# COVER SHEET

A S O 9 5 0 0 2 2 8 3
SEC Registration Number

**D M C I  H O L D I N G S , I N C .**

(Company's Full Name)

3 R D  F L R . D A C O N  B L D G .  2 2 8 1
C H I N O  R O C E S  A V E . M A K A T I  C I T Y

(Business Address: No., Street City / Town / Province)

HERBERT M. CONSUNJI
Contact Person

888-3000
Company Telephone Number

(Third Tuesday of May)

| 1 2 | 3 1 | **SEC Form 17-Q**<br>**Third Quarter Interim Report 2019** | 0 5 | 2 1 |
|---|---|---|---|---|
| Month | Day | FORM TYPE | Month | Day |
| Fiscal Year | | | Annual Meeting | |

N.A.
Secondary License Type, If Applicable

C F D
Dept Requiring this Doc

Amended Articles Number / Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

STAMPS

Remarks: Please use BLACK ink for scanning purposes

**SECURITIES AND EXCHANGE COMMISSION**

**SEC FORM 17-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE SECURITIES REGULATION CODE AND SRC RULE 17(2)(b) THEREUNDER**

1. For the quarter ended **September 30, 2019**

2. SEC Identification No. AS095-002283 3. BIR Tax Identification No. 004-703-376

DMCI Holdings, Inc.

4. Exact name of issuer as specified in its charter

5. Philippines 6. (SEC Use Only)

Province, Country or other jurisdiction of incorporation or organization

Industry Classification Code:

7. 3rd Floor, Dacon Building, 2281 Pasong Tamo Ext., Makati city1231

Address of principal office Postal Code

8. Tel. (632) 8888-3000 Fax : None

Issuer's telephone number, including area code

9. Not applicable

Former name, former address, and former fiscal year, if changed since last report.

10. Securities registered pursuant to Sections 8 and 12 of the SRC, or Sec. 4 and 8 of the RSA

| Title of Each Class | No. of Shares Outstanding | Amount |
|---|---|---|
| Common Shares | Php13,277,470,000.00 | Php13,277,470,000.00 |
| Preferred Shares | 960.00 | 960.00 |
| TOTAL | Php13,277,470,960.00 | Php13,277,470,960.00 |

11. Are any or all of these securities listed on a Stock Exchange.

Yes [X] No [ ]

If yes, state the name of such stock exchange and the classes of securities listed therein:

| | |
|---|---|
| Philippine Stock Exchange | Class "A" Shares |
| | Preferred Shares |

12. Indicate by check mark whether the registrant:

(a) has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder or Sections 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines, during the preceding twelve (12) months (or for such shorter period the registrant was required to file such reports)

Yes [ X ] No [ ]

(b) has been subject to such filing requirements for the past ninety (90) days.

Yes [ X ] No [ ]

**PART I--FINANCIAL INFORMATION**

**Item 1. Financial Statements.**

The Financial Statements as of and for the period ended **September 30, 2019** are contained herein.

**MANAGEMENT DISCUSSION AND ANALYSIS OF RESULTS OF CONSOLIDATED OPERATIONS AND CONSOLIDATED FINANCIAL CONDITION AS OF AND FOR THE PERIOD ENDED SEPTEMBER 30, 2019**

***September 30, 2019 (Unaudited) vs September 30, 2018 (Restated)***

**I. RESULTS OF OPERATIONS**

Below is a table on the net income contributions of the Company's businesses for 2019 and 2018:

**CONSOLIDATED NET INCOME AFTER NON-CONTROLLING INTERESTS**

| | For the Period | | Variance | |
|---|---|---|---|---|
| ***(in Php Millions)*** | 2019 | 2018[1] | Amount | % |
| SEMIRARA MINING AND POWER CORPORATION | P4,662 | P5,427 | (P765) | -14% |
| DMCI HOMES | 1,801 | 1,797 | 4 | 0% |
| MAYNILAD | 1,569 | 1,476 | 93 | 6% |
| D.M. CONSUNJI, INC. | 664 | 952 | (288) | -30% |
| DMCI POWER (SPUG) | 341 | 337 | 4 | 1% |
| DMCI MINING | 87 | 133 | (46) | