheet. 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 useful life. Periods and method of amortization for intangible assets with finite useful lives are reviewed annually or earlier where an indicator of impairment exists.

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 estimated useful lives ranging from 3 to 5 years. Costs directly associated with the development of identifiable computer software that generate expected future benefits to the 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.

Impairment of Nonfinancial Assets

This accounting policy applies primarily to the Group's property, plant and equipment 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, 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 December 31 either individually or at the cash generating unit level, as appropriate.

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.

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:

Coal sales

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

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' deposits" account in the liabilities section of the consolidated balance sheet.

Construction contracts

Revenue from construction contracts is recognized under 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 balance sheet.

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.

Borrowing Costs

Borrowing costs are generally expensed as incurred.

Foreign Currency Transactions

The Group's financial statements are presented in Philippine pesos, which is the Parent Company's functional currency. Each entity in the Group determines its own functional currency and items included in the consolidated financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the consolidated balance sheet date. All differences are taken to consolidated statement of income during the period of retranslation.

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 liability recognized in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the date less the fair value of plan assets, together with adjustments for unrecognized actuarial gains or losses and past service costs.

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

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

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

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

Leases

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.

Income Tax

Current tax

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

Deferred tax

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

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

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

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

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

Under the provisions of Republic Act No. 7227, DMCII, being a Subic Bay Free Port Zone enterprise, is subject to a tax of 5% on gross income in lieu of all other taxes.

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.

Segment Reporting

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 business segments is presented in Note 34 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 balance sheet 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.

Subsequent Events

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

3. Significant Accounting Estimates, Judgments and Assumptions

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:

Revenue recognition

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

c.) Coal sales

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 coal sales amounted to ₱8.49 billion, ₱6.47 billion and ₱4.69 billion for the years ended December 31, 2008, 2007 and 2006, respectively.

b.) Real estate sales

Selecting an appropriate revenue recognition method for a particular sale transaction requires certain judgments based on the sufficiency of the investment of the buyer among others. Revenue from real estate sales amounted to ₱4.74 billion, ₱2.46 billion and ₱1.91 billion for the years ended December 31, 2008, 2007 and 2006, 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 ₱6.73 billion, ₱4.69 billion and ₱2.93 billion for the years ended December 31, 2008, 2007 and 2006, respectively.

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 has entered into commercial property leases on its investment property portfolio. The Group has determined that it retains all the significant risks and rewards of ownership of these properties and accounts for them as operating leases.

Estimates and Assumptions

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

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 impairment losses on receivables would increase recorded operating expenses and decrease total assets. Provision for doubtful accounts of the Group amounted to ₱4.43 million and ₱105.84 million in 2008 and 2007, respectively (see Note 26). There was no additional provision in 2008. Receivables of the Group, net of allowance for doubtful account of ₱443.66 million and ₱80.76 million as of December 31, 2008 and 2007, respectively, amounted to ₱9.56 billion and ₱4.84 billion as of December 31, 2008 and 2007, 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, 2008 and 2007 amounted to ₱896.73 million and ₱570.81 million, respectively (see Note 8).

NRV of Materials, Parts and Supplies

The Group reviews its inventory to assess NRV at least on a semi-annual basis. 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.

Provision for inventory obsolescence amounted to ₱39.79 million in 2007 (see Notes 8 and 26). amounted to ₱8,846.85 million and ₱6,375.96 million as of December 31, 2008 and 2007, 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 and amortized on a straight line basis over the useful life of the related asset or the lease term. Assumptions used to compute the decommissioning and site rehabilitation costs are reviewed and updated annually.

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

As of December 31, 2008 and 2007, the Provision for decommissioning and site rehabilitation has a carrying values of ₱13.20 million and ₱12.21 million, respectively (see Note 19).

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.

The fair value of financial assets as of December 31, 2008 and 2007 amounted to ₱12.62 billion and ₱9.46 billion, while the fair value of financial liabilities amounted to ₱14.16 billion and ₱8.07 billion, respectively (see Note 34).

Estimating useful lives of property, plant and equipment, investment properties and mining rights acquisition cost

The Group estimated the useful lives of its property, plant and equipment, investment properties and mining rights acquisition cost based on the period over which the assets are expected to be available for use. The estimated useful lives of property, plant and equipment, investment properties and mining rights acquisition cost 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 and change in the estimated production units. 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 ₱4.55 billion and ₱2.93 billion as of December 31, 2008 and 2007, respectively (see Note 12). The net book value of investment properties of the Group amounted to ₱2.34 billion and ₱2.06 billion as of December 31, 2008 and 2007, 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, 2008 and 2007, the balances of the Group's nonfinancial assets, net of accumulated depreciation, depletion and amortization and accumulated provisions for impairment losses follow:

	2008	2007
Property, plant and equipment (see Note 12)	₱4,548,855,362	₱2,933,158,199
Investments in associates, jointly controlled entities and others (see Note 10)	4,713,046,320	4,983,579,845
Investment properties (see Note 11)	2,337,534,961	2,057,446,353
Intangible assets (see Note 13)	22,373,686	-

Deferred tax assets

The Group reviews the carrying amounts of deferred taxes at each consolidated balance sheet 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 ₱34.90 million and ₱207.51 million as of December 31, 2008 and 2007, respectively. The unrecognized deferred tax assets of the Group amounted to ₱130.40 million and ₱10.04 million as of December 31, 2008 and 2007, respectively (see Note 29).

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 23). 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, 2008 and 2007, the balances of the Group's net pension liabilities and unrecognized actuarial gain or loss follow (see Note 23):

	2008	2007
Pension liabilities	₱109,245,994	₱127,411,427
Unrecognized actuarial gains	167,586,010	268,860,502

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 35).

4. Cash and Cash Equivalents

This account consists of:

	2008	2007
Cash on hand and in banks	₱1,387,248,507	₱823,987,335
Cash equivalents	1,681,374,630	2,715,660,264
	₱3,068,623,137	₱3,539,647,599

Cash in banks earns interest at the respective bank deposit rates. Cash equivalents are made for varying periods of up to three 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:

	2008	2007
Quoted securities		
Balance at beginning of year	₱29,602,368	₱56,084,471
Additions/reclassification	-	39,000,000
Disposal	(3,875,131)	(29,602,103)
Balance at end of year	25,727,237	65,482,368
Net unrealized loss	-	(35,880,000)
	25,727,237	29,602,368
Unquoted securities		
Balance at beginning of year	278,459,341	280,482,460
Reclassification from noncurrent assets held for sale (see Note 20)	4,135,142	-
Disposals	-	(2,023,119)
Balance at end of year	282,594,483	278,459,341
Less allowance for probable loss	(105,388,649)	(105,388,649)
	177,205,834	173,070,692
	₱202,933,071	₱202,673,060

The quoted equity investments include investments in golf and sports club shares.

Movements in the net unrealized gain (loss) on AFS financial assets are as follows:

	2008	2007
Balance at beginning of year	(P35,880,000)	P39,872,880
Loss recognized in equity during the year	-	(35,880,000)
Loss (gain) removed from equity and recognized in profit and loss	35,880,000	(39,872,880)
Balance at end of year	P-	(P35,880,000)

Montecito

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 P329.50 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. 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 Ayala Land, Inc. and payment of project management fee and marketing fees.

6. Receivables

This account consists of:

	2008	2007
Trade:		
Real estate	₱4,390,349,600	₱2,753,686,371
General construction (including retention receivables on uncompleted contracts of ₱307.68 million in 2008 and ₱283.07 million in 2007)	1,657,594,648	534,090,850
Coal mining	1,773,418,539	1,066,938,992
	7,821,362,787	4,354,716,213
Receivables from related parties (see Note 22)	1,220,009,755	303,614,528
Advances to suppliers, brokers and contractors	651,307,682	9,071,244
Advances to officers and employees	60,570,452	11,848,505
Other receivables	489,783,733	245,601,436
	10,243,034,409	4,924,851,926
Less allowance for doubtful accounts	443,662,559	80,757,754
	9,799,371,850	4,844,094,172
Less noncurrent receivables - net	2,440,384,238	1,983,314,250
	₱7,358,987,612	₱2,860,779,922

Trade receivables amounting to ₱443.66 million and ₱80.76 million as of December 31, 2008 and 2007, respectively, were impaired and fully provided for. Movements in the allowance for doubtful accounts are as follows:

2008

	Trade Receivables				
	Real Estate	General Construction	Coal Mining	Others	Total
At January 1	₱8,010,691	₱44,949,581	₱26,902,851	₱ 894,632	₱80,757,755
Reclassification from noncurrent assets held for sale (Note 20)	-	308,781,453	-	-	308,781,453
Provision during the year	54,123,351	-	-	-	54,123,351
At December 31	₱62,134,042	₱411,209,081	₱26,902,851	₱894,632	₱443,662,559
Individually impaired	₱4,655,995	₱353,731,034	₱14,975,103	₱894,632	₱374,256,764
Collectively impaired	57,478,047	-	11,927,747	-	69,405,794
Total	₱62,134,042	₱353,731,034	₱26,902,851	₱894,632	₱443,662,559
Gross amounts of loans, individually determined to be impaired, before deducting any individual assessed impairment allowance.	₱4,655,995	₱411,209,081	₱26,902,851	₱894,632	₱443,662,559

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2007

	Trade Receivables				
	Real estate	General construction	Coal mining	Others	Total
At January 1	₱3,649,878	₱98,919,638	₱26,902,850	₱ 697,255	₱130,169,621
Charge for the year	7,585,777	–	–	197,377	7,783,154
Write-offs	(3,224,964)	(53,970,057)	–	–	(57,195,021)
At December 31	₱8,010,691	₱44,949,581	₱26,902,850	₱894,632	₱80,757,754
Individually impaired	₱8,010,691	₱38,463,527	₱14,975,103	₱7,380,686	₱80,757,754
Collectively impaired	–	–	11,927,747	–	–
Total	₱8,010,691	₱38,463,527	₱26,902,850	₱7,380,686	₱80,757,754
Gross amounts of loans, individually determined to be impaired, before deducting any impairment allowance.	₱8,010,691	₱38,463,527	₱26,902,850	₱7,380,686	₱80,757,754

As of December 31, 2008 and 2007, real estate receivables with a nominal amount of ₱1,350.38 million, respectively, were initially recorded at the fair value. The unamortized discount amounted to ₱123.76 million and ₱197.17 million as of December 31, 2008 and 2007, respectively.

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

	2008	2007
Balance at beginning of year	₱197,168,437	₱127,623,298
Additions	–	151,321,632
Accretion for the year	(73,403,938)	(81,776,493)
Balance at end of year	₱123,764,499	₱197,168,437

Trade Receivable

Real estate

Real estate receivables principally consist of amounts arising from sale of real estate subdivision units which are collectible within 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 14). 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 ₱980.84 million in 2008 and ₱743.78 million in 2007.

General construction

General construction receivables principally consist of receivables from third-party construction projects.

Coal Mining

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

Receivables from Related Parties

Receivables from related parties are due and demandable.

Receivables from AG&P

On January 31, 2002, AG&P filed a petition for rehabilitation (after approval of AG&P's stockholders and BOD on January 29, 2002) with the RTC of Batangas City. On February 21, 2002, the RTC issued a stay order prohibiting AG&P from selling, encumbering, transferring or disposing any of its properties in any manner except in the ordinary course of business.

On November 14, 2007, the BOD approved the conversion of the Parent Company's advances to AG&P in the amount of ₱957.82 million into equity consisting of 957,821,328 common shares, with a par value of P1.00 per share which shall come from the present unissued authorized capital stock of and increase in capital stock of AG&P.

Receivables from Universal Rightfield Property Holdings, Inc. (URPHI)

The receivables from URPHI arose from the construction agreements with the Group for the development of Pioneer Highlands and Dansalan projects.

On January 28, 2004, DMCI, as a creditor of URPHI, initiated a petition for rehabilitation of URPHI with the RTC of Mandaluyong City. On February 17, 2004, the RTC issued a stay order prohibiting URPHI from selling, encumbering, transferring or disposing any of its properties in any manner except in the ordinary course of business. The rehabilitation plan, subject to the approval of the court included among others, the settlement of DMCI's claims in URPHI.

In 2006, the Group provided a valuation allowance on its outstanding receivable from URPHI which amounted to ₱213.62 million. In 2007, the Group has written off its outstanding claims from URPHI.

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.

7. **Costs, Estimated Earnings and Billings on Uncompleted Contracts**

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

	2008	2007
Total costs incurred	₱2,493,010,929	₱773,218,949
Add estimated earnings recognized	689,724,466	43,813,560
	3,182,735,395	817,032,509
Less total billings (including unliquidated advances from contract owners of ₱27.07 million in 2008 and ₱22.56 million in 2007)	3,009,850,465	707,238,840
	₱172,884,930	₱109,793,669

The foregoing balances are reflected in the consolidated balance sheet under the following accounts:

	2008	2007
Costs and estimated earnings in excess of billings on uncompleted contracts	₱369,922,764	₱140,681,468
Billings in excess of costs and estimated earnings on uncompleted contracts	(197,037,834)	(30,887,799)
	₱172,884,930	₱109,793,669

8. Inventories

This account consists of:

	2008	2007
At Cost:		
Real estate held for sale and development	₱7,141,539,258	₱4,701,981,393
Coal inventory	896,734,233	570,806,557
Equipment parts, materials in transit and supplies	132,334,645	107,316,068
Chromites	2,217,818	-
At NRV:		
Nickel ore	100,493,977	90,838,320
Equipment parts, materials in transit and supplies	596,417,413	905,016,665
	₱8,869,737,344	₱6,375,959,003

Equipment parts, materials and supplies at NRV amounted to ₱791.43 million and ₱968.04 million as of December 31, 2008 and 2007, respectively.

The Group did not capitalize any borrowing costs related to its real estate held for sale and development since the funds used to develop these properties were internally generated.

9. Other Current Assets

This account consists of:

	2008	2007
Value added tax (VAT)	₱783,020,001	₱170,913,900
Creditable taxes withheld	296,011,688	256,909,900
Prepaid expenses	117,361,944	61,691,117
Others	68,733,467	79,419,000
	₱1,265,127,100	₱568,933,917

VAT is fully recoverable. This can be applied against output VAT.

10. Investments in Associates, Jointly Controlled Entities and Others

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

	2008	2007
Investments - At Equity		
Investments in associates		
Acquisition cost:		
Balance at beginning of year	P471,415,660	P471,415,660
Additions	200,001,492	-
Balance at end of year	671,417,152	471,415,660
Accumulated equity in net losses:		
Balance at beginning of year	(295,992,343)	(316,600,771)
Equity in net income during the year	55,418,130	20,608,428
Balance at end of year	(240,574,213)	(295,992,343)
	430,842,939	175,423,317
Allowance for probable losses	(106,806,827)	(44,621,969)
	324,036,112	130,801,348
Jointly controlled entities:		
Acquisition cost:	3,032,125,000	2,465,787,232
Additions during the year	(566,337,768)	-
Balance at end of year	2,465,787,232	2,465,787,232
Accumulated equity in net earnings:		
Balance at beginning of year	1,849,767,862	44,023,350
Equity in net income (losses) during the year	30,422,644	1,805,744,512
Balance at end of year	1,880,190,506	1,849,767,862
	4,345,977,738	4,315,555,094
Allowance for probable losses	(25,467,530)	(25,467,530)
	4,320,510,208	4,290,087,564
Investment - At Cost		
Balance at beginning of year	68,150,000	10,000,000
Additions during the year	350,000	58,150,000
Balance at end of year	68,500,000	68,150,000
	P4,713,046,320	P4,489,038,912

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	
	2008	2007	2008	2007
Associates:				
Bachy Soletanche Philippines Corporation (Bachy)	49.00%	49.00%	P43,106,317	P43,106,317
Obayashi Philippines Corporation (OPC)	39.55	39.55	-	-
Bauan International Port, Inc. (BIPI)	20.00	-	142,950,896	-
Subic Water and Sewerage Company, Inc. (Subic Water)	40.00	40.00	137,978,899	87,695,031
			324,036,112	130,801,348

(Forward)

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	Percentages of Ownership		Equity in Net Assets	
	2008	2007	2008	2007
Jointly Controlled Entities:				
DMCI-MPIC Water Co. Inc. (see Note 11)	44.59	50.00	₱4,269,751,376	₱4,239,328,732
DMCI/WPC Joint Venture		50.00	39,181,239	39,181,239
Obayashi-DMCI Joint Venture	40.00	40.00	1,730,226	1,730,226
Eco Process & Equipment Philippines, Inc.	50.00	50.00	408,538	408,538
Subic Water Construction Joint Venture	50.00	50.00	9,438,829	9,438,829
			4,320,510,208	4,290,087,564
At Cost				
Balance at beginning of year			68,150,000	10,000,000
Additions			350,000	58,150,000
			68,500,000	68,150,000
Total			₱4,713,046,320	₱4,489,038,912

Investments in Associates - At Equity

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 joint 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 ₱38.00 million (net of additional subscription payment of ₱4 million in 1998) is expected to be paid on or before the second anniversary of the said effective date. As of December 31, 2008 and 2007, 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.

Tarlac-Pangasinan-La Union Toll Expressway Project (TPLEX)

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 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, Private Infra Dev Corporation (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

DMCI-MPIC Water Company, Inc. (DMCI-MPIC)

In November 2006, the Parent Company, together with Metro Pacific Investment Corporation (MPIC) formed a 50:50 joint-venture company called DMCI-MPIC Water Company, Inc. (DMCI-MPIC).

On December 5, 2006, through a public bidding, DMCI-MPIC won the right to acquire Metropolitan Waterworks Sewerage Systems (MWSS) 84% interest in Maynilad Water Services Inc. (MWSI). MWSI holds an exclusive concession, granted by MWSS on behalf of the Philippine Government, to provide water and sewerage services in the west zone of Metro Manila.

The transaction was completed on January 10, 2007 with the delivery by MWSS and DMCI-MPIC of all closing requirements as required in the bid.

In addition, DMCI-MPIC: (i) provided financial assistance to MWSI in the amount of ₱1,510.0 million (US\$31.0 million); (ii) will contribute additional equity to MWSI for funding its requirement for its capital expenditure, repayment to its existing creditors, and /or concession fees to MWSS which amounts to ₱21,803.6 million (US\$444.7 million) over a period of three years; and, (iii) established a performance bond in an amount of ₱588.3 million (US\$12.0 million) in respect of MWSI's obligations under the concession.

The Group adopted equity method of accounting for the financial results of DMCI-MPIC since the Group does not exercise control over DMCI-MPIC.

The final allocation of the investment cost to the identifiable assets, liabilities, contingent liabilities and negative goodwill was completed in 2008 and is shown below:

Consideration/investment cost	₱1,116,394
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Net assets of Maynilad	
Cash and cash equivalents	821,184
Short-term investments, trade and other receivables and other current assets	1,300,097
Other noncurrent assets	309,326
Concession assets	9,913,065
Property, plant and equipment	4,592,151
Trade and other payables	(1,553,834)
Interest-bearing loans	(3,641,095)
Deferred credits	(690,276)
Payable to MWSS	(2,717,478)
Pension liability and other noncurrent liabilities	(476,993)
Concession fees payable	(3,382,769)
Contingent liabilities	(891,491)
Deferred tax liabilities	(631,192)
<hr/>	
Total net assets acquired at fair values*	2,950,696
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Negative goodwill	₱1,834,303
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**Amounts in thousands and are based on computed fair values of Maynilad net assets at 42%.*

In 2007, the provisional purchase price allocation amounted to ₱2.1 billion.

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The amount of the excess of the net identifiable assets and liabilities over the fair value of the business combination (negative goodwill) of ₱3.6 billion was recognized in the consolidated statement of income of DMCI-MPIC.

Pursuant to the Subscription Agreement by and among DMCI-MPIC and its two existing shareholders - the Parent Company and MPIC on November 27, 2008, the Parent Company and MPIC subscribed to additional 961.6 million common shares and 1,932.20 million common shares, respectively, of DMWC (the “DMCI and MPIC Subscription Shares”).

Simultaneous with the execution of the Subscription Agreement, DMCI-MPIC, 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 Board of Directors (BOD) of DMCI-MPIC convened and approved the increase in authorized capital stock of the Company from ₱6,000.0 million divided into 6,000,000,000 common shares with par value of ₱1.00 per share to ₱8,884.8 million divided into 8,884,800,000 common shares with par value of ₱1.00 per share.

The Parent Company and MPIC Subscription Shares will be issued in due course upon approval by the SEC of the application for increase in authorized capital stock of DMCI-MPIC.

As of March 17, 2009, the application for increase in capital stock is still pending with the SEC.

As of December 31, 2008, deposit for future stock subscription representing the paid up portion of the DMCI and MPIC Subscription Shares amounted to ₱2,125.4 million.

Equity in net earnings in DMCI-MPIC amounted to ₱30.42 million in 2008 and ₱1,239.33 million in 2007 (including share in negative goodwill of ₱1,834.30 million and IFRIC adjustment of ₱278.26 million).

On January 19, 2007, 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 ₱56.0 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 ₱2.0 billion resulting from the write-off of BHC of its advances amounting to ₱658.0 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 ₱1.4 billion (or equivalent to approximately US\$25.0 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 ₱7.0 billion (such amount was retroactively adjusted to ₱6.5 billion in 2006 as discussed below) against the APIC amounting to ₱2.1 billion and reduction surplus amounting to ₱5.2 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 ₱342.0 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:

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

*including directors' qualifying shares

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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 USD 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.

11. Investment Properties

The movements in this account follow:

2008

	Land	Buildings and Building Improvements	Condominium units	Total
Cost				
At January 1	₱1,981,054,403	₱28,176,763	₱62,925,187	₱2,072,156,353
Reclassification from noncurrent assets held for sale (Note 20)	186,741,902	-	-	186,741,902
Additions	798,723,946	46,398,424	-	845,122,370
Transfers to real estate held for sale and development	(707,399,920)	-	(40,405,825)	(747,805,745)
At December 31	2,259,120,331	74,575,187	22,519,362	2,356,214,880
Accumulated Depreciation and Amortization				
At January 1	-	13,350,000	1,360,000	14,710,000
Depreciation and amortization	-	3,061,259	908,660	3,969,919
At December 31	-	16,411,259	2,268,660	18,679,919
Net Book Value	₱2,259,120,331	₱58,163,928	₱20,250,702	₱2,337,534,961

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2007

	Land	Buildings and Building Improvements	Condominium Units	Total
Cost				
At January 1	₱2,242,788,671	₱47,640,300	₱1,700,000	₱2,292,128,971
Additions	640,023,040	–	61,225,187	701,248,227
Transfers to real estate held for sale and development	(901,757,308)	(19,463,537)	–	(921,220,845)
At December 31	1,981,054,403	28,176,763	62,925,187	2,072,156,353
Accumulated Depreciation and Amortization				
At January 1	–	12,050,120	1,024,635	13,074,755
Depreciation and amortization	–	3,143,566	335,365	3,478,931
Transfers to real estate held for sale and development	–	(1,843,686)	–	(1,843,686)
At December 31	–	13,350,000	1,360,000	14,710,000
Net Book Value	₱1,981,054,403	₱14,826,763	₱61,565,187	₱2,057,446,353

Depreciation expense on investment properties amounted to ₱3.97 million, ₱3.48 million, and ₱2.63 million in 2008, 2007 and 2006, respectively (see Note 24).

The aggregate fair value of the Group's investment properties amounted to ₱2.34 billion and ₱2.06 billion as of December 31, 2008 and 2007, respectively. The fair value represents the amount at which the assets could be exchanged between a knowledgeable, willing buyer and knowledgeable, willing seller in an arm's length transaction at the date of valuation.

Consolidated rental income from investment properties amounted to ₱99.47 million, ₱19.91 million and ₱12.17 million for the years ended December 31, 2008, 2007 and 2006, respectively (Note 28).

12. Property, Plant and Equipment

The movements in this account follow:

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	₱688,213,379	₱1,440,726,794	₱2,566,658,782	₱242,516,703	₱195,448,985	₱8,932,390,288	₱59,559,320	₱228,261,724	₱14,353,775,975
Reclassification from noncurrent assets held for sale (Note 20)	1,509,932,992	511,877,126	865,532,980	97,262,488	-	-	-	63,941,376	3,048,546,962
Additions	223,609,602	163,330,163	389,874,194	40,194,114	25,599,806	1,550,115,501	10,380,735	223,706,281	2,626,810,396
Transfers and retirements/disposals	(5,861,185)	-	(449,245,895)	(14,496,568)	(1,224,872)	(1,555,146,503)	-	(147,649,992)	(2,173,625,015)
At December 31	2,415,894,789	2,115,934,083	3,372,820,061	365,476,737	219,823,919	8,927,359,286	69,940,056	368,259,389	17,855,508,318
Accumulated Depreciation									
Depletion and Amortization									
At January 1	396,046,974	913,591,263	1,935,459,162	212,465,014	132,950,442	7,770,916,496	59,188,425	-	11,420,617,776
Reclassification from noncurrent assets held for sale (Note 20)	94,768,142	257,104,269	580,412,403	55,978,746	-	-	-	-	988,263,559
Depreciation, depletion and amortization	73,304,315	167,455,453	282,152,667	39,844,087	22,809,397	943,370,909	177,817	-	1,529,114,645
Transfers and retirements/disposals	(14,244,732)	-	(347,434,920)	(11,183,061)	(3,098,200)	(255,382,110)	-	-	(631,343,024)
At December 31	549,874,699	1,338,150,985	2,450,589,312	297,104,786	152,661,639	8,458,905,295	59,366,242	-	13,306,652,956
Net Book Value	₱1,866,020,090	₱777,783,098	₱922,230,749	₱68,371,951	₱67,162,280	₱468,453,991	₱10,573,814	₱368,259,389	₱4,548,855,362

2007

	Land and Land Improvements	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	₱418,315,199	₱1,272,801,474	₱2,103,503,026	₱222,312,987	₱166,323,809	₱8,622,629,442	₱59,025,858	₱396,180,421	₱13,261,092,216
Additions	269,168,181	5,409,657	547,933,592	20,250,488	39,748,627	184,058,221	533,462	184,247,985	1,251,350,213
Transfers and retirements/disposals	729,999	162,515,663	(84,777,836)	(46,772)	(10,623,451)	125,702,625	-	(352,166,682)	(158,666,454)
At December 31	688,213,379	1,440,726,794	2,566,658,782	242,516,703	195,448,985	8,932,390,288	59,559,320	228,261,724	14,353,775,975
Accumulated Depreciation									
Depletion and Amortization									
At January 1	371,550,279	850,087,487	1,913,341,735	197,774,394	125,416,294	6,368,004,721	59,006,808	-	9,885,181,718
Depreciation, depletion and amortization	24,496,695	65,835,975	106,894,297	14,719,905	18,080,810	1,445,426,828	181,617	-	1,675,636,127
Transfers and retirements/disposals	-	(2,332,199)	(84,776,870)	(29,285)	(10,546,662)	(42,515,053)	-	-	(140,200,069)
At December 31	396,046,974	913,591,263	1,935,459,162	212,465,014	132,950,442	7,770,916,496	59,188,425	-	11,420,617,776
Net Book Value	₱292,166,405	₱527,135,531	₱631,199,620	₱30,051,689	₱62,498,543	₱1,161,473,792	₱370,895	₱228,261,724	₱2,933,158,199

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The assets of Semirara (included in the above analysis) as of December 31, 2007, which are carried at deemed cost follow:

	Land and Land Improvements	Power Plant, Buildings and Building Improvements	Conventional and Continuous Mining Properties and Equipment	Total
At Deemed Cost	₱146,388,235	₱486,594,149	₱581,857,987	₱1,214,840,371
Accumulated Depreciation, Depletion and Amortization on Adjusted Cost				
At January 1	117,254,786	304,679,148	386,984,295	808,918,229
Depreciation, depletion and amortization	15,003,445	61,754,990	44,104,106	120,862,541
At December 31	132,258,231	366,434,138	431,088,401	929,780,770
Net Book Value at Deemed Cost	₱14,130,004	₱120,160,011	₱150,769,586	₱285,059,601

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 ₱1.53 billion, ₱1.68 billion and ₱1.41 billion in 2008, 2007 and 2006, respectively (see Note 24).

13. Other Noncurrent Assets

The details of other noncurrent assets follow:

	2008	2007
Refundable deposits (see Note 34)	₱430,068,490	₱142,846,122
Others	92,390,205	18,272,779
	₱522,458,695	₱161,118,901

Deposits in Northrail of ₱300.00 million represents 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.

Others include bid item cost and environmental expenses which are directly attributable to the operation of the power plant in Masbate amounting to ₱7.76 million and ₱3.39 million, respectively.

14. **Bank Loans**

The Group's bank loans in 2008 and 2007 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 balance sheet dates. The bank loans are generally unsecured which are secured by a real estate mortgage over the Group's housing and condominium units; a deed of assignment on certain real estate receivables of PDI, DMCI and Hampstead (see Note 6); corporate guarantee and suretyship agreement issued by the Parent Company and DMCI; and PDI, DMCI and Hampstead's 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, 2008 and 2007, the Group was in compliance with the loan covenants required by the banks.

15. **Liabilities for Purchased Land**

Liabilities for purchased land account 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 2007, 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 ₱514.00 million were initially recorded at fair value resulting to a discount of ₱78.16 million. The fair value is derived using discounted cash flow model using the discount rate ranging from 5.00% to 5.21% with effective interest rates ranging from 7.21% to 8.37%. The unamortized discount amounted to ₱83.12 million and ₱68.49 million as of December 31, 2008 and 2007, respectively.

Accretion of ₱35.88 million and ₱9.68 million is recorded as interest expense in 2008 and 2007, respectively.

16. Accounts and Other Payables

This account consists of the following:

	2008	2007
Trade and other payables		
Suppliers	₱2,807,981,110	₱942,711,573
Subcontractors	421,701,382	249,023,378
Others	1,722,405,379	284,011,042
Accrued costs and expenses	1,532,035,268	1,291,252,832
	₱6,484,123,139	₱2,766,998,825

Suppliers

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.

Subcontractor

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.

Accrued cost and expenses

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

Semirara's liability to 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 ₱52.73 million and ₱53.56 million in 2008 and 2007, respectively.

17. Customers' Advances and Deposits

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

	2008	2007
Real estate customers	₱1,027,757,179	₱1,262,248,616
Coal supply contract	1,206,858	8,867,023
Others	266,301,628	68,048
	₱1,295,265,665	₱1,271,183,687

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, sales 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. The deliveries are in accordance with the existing coal supply agreements (CSA) and/or memorandum of agreements (MOA) (see Note 32).

18. Long-term Debt

Long-term debt pertains to the following obligations:

	2008	2007
Bank loans	₱5,480,935,187	₱3,522,254,632
Acceptances and trust receipts payable	74,716,736	343,051,200
	5,555,651,923	3,865,305,832
Less current portion of:		
Acceptances and trust receipts payable	11,281,248	343,051,200
Bank loans	780,563,118	1,500,187,727
	791,844,366	1,843,238,927
	₱4,763,807,557	₱2,022,066,905

Details of the long-term debt follow:

Semirara

Loan Type	Date of Availment	Outstanding Balance		Maturity	Interest Rate	Payment Terms	Covenants/Collaterals
		2008	2007				
(In Million)							
Local bank loans							
Loan 1	September 30, 2005	₱57.32	₱120.67	October 5, 2009	9% fixed p.a.	Payable in 48 equal monthly installments commencing on November 5, 2005	Secured by collaterals on mining equipment (Note 8)
Other loans	Various in 2008	102.50	258.35	Various in 2008 and 2009	8% fixed p.a.	Various	None

(Forward)

Loan Type	Date of Availment	Outstanding Balance		Maturity	Interest Rate	Payment Terms	Covenants/Collaterals
		2008	2007				
(In Million)							
Foreign bank loans							
Loan 1	December 14, 2005	₱148.53	₱193.54	November 30, 2010	Based on SIBOR plus 1.95% p.a.	Repriceable and payable in 16 equal quarterly installments to commence 2 months after the draw down dates	Unconditional and irrevocable guarantee issued by Komatsu Asia and Pacific Pte Ltd. and other covenants
Other loans	Various availments in 2004 and 2005	206.67	304.52	Various maturities in 2009 and 2010	Based on 6-month USD LIBOR plus 1.5% p.a.	Payable in 10 equal consecutive semi-annual installments, the first of which was due and payable 6 months after the starting point	Unconditional and irrevocable guarantee issued by DMCI-HI (Note 17)
		515.02	877.08				
Various Letters of Credits	Various dates of Availments	11.28	291.51	Various maturities in 2008 and 2009	Interest ranging from 8% to 11% p.a.	Payable within 1 year	None
		₱526.30	₱1,168.59				
TOTAL		₱5,555.65	₱3,865.31				

Other Subsidiaries

Other borrowings

Various	Various	₱5,029.35	₱2,696.72	Various	10% to 13% p.a.	Payable in equal monthly installments over a period ranging from 5 to 15 years	Real estate receivables
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(a) Semirara

The other covenants in loan 1 under the foreign bank loans require the 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 million and US\$1 million, respectively, or their equivalent in other currencies.

(b) The Parent Company

During the year, the Parent Company borrowed ₱1,500 million 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 million were pledged as collateral. Further, the Parent Company investments in Semirara shares were also mortgaged to secure the ₱1,500 million 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 March 8, 2007, the Parent Company paid ₱1,148.17 million to the Lender.

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 DMCI HI 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, DMCI HI was authorized to constitute: (a) a first-ranking chattel mortgage over 1,470.00 million common shares of DMCI-MPIC held and owned by the Parent Company; and (b) a voting trust over 1,530.00 million common shares of DMCI-MPIC held by the Parent Company, for the benefit of the secured parties.
- (3) As required under the Omnibus Agreement, DMCI HI 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.

(c) Sale of real estate receivables by other subsidiaries

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 ₱615.62 million and ₱555.00 million as of December 31, 2008 and 2007, 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.

19. Other Noncurrent Liabilities

The details of this account consist of:

	2008	2007
Provision for decommissioning and site rehabilitation	₱13,204,316	₱12,205,199
Subscriptions payable	4,750,000	4,750,000
	₱17,954,316	₱16,955,199

20. Noncurrent Assets Held for Sale

AG&P

On January 31, 2002, AG&P filed a petition for rehabilitation (after the approval of AG&P's stockholders and BOD on January 29, 2002) with the RTC of Batangas City. On February 21, 2002, the RTC issued a stay order prohibiting AG&P from selling, encumbering, transferring or disposing any of its properties in any manner except in the ordinary course of business.

On March 11, 2003, the RTC approved AG&P's updated rehabilitation plan that included, among others, the settlement of the Group's claims from AG&P.

On March 31, 2003, Philippine National Bank (PNB), AG&P's creditor, filed a Motion for Reconsideration with the court for the modification of the updated rehabilitation plan due to, among others, the non-viability of the proposed transfer of the 20 hectares at Batangas Fabrication Yard (BFY) to PNB via a dacion en pago payment scheme with option to repurchase and to lease it back for 5 years with exclusivity provision. In addition, PNB suggested to the court the following modifications to the updated rehabilitation plan:

- (a) AG&P should remit to PNB a part of the advance rentals AG&P received as payment in the lease transaction entered into between AG&P and Babcock Hitachi Philippines, Inc. in July 2001 totaling ₱18 million with interest;
- (b) AG&P should proportionately pay all creditors, depending on their respective credit exposure, whatever cash inflows it will receive from all the transactions it will enter into, except those that will come from sale or lease of properties covered by the Mortgage Trust Indenture (MTI) which should be paid to MTI banks, especially the ₱70.0 million earmarked for its employees, from the time the Petition was filed and up to the time the approved rehabilitation plan subsists; and
- (c) PNB will accede to the proposal of AG&P to restructure the latter's loan on the condition that the loan obligation of AG&P with PNB shall consistently earn interest depending on the prevailing rates in the market, otherwise, the approved "suspension of interest charges on all interest-bearing obligations from February 2002 up to December 2002 pending review and approval of AG&P's rehabilitation plan by the court" and "restructuring of outstanding PNB loans for a ten-year period with 2 years grace period in the payment of principal, interest rate for the first 5 years is proposed at 6% and 12% for the next 5 years" should be disapproved and deleted.

On May 2, 2003, the Receiver filed a Manifestation and Compliance with the court on the Receiver's meeting with the officers of PNB and representatives of AG&P on the issues raised by PNB in its Motion for Reconsideration. The Receiver manifests, among others, that:

- (a) PNB agreed to withdraw its objections to the payment of the advance lease proceeds from Amstel-Phil Shipbreaking Corporation, (Amstel, AG&P's potential lessee) the amount of ₱70.00 million to the labor union;

- (b) AG&P and PNB agree to subject the issue of interest during the restructuring period to further discussions; and
- (c) PNB is withdrawing its objection since AG&P had withdrawn its proposal to transfer the BFY property by way of dacion en pago arrangement to the former.

On January 30, 2006, AG&P submitted to the court a proposed Amended Rehabilitation Plan (Amended Plan). The salient provisions of the Amended Plan include, among others, the following:

- a. Acceptance by the rank and file of the revised payment package in full settlement of separation benefits, labor cases, commutation of sick and vacation leaves and reimbursement of tax withheld.
- b. Conversion to equity of PNB's loans and DMCI's advances amounting to ₱223 million and ₱591 million, respectively. The present authorized capital stock of AG&P of ₱36 million will be increased to ₱1,500 million before conversion of debt to equity.
- c. Partial settlement of DMCI loan thru transfer of 20% equity shares in associate owned by AG&P in Bauan International Port, Inc. to DMCI.
- d. Restructuring of residual loans from PNB and advances from DMCI.
- e. Settlement by DMCI of loans from a local commercial bank with the underlying collaterals to be assumed by DMCI via "dacion en pago".
- f. Quasi-reorganization through application of additional paid-in capital of and revaluation increment in property against deficit.

On May 21, 2008, advances of DMCI HI to AG&P amounting to ₱957.82 million was converted to equity through the issuance of 957,821,328 common shares. As a result of the conversion, DMCI HI became the ultimate parent of AG&P.

In its meeting on April 24, 2008, the BOD approved additional investments in AG&P amounting to ₱113.04 million, bringing DMCI HI's shareholdings in AG&P to 98.39% of its outstanding capital stock.

The BOD in 2007 approved to offer AG&P shares for sale.

The major classes of assets and liabilities of AG&P classified as held for sale as of December 31, 2007 follow:

ASSETS	
Current Assets	
Cash and cash equivalents	₱189,453,932
Receivables - net	248,282,344
Inventories	101,049,305
Other current assets - net	32,522,398
Total Current Assets	571,307,979
Noncurrent Assets	
Available-for-sale	₱7,255,141
Investments in subsidiary and associate	143,462,575
Investment properties	186,741,902
Property, plant and equipment	2,059,836,977
Pension assets	8,004,097
Total Noncurrent Assets	2,405,300,692
Assets held for sale	₱2,976,608,671
LIABILITIES	
Current Liabilities	
Loans payable	₱891,260,530
Notes payable	113,037,580
Accounts and other payables	753,887,833
Due to a stockholder	201,102,403
Billings in excess of costs and estimated earnings on uncompleted contracts	15,298,177
Total Current Liabilities	1,974,586,523
Noncurrent Liabilities	
Deferred tax liabilities	353,388,981
Liabilities directly attributable to assets held for sale	₱2,327,975,504

On May 21, 2008, the AG&P's application for amendment in the Articles of Incorporation was approved. The amendment includes the increase of the authorized capital stock from ₱36.0 million to ₱3.5 billion, extension of AG&P's term and reduction of its par value.

On the same date, the SEC approved as well the application of AG&P to undergo a quasi-reorganization to wipe out the deficit as of August 31, 2007 amounting to ₱458.6 million against APIC amounting to ₱117.9 million and the appraisal increment amounting to ₱340.7 million, subject to certain conditions pursuant to the approval.

The proposed sale of AG&P did not materialize in 2008, thus, the need for consolidation.

In 2008, the assets and liabilities directly associated with AG&P as of December 31, 2007 are still presented as noncurrent assets held for sale.

The income in 2007 and 2006 associated with noncurrent assets held for sale are reclassified and included in income from continuing operations for all period presented.

* SGVMC111690 *

In January 2009, the Parent Company and AG&P paid the existing obligations of AG&P with creditor banks amounting to ₱650 million.

In February 17, 2009, AG&P filed a motion to the court for issuance of an order granting exit from rehabilitation on the financial and operating results, payment of rehabilitation liabilities, employment generation, and compliance with the requirements of the rehabilitation plan.

21. Equity

The Parent Company's capital stock consists of:

	2008		2007	
	Shares	Amount	Shares	Amount
Preferred stock - ₱1 par value cumulative and convertible Authorized	100,000,000	₱100,000,000	100,000,000	₱100,000,000
Issued				
Balance at beginning of year	4,480	₱4,480	5,480	₱5,480
Cancellation/retirement of shares	(100)	(100)	(1,000)	(1,000)
Balance at end of year	4,380	4,380	4,480	4,480
Common stock - ₱1 par value Authorized	5,900,000,000	5,900,000,000	5,900,000,000	5,900,000,000
Issued				
Balance at beginning of year	2,255,494,000	2,255,494,000	2,255,494,000	2,255,494,000
Issuance of shares	400,000,000	400,000,000	400,000,000	400,000,000
Balance at end of year	2,655,494,000	2,655,494,000	2,655,494,000	2,655,494,000
Preferred shares held in treasury				
Balance at beginning of year	-	-	(1,000)	(1,000)
Cancellation/retirement of shares	-	-	1,000	1,000
Balance at end of year	-	-	-	-

The preferred stock is redeemable, convertible, non-voting, non-participating and cumulative with par value of ₱1.00 per share. The preferred shares were fully redeemed, cancelled and paid as of December 31, 2008 and 2007.

The Group cancelled/retired 100 and 139,000 issued preferred shares in 2008 and 2007, respectively. The difference between the par value and the redemption price amounting to ₱189.83 million as of 2007, respectively, were 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 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.

Retained Earnings

Retained earnings is restricted to the extent of the acquisition cost of the treasury shares amounting to ₱1.10 million and ₱187.21 million as of December 31, 2006 and 2005, respectively.

* SGVMC111690 *

Dividends declared

On April 24, 2008 and April 3, 2007, the Parent Company's BOD approved and declared cash dividend of ₱0.10 per share or ₱265.53 million and ₱225.55 million to stockholders of record as of May 12, 2008 and April 30, 2007, respectively. The 2008 and 2007 cash dividends were paid on May 30, 2008 and May 28, 2007, respectively.

Capital Management

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. 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 the following:

- (a) Comprehensive surety, corporate and letters of guarantee issued by the Parent Company and DMCI for various credit facilities granted to and for full performance of certain obligations by certain related parties. Such outstanding surety and/or guarantees amounted to ₱354 million as of December 31, 2004. These obligations were paid in 2005.
- (b) 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.

Outstanding balances as of December 31, 2008, which are unsecured and interest free, are all due within one year. The Group has provided allowance for doubtful accounts for amounts owned by related parties that are deemed uncollectible (see Note 6). 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:

	2008	2007
Short-term employee benefits	₱58,559,443	₱37,665,856
Post employment benefits (Note 23)	9,754,919	24,902,972
	₱68,314,362	₱62,568,828

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.

23. Employee Benefits

Retirement Plans

The Group has both unfunded (DMCI-HI and PDI) and funded (other subsidiaries), 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, 2008.

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

	2008	2007	2006
Current service cost	₱31,276,556	₱25,115,481	₱28,500,069
Interest cost on benefit obligation	36,039,420	20,580,162	20,338,178
Expected return on plan assets	(31,513,522)	(32,586,949)	(12,730,102)
Net actuarial loss (gain) recognized during the year	14,720,774	106,114,093	(5,522,355)
Past service cost - non vested benefit	2,030,814	1,995,482	141,163
Past service cost - vested benefit	-	44,400,037	-
Amortization of transition obligation recognized during the year	399,817	399,820	399,820
Total pension expense	₱52,953,859	₱166,018,126	₱31,126,773
Actual return on plan assets	₱140,742,799	₱101,044,585	₱104,026,975

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

	2008	2007	2006
Balance at beginning of year	₱461,983,333	₱277,391,997	₱171,856,371
Reclassification from noncurrent assets held for sale	53,000,000	-	-
Expected return on plan assets	31,513,522	32,586,949	12,730,102
Actual contributions	60,795,994	84,280,361	19,650,846
Benefits paid	(25,676,414)	(715,889)	(5,412,093)
Transfer of assets	(145,191)	(17,721)	-
Actuarial gain - net	(209,494,556)	68,457,636	78,566,771
Balance at end of year	₱371,976,688	₱461,983,333	₱277,391,997

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

	2008	2007	2006
Balance at beginning of year	₱337,317,474	₱250,164,117	₱194,656,679
Reclassification from noncurrent assets held for sale	44,995,903	-	-
Interest cost	36,039,420	20,580,162	20,338,178
Current service cost	31,276,556	25,115,481	28,500,069
Past service cost - non vested benefit	-	17,052,039	-
Past service cost - vested benefit	-	44,400,037	1,468,002
Benefits paid	(25,676,414)	(2,213,404)	(5,412,093)
Transfer of obligations	(145,191)	(17,721)	-
Actuarial (gain) loss - net	(95,394,512)	(17,763,237)	10,613,282
Balance at end of year	₱328,413,236	₱337,317,474	₱250,164,117

Liability to be recognized in the consolidated balance sheet:

	2008	2007	2006
Present value of unfunded obligation	₱328,413,236	₱337,317,474	₱250,164,117
Fair value of plan assets	371,976,688	461,983,333	277,391,997
Excess of fair value of plan assets over present value of unfunded obligation	(43,563,452)	(124,665,859)	(27,227,880)
Unrecognized actuarial gain (loss) - net	167,586,010	268,860,502	76,525,534
Unrecognized past service cost - non vested	(14,776,564)	(16,383,396)	(1,326,839)
Unrecognized net transition obligation	-	(140,373)	(799,639)
Unrecognized net assets	-	(259,447)	-
Liabilities to be recognized in the consolidated balance sheets	₱109,245,994	₱127,411,427	₱47,171,176

The amounts for the current and the previous period follow:

	2008	2007
Excess of fair value of plant asset over present value of define benefit obligation	(₱43,563,452)	(₱124,665,859)
Experience adjustments on plan obligation	(85,485,722)	1,663,542
Experience adjustments on plan assets	(209,130,346)	68,457,636

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

	2008	2007	2006
Discount rate	8.00% to 12.93%	7.97% to 10.43%	12%
Salary increase rate	10%	10%	10%
Expected rate of return on plan assets	7%	7%	12%

The Company expects to contribute about ₱70 million into the pension fund for the annual period ending December 31, 2009.

24. Costs of Sales and Services

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

	2008	2007	2006
Included in:			
Coal sales	₱1,574,811,504	₱1,537,383,602	₱1,335,762,599
Construction contracts	185,935,507	103,559,125	32,270,888
Operating expenses (Note 25)	231,253,905	148,641,163	138,044,319
	₱1,992,000,916	₱1,789,583,890	₱1,506,077,806
Depreciation, depletion and amortization of:			
Property, plant and equipment (Note 12)	₱1,529,114,644	₱1,675,636,127	₱1,412,572,417
Other noncurrent assets (Note 13)	1,049,361	853,031	412,738
Investment properties (Note 11)	3,969,919	3,483,566	3,762,215
	₱1,534,133,924	₱1,679,972,724	₱1,416,747,370

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

	2008	2007	2006
Included in:			
Costs of construction contracts	₱782,637,765	₱698,880,167	₱330,959,847
Operating expenses (Note 25)	450,937,506	414,599,107	242,863,378
Costs of coal sales	264,843,502	244,503,934	140,330,673
	₱1,498,418,773	₱1,357,983,208	₱714,153,898

25. Operating Expenses

This account consists of:

	2008	2007	2006
Salaries, wages and employee benefits (Note 24)	₱450,937,506	₱414,599,107	₱242,863,378
Government share	253,381,663	191,290,056	138,272,655
Advertising and marketing	243,342,972	347,920,517	46,340,977
Depreciation and amortization (Note 24)	231,253,905	148,641,163	138,044,319
Taxes and licenses	220,016,070	135,975,995	68,132,462
Commission	218,228,133	140,299,511	94,521,259
Outside services	108,186,991	156,757,220	101,680,473
Transportation and travel	97,919,249	35,833,955	52,198,784
Repairs and maintenance	96,892,805	51,355,764	24,655,285
Rent (Note 34)	64,517,633	44,093,211	38,632,568
Supplies	63,405,222	38,376,252	36,988,586
Communication, light and water	59,890,435	37,146,692	31,714,434
Provision for doubtful accounts	54,123,351	4,434,241	105,840,759
Entertainment, amusement and recreation	33,413,272	28,267,273	37,169,852

(Forward)

	2008	2007	2006
Insurance	₱12,519,454	₱9,455,113	₱4,887,833
Probable losses on noncurrent assets	–	20,187,583	–
Probable losses on investments	–	–	103,388,649
Provision for inventory obsolescence	–	–	39,787,613
Miscellaneous	189,232,441	66,691,800	32,686,076
	₱2,397,261,102	₱1,871,325,453	₱1,337,805,962

26. Finance Income

Finance income is derived from the following sources:

	2008	2007	2006
Interest on:			
Real estate receivable	₱413,524,398	₱258,558,285	₱215,878,662
Short-term placements	125,149,723	88,600,371	109,820,228
Bank savings account	33,877,899	24,376,963	32,615,975
	₱572,552,020	₱371,535,619	₱358,314,865

27. Finance Costs

The finance costs are incurred from the following:

	2008	2007	2006
Interest on:			
Bank loans and short-term borrowings	₱452,857,492	200,032,276	164,685,703
Long-term borrowings	97,625,472	₱251,133,948	₱236,063,229
Loans to affiliated entities	971,821	63,496,109	3,978,082
Purchase contracts	612,488	704,515	23,974,286
	₱552,067,273	₱515,366,848	₱428,701,300

28. Other Income (Charges)

This account consists of:

	2008	2007	2006
Rental income	₱96,406,883	₱61,067,342	₱60,161,360
Dividend income	47,978,565	3,937,366	6,972
Foreign exchange gain - net	12,749,249	21,841,413	104,494,141
Commission income	1,974,157	–	–
Gain on sale of property and equipment - net	43,304	11,396,121	162,529,260
Write off of deposits	–	(300,000,000)	–
Others	167,930,705	64,479,079	88,933,670
	₱327,082,863	(₱137,278,679)	₱416,125,403

29. Income Taxes

The components of net deferred tax assets as of December 31, 2008 and 2007 follow:

	2008	2007
Deferred tax assets on:		
Allowance for:		
Doubtful accounts	₱1,786,205	₱15,894,338
Inventory obsolescence	1,926,083	3,409,439
Probable loss	-	7,500,000
Pension liabilities	5,154,915	23,420,271
Accrued expenses and other expense	481,219	-
Unrealized forex loss	1,309,877	-
Unamortized discount on receivables	-	25,762,434
NOLCO	25,599,696	-
MCIT	480,851	-
	36,738,846	75,986,482
Deferred tax liabilities on:		
Excess of book over tax income pertaining to construction contracts and real estate sales	-	(58,239,527)
Unamortized discount on payable to landowners	(572,933)	-
Others - net unrealized gain	(1,266,860)	(600,358)
	(1,839,793)	(58,839,885)
	₱34,899,053	₱17,146,597

The components of net deferred tax liabilities as of December 31, 2008 and 2007 follow:

	2008	2007
Deferred tax assets on:		
Allowance for:		
Doubtful accounts	₱88,132,846	₱9,415,997
Inventory obsolescence	15,986,077	18,650,424
Probable loss	14,412,747	28,176,508
Unamortized discount on receivables	34,173,401	43,246,519
Pension liabilities	51,653,963	21,173,729
Accrued expenses and other expense	5,645,154	6,586,014
Provision for decommissioning and site rehabilitation	3,961,295	4,271,819
Unamortized discount on security deposits	9,383,914	-
Unearned rental income	6,456,115	-
MCIT	40,884,737	-
	270,690,249	131,521,010

(Forward)

	2008	2007
Deferred tax liabilities on:		
Incremental cost of property, plant and equipment	(46,951,572)	(80,363,926)
Excess of book over tax income pertaining to construction contracts and real estate sales	(187,963,352)	(67,794,941)
Unamortized discount on payable to landowners	(25,734,355)	(21,915,999)
Unamortized prepaid rent	(9,329,535)	-
Excess of pension contributions over pension cost	(4,597,243)	-
Asset revaluation - appraisal increase on Investment properties and property and equipment	(438,592,688)	-
Capitalized interest on real estate for sale and development deducted in advance	(2,262,297)	-
Others - net unrealized gain	(17,527,104)	(44,525,952)
	(732,958,146)	(214,600,818)
	(P462,267,897)	(P83,079,808)

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:

	2008	2007
Allowance for losses on assets	P115,326,489	P25,740,844
Allowance for doubtful accounts	143,932,389	2,954,879
NOLCO	82,945,795	-
Accrued expenses	79,480,249	-
MCIT	3,890,797	-
	P425,575,719	P28,695,723

The deferred income tax effects of the above deductible temporary differences for which no deferred tax assets are recognized amounted to P130.4 million and P10.04 million as of December 1, 2008 and December 31, 2007, respectively. Deferred tax assets are recognized only to 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 P14.58 million.

As of December 31, 2007, the Group's available NOLCO amounting to P14.36 million was applied against the current provision for income tax and income tax payables.

The provision for (benefit from) income tax shown in the consolidated statement of income consists of:

	2008	2007	2006
Final	₱5,995,727	₱13,825,954	₱9,396,980
Current	615,524,488	484,153,681	514,368,812
Deferred	73,630,156	(21,079,640)	(61,137,989)
	₱695,150,371	₱476,899,995	₱462,627,803

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

	2008	2007	2006
Statutory income tax rate	35.00%	35.00%	35.00%
Adjustments for:			
Changes in unrecognized deferred tax assets	4.41	0.79	(1.24)
Nondeductible interest expense	0.47	0.11	1.17
Nondeductible expenses	0.26	0.20	0.02
Nondeductible (nontaxable) equity in net losses (earnings) of associates and jointly controlled entities	3.08	(18.50)	(0.53)
Interest income subjected to final tax at a lower rate - net	(0.91)	(1.21)	(2.58)
Additional deductible expenses	(0.09)	(0.10)	
Gain on sale of investments in shares of stock subjected to final tax	-	(2.01)	(6.75)
Non taxable dividend income	(0.02)	(1.21)	-
Tax-exempt income	(10.64)		
Gain on sale of dilution	-	(1.81)	-
Change in tax rate	(6.11)	6.29	-
Others - net	-	-	1.07
Effective income tax rate	25.45%	17.55%	26.16%

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

In 2008 and 2007, the BOI issued in favor of PDI a Certificate of Registration as a New Developer of Mass Housing Project for its 4 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 commencing from 2007 until 2011.

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.

30. Basic / Diluted Earnings Per Share

The following table presents information necessary to calculate basic earnings per share (in thousands except basic earnings per share):

	2008	2007	2006
Net income	₱1,687,900	₱2,273,756	₱1,135,299
Divided by weighted average number of common shares	2,655,494	2,409,577	2,255,494
Basic earnings per share	₱0.64	₱0.94	₱0.50

The assumed conversion of the Group's preferred shares has no dilutive effect. Accordingly, no diluted earnings per share is presented in the accompanying consolidated statement of income in 2008, 2007 and 2006.

31. Coal Supply Agreements with NPC, Solid Cement Corporation and APO

NPC

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

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

- a) NPC to be entitled to an additional 3% discount in the event that its aggregate lifting in any given year exceeds 1,100,000 MT up to 2,400,000 MT of coal. Discount computation shall start on the month its aggregate lifting exceeds 1,100,000 MT of coal;
- b) maintenance by the Company, at its own expense, of a minimum coal running inventory of at least 100,000 MT that meets the applicable coal specifications set forth in the second amendment of the CSA and ready in all aspects for loading and delivery to Calaca I and Calaca II;
- c) limitation in the coal's sulfur content to 1.0% in compliance with the Clean Air Act and reduction in its ash specification to 20% to minimize coal handling problems;
- d) inclusion of certain bases of NPC's exercise of its rights to reject and/or stop coal deliveries by the Company to NPC, consequences of coal rejection in terms of title and risk of loss to coal delivered, relief from payment by NPC, and removal of delivered coal from NPC premises; and remedies for the Company in the event NPC exercises such rights;

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

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

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

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

Solid and SSP

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

As provided for in the MOA, the Company received advance payments that are subsequently applied against coal delivery sales. The unapplied portion of these advance payments are presented as "Customers' advances and deposits" account in the balance sheet (Note 17).

32. 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 ₱253.38 million and ₱191.29 million as of December 31, 2008 and 2007, respectively. The liabilities, amounting to ₱52.73 million and ₱53.56 million are included under the "Accounts and other payables" account in the balance sheet (see Note 16).

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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.

33. Segment Reporting

Business Segment Information

Financial information by segment is reported on the basis used internally for evaluating segment performance and allocating resources among operating segments.

The industry segments where the Group operates are: general construction, coal mining, real estate development, water and Parent Company and others.

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, 2008, 2007 and 2006 and property, plant and equipment additions, total assets and total liabilities for the business segments as of December 31, 2008, 2007 and 2006 (amounts in millions):

2008

	General Construction	Real Estate Mining Development	Water	Parent Company and Others	Total	
Revenue	P6,728	P8,941	P4,737	P-	P752	P21,158
Net income	394	810	757	81	(6)	2,036
Depreciation, Depletion and Amortization	404	1,084	38	-	4	1,530
Net finance income (expense)	(73)	(25)	82	-	36	20
Income taxes	219	244	218	-	14	695
Property, plant and equipment additions	577	1,721	189	-	137	2,624
Segment Assets	8,536	6,484	16,441	3,037	1,235	35,733
Segment Liabilities	6,153	1,963	8,821	-	337	17,274

2007

	General Construction	Real Estate Mining Development	Water	Parent Company and Others	Total	
Revenue	P4,685	P6,467	P2,455	P-	P569	P14,176
Net income	324	632	671	1,239	240	3,106
Depreciation, Depletion and Amortization	104	1,335	10	-	231	1,680
Net finance income (expense)	(17)	(100)	79	-	(106)	(144)
Income taxes	(18)	327	180	-	56	545
Property, plant and equipment additions	550	353	263	-	85	1,251
Segment Assets	7,073	6,612	7,756	3,037	3,829	28,307
Segment Liabilities	3,282	1,979	5,126	-	1,256	11,643

2006

	General Construction	Mining	Real Estate Development	Water	Parent Company and Others	Total
Revenue	₱2,933	₱4,688	₱1,905	₱-	₱362	₱9,888
Net income	137	601	287	(28)	386	1,383
Depreciation, Depletion and Amortization	32	1,336	12	-	33	1,413
Net finance income (expense)	(6)	(159)	112	-	59	6
Income taxes	86	309	59	-	9	463
Property, plant and equipment additions	139	1,504	35	-	13	1,691
Segment Assets	5,405	6,265	3,351	37	12,433	20,625
Segment Liabilities	1,092	2,254	3,947	-	1,648	8,939

The Group generally accounts for inter-segment sales and transfers as if the sales or transfers were to third parties at current market prices.

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, 2008 and 2007.

	2008		2007	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Loans and Receivables				
Cash and cash equivalents				
Cash on hand and in banks	₱1,387,248,507	₱1,387,248,507	₱823,987,335	₱823,987,335
Cash equivalents	1,681,374,630	1,681,374,630	2,715,660,264	2,715,660,264
Receivables - net				
Trade				
Real estate	4,328,215,558	5,535,888,432	2,753,686,371	3,408,218,524
General construction	1,303,863,614	1,303,863,614	534,090,850	534,090,850
Coal mining	1,746,515,688	1,746,515,688	1,066,938,992	1,066,938,992
Receivable from related parties	1,220,009,755	1,220,009,755	303,614,528	303,614,528
Advances to officers and employees	60,570,452	60,570,452	11,848,505	11,848,505
Other receivables	488,889,101	488,889,101	245,601,436	245,601,436
Refundable deposits	430,068,490	430,068,490	142,846,122	142,846,122
	12,646,755,795	13,854,428,669	8,598,274,403	9,252,806,556
AFS investments				
Quoted securities	25,727,237	25,727,237	29,602,368	29,602,368
Unquoted securities	177,205,834	177,205,834	173,070,692	173,070,692
	202,933,071	202,933,071	202,673,060	202,673,060
	₱12,849,688,866	₱14,057,361,740	₱8,800,947,463	₱9,455,479,616
Financial Liabilities				
Accounts and other payables	₱6,484,123,139	₱6,484,123,139	₱2,766,998,825	₱2,766,998,825
Liabilities for purchased land	926,732,340	758,563,511	602,940,101	593,528,002
Payable to related parties	891,838,563	891,838,563	378,888,940	378,888,940
Loans payable and long-term debt - including current portion	6,829,761,644	6,865,443,356	3,905,616,785	4,440,900,617
Other noncurrent liabilities	17,954,316	17,954,316	16,955,199	16,955,199
	₱15,150,410,002	₱15,017,922,885	₱7,671,399,850	₱8,197,271,583

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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 balance sheet 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 2008 and 2007 ranged from 10.00% to 13.00%.

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 balance sheet 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.

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.

Foreign exchange risk

The Group's foreign exchange risk results primarily from movements of the Philippine Peso against the United States Dollar. Majority of revenues are generated in Pesos and some of the capital expenditures are in US\$. Approximately 6.39% and 46% of debts as of December 31, 2008 and 2007, respectively, were denominated in US\$.

Information on the Group's foreign currency-denominated monetary assets and liabilities and their Philippine peso equivalents as of December 31, 2008 and 2007 follows:

	2008			
	U.S. Dollar	Japanese Yen	UK Pounds	Php Equivalent
Assets				
Cash and cash equivalents	\$4,909,645	¥789,397	£35,050	₱237,288,591
Trade receivables				
Coal mining	154,547	—	—	154,547
General Construction	5,147,064	—	—	5,147,064
	10,211,256	789,397	35,050	242,590,202
Liabilities				
Accounts and other payables	4,402,469	—	—	4,402,469
Long-term debt (including current portion)	7,475,029	—	—	7,475,029
	11,877,498	—	—	11,877,498
Net foreign currency denominated assets	(\$1,666,242)	¥789,397	£35,050	₱230,712,704

	2007			
	U.S. Dollar	Japanese Yen	UK Pounds	Php Equivalent
Assets				
Cash and cash equivalents	\$32,907,409	¥40,000,000	£233,367	₱1,469,029,399
Trade receivables				
Coal mining	7,129,269	—	—	294,296,224
Investment in Stocks	1,000,000	—	—	46,650,000
	41,036,678	40,000,000	233,367	1,809,975,623
Liabilities				
Accounts and other payables	1,669,348	—	—	68,910,685
Long-term debt (including current portion)	12,065,361	—	—	498,058,102
	13,734,709	—	—	566,968,787
Net foreign currency denominated assets	\$27,301,969	¥40,000,000	£233,367	₱1,243,006,836

The exchange rates used to restate the Group's foreign currency-denominated assets and liabilities as of December 31, 2008 and 2007 follow:

	2008	2007
US Dollar - Philippine Peso	₱47.52 to US\$1.00	₱41.28 to US\$1.00
Japanese Yen - Philippine Peso	0.52 to ¥1.00	0.36 to ¥1.00
UK Pounds - Philippine Peso	₱70.09 to UK1.00	₱82.64 to UK1.00

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, 2008.

Increase/(decrease) in Peso per U.S. Dollar rates	₱1	(₱1)
Effect on profit before tax	(35,064)	35,064
Effect on equity	(35,064)	35,064
Increase/(decrease) in Peso per Japanese Yen	₱0.05	(₱0.05)
Effect on profit before tax	75,904	(75,904)
Effect on equity	75,904	(75,904)

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Increase/(decrease) in Peso per UK Pounds	₱8	(₱8)
Effect on profit before tax	4,001	(4,001)
Effect on equity	4,001	(4,001)

The Group recognized ₱9.70 million and ₱266.67 million foreign exchange gain for the years ended December 31, 2008 and 2007, respectively, arising from the translation of the Group's cash and cash equivalents, trade receivables and long-term debt.

Credit risk

The Group's exposure to credit risk arises from default of the counterparties which include certain financial institutions, real estate buyers, subcontractors and suppliers. 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.

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 balance sheet.

	2008	2007
Balance sheet items		
Cash and cash equivalents		
Cash on hand and in banks	₱1,387,248,507	₱823,987,335
Cash equivalents	1,681,374,630	2,715,660,264
Available-for-sale financial assets		
Quoted securities	25,727,237	29,602,368
Unquoted securities	177,205,834	173,070,692
Receivables		
Trade		
Real estate	3,749,128,979	2,753,686,371
General construction	1,657,594,648	534,090,850
Coal Mining	1,773,418,539	1,066,938,992
Receivable from related parties	1,220,009,755	303,614,528
Advances to officers and employees	60,570,452	11,848,505
Other receivables	489,783,733	245,601,436
Refundable deposits	430,068,490	142,846,122
Total credit risk exposure	₱12,652,130,804	₱8,800,947,463

As of December 31, 2008 and 2007, the credit quality per class of financial assets that were neither past due nor impaired is as follows:

2008

	Neither past due nor impaired			Past due or Individually impaired	Total
	Grade A	Grade B	Grade C		
Cash and cash equivalents	P3,068,623,137	P-	P-	P-	P3,068,623,137
Available-for-sale financial assets	202,933,071	-	-	-	202,933,071
Trade:					
Real estate	2,888,630,277	506,082,419	-	995,636,904	4,390,349,600
General construction	1,301,190,504	-	-	356,404,144	1,657,594,648
Coal Mining	767,844,423	72,668,132	-	932,905,984	1,773,418,539
Receivable from related parties	1,220,009,755	-	-	-	1,220,009,755
Advances to officers and employees	60,145,537	-	-	424,915	60,570,452
Other receivables	307,580,755	126,894,652	-	55,308,326	489,783,733
Refundable deposits	430,068,490	-	-	-	430,068,490
Total	P10,247,025,949	P705,645,203	P-	P2,340,680,273	P13,293,351,425

2007

	Neither past due nor impaired			Past due or Individually Impaired	Total
	Grade A	Grade B	Grade C		
Cash and cash equivalents	P3,539,647,599	P-	P-	P-	P3,539,647,599
Available-for-sale financial assets	202,673,060	-	-	-	202,673,060
Trade:					
Real estate	1,032,693,661	753,875,283	-	967,117,427	2,753,686,371
General construction	283,341,804	212,285,519	-	38,463,527	534,090,850
Coal Mining	663,816,967	90,726,026	-	312,395,999	1,066,938,992
Receivable from related parties	303,614,528	-	-	-	303,614,528
Advances to officers and employees	11,848,505	-	-	-	11,848,505
Other receivables	223,374,401	-	-	7,380,686	230,755,087
Refundable deposits	142,846,122	-	-	-	142,846,122
Total	P6,403,856,647	P1,056,886,828	P-	P1,325,357,639	P8,786,101,114

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

2008

	Neither Due nor Impaired	Past due but not impaired					Impaired Assets	Total
		<30 days	30-60 days	60-90 days	90-120 days	>120 days		
Receivables								
Trade								
Real estate	P3,084,547,724	P362,080,764	P 155,110,395	P99,758,387	P292,167,034	P86,520,324	P310,164,972	
General construction	1,301,190,504	-	-	-	-	-	356,404,144	
Coal Mining	840,512,555	880,447,054	44,770,426	-	-	-	7,688,504	
Due from related parties	1,220,009,755	-	-	-	-	-	-	
Advances to officers and employees	60,145,537	-	-	-	-	-	424,915	
Other receivables	434,475,407	-	-	-	-	-	55,308,326	
Refundable deposits	430,068,490	-	-	-	-	-	-	
Total	P7,370,949,972	P1,242,527,818	P199,880,821	P99,758,387	P292,167,034	P86,520,324	P729,990,861	
							P10,021,795,217	

2007

	Neither Due nor Impaired	Past due but not impaired					Impaired Assets	Total
		<30 days	30-60 days	60-90 days	90-120 days	>120 days		
(In thousands)								
Receivables								
Trade								
Real estate	₱1,845,462,692	₱79,542,610	₱206,401,675	₱164,550,168	₱262,099,970	₱187,618,565	₱8,010,691	₱2,753,686,371
General construction	495,627,323						38,463,527	534,090,850
Coal Mining	754,542,993	120,135,794	90,101,849	60,067,899	15,187,607		26,902,850	1,066,938,992
Due from related parties	303,614,528							303,614,528
Advances to officers and employees	11,848,505							11,848,505
Other receivables	223,374,401						7,380,686	230,755,087
Refundable deposits	142,846,122							142,846,122
Total	₱3,777,316,564	₱199,678,404	₱296,503,524	₱224,618,067	₱277,287,577	₱187,618,565	₱80,757,754	₱5,043,780,455

Liquidity risk

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.

2008

	Within 1 year	1-2 years	2-3 years	3-4 years	Total - Gross (In US\$)	Total - Gross (in PHP)
Liabilities:						
Floating Rate						
US\$15.14 million loan						
6 month USD LIBOR plus 1.5% per annum	\$3,027,672	\$1,321,546	\$-	\$-	\$4,349,218	₱206,674,854
US\$6.64 million loan						
3 month SIBOR plus 1.95% per annum	\$1,562,824	\$1,562,824	\$-	\$-	\$3,125,648	148,530,748
Fixed Rate						
Various letters of credits and suppliers debt with various interest rates	₱725,363	-	-	-	-	725,363
Various local bank loans						
7.88% to 14.4%	₱769,115,928	₱659,091,280	₱507,319,702	-	-	1,935,526,910
Long-term debt (contracts receivables discounting)						
7.5% to 10%	₱921,419,320	₱928,482,365	₱737,364,114	₱626,855,823	-	3,214,121,622
					\$7,474,866	₱5,505,579,497

2007

	Within 1 year	1-2 years	2-3 years	3-4 years	Total - Gross (In US\$)	Total - Gross (in PHP)
Liabilities:						
Floating Rate						
US\$15.14 million loan						
6 month USD LIBOR plus 1.5% per annum	\$3,027,672	\$3,027,672	\$1,321,546	–	\$7,376,890	₱304,518,019
US\$6.64 million loan						
3 month SIBOR plus 1.95% per annum	\$1,562,824	\$1,562,824	\$1,562,824	–	\$4,688,472	193,540,124
Fixed Rate						
Various letters of credits and suppliers debt with various interest rates	₱302,211,822	–	–	–	–	302,211,822
Various local bank loans 7.88% to 14.4%	₱662,943,987	₱232,117,894	–	–	–	895,061,881
Long-term debt (contracts receivables discounting) 7.5% to 10%	₱647,748,066	₱405,858,732	₱286,149,892	₱789,377,919	–	2,129,134,609
					\$12,065,362	₱3,824,466,454

Interest rate risk

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 shows the information about the Group's significant financial instruments that are exposed to cash flow and fair value interest rate risks and presented by maturity profile.

2008

	Within 1 year	1-2 years	2-3 years	3-4 years	More than 4 years	Fair Value
(In Thousands)						
Cash equivalents						
Interest Rates 5.25% to 6.5%	₱2,354,284	₱–	₱–	₱–	₱–	₱2,354,284
Contracts receivable						
Effective Interest Rates 10% to 21.50%	619,298	582,583	507,718	506,973	1,613,270	3,829,842
	₱2,973,582	₱582,583	₱507,718	₱506,973	₱1,613,270	₱6,184,126
Long-term debts						
Fixed Rate						
Local bank loan (contracts receivables discounting) 7.5% to 10% interest rate	₱932,826	₱584,480	₱412,087	₱304,603	₱693,488	₱2,927,484
Various local bank loans 7.88% to 14.4% interest rate	875,151	306,419	–	–	–	1,181,570
Various letters of credit 8-11% interest rate	725,363	–	–	–	–	725,363
Floating Rate						
\$15.14 million loan (USD) 6 month USD LIBOR Plus 1.5% per annum	143,875	62,800	–	–	–	206,675
\$6.64 million loan (USD) 3 month SIBOR Plus 1.95% per annum	74,265	74,265	–	–	–	148,530
	₱2,751,480	₱1,027,964	₱412,087	₱304,603	₱693,488	₱5,189,622

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2007

	Within 1 year	1-2 years	2-3 years	3-4 years	More than 4 years	Fair Value
(In Thousands)						
Cash equivalents						
Interest Rates						
5.25% to 6.5%	₱2,715,660	₱-	₱-	₱-	₱-	₱2,715,660
Contracts receivable						
Effective Interest Rates						
10% to 21.50%	454,866	427,511	372,912	372,365	1,184,926	2,812,580
	₱3,170,526	₱427,511	₱372,912	₱372,365	₱1,184,926	₱5,528,240
Long-term debts						
Fixed Rate						
Local bank loan (contracts receivables discounting)	₱647,748	₱405,859	₱286,150	₱211,514	₱577,864	₱2,129,135
7.5% to 10% interest rate						
Various local bank loans	662,944	232,118	-	-	-	895,062
7.88% to 14.4% interest rate						
Various letters of credit	302,212	-	-	-	-	302,212
8-11% interest rate						
Floating Rate						
\$15.14 million loan (USD)	124,982	124,982	54,554	-	-	304,518
6 month USD LIBOR						
Plus 1.5% per annum						
\$6.64 million loan (USD)	64,513	64,513	64,513	-	-	193,539
3 month SIBOR						
Plus 1.95% per annum						
	₱1,802,399	₱827,472	₱405,218	₱211,514	₱577,864	₱3,824,466

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

	Change in basis points	
	+100 basis points	
	Effect on income before income tax	
	2008	2007
	(In thousands)	
Company - floating rate borrowings	₱3,555	(₱4,981)

35. 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.

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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, 2008, future minimum lease payments under the aforementioned finance lease and the present value of the net minimum lease payments (in millions) are as follows:

Within one year	₱701,518,163
After one year but not more than five years	374,431,457
<u>Total minimum lease payments</u>	<u>₱1,075,949,620</u>

36. Note to Consolidated Statements of Cash Flows

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

	2008	2007
	(In Thousands)	
Acquisition of conventional and continuous mining equipment on account	₱60,678,076	₱-
Conversion of advances for additional shares in AG&P		478,152

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 23, 2009. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the Index to Financial Statements and Supplementary Schedules are the responsibility of the Company's management. These schedules are presented for purposes of complying with Securities Regulation Code Rule 68.1 and SEC Memorandum Circular No. 11, Series of 2008 and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state in all material 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-1
Tax Identification No. 102-082-365
PTR No. 1566411, January 5, 2009, Makati City

April 23, 2009

*** SGVMC111690 ***

DMCI HOLDINGS, INC.**SUPPLEMENTARY SCHEDULE OF RETAINED EARNINGS
FOR THE YEAR ENDED DECEMBER 31, 2008**

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		
Discount on payable to landowners	2,954,236	
Accretion of discount on payable to landowners	1,501,865	
Net income actually earned during the period		658,013,592
Add (less):		
Dividend declarations during the period		(265,529,629)
Unappropriated Retained Earnings, available for dividend distribution, ending		₱3,229,027,227

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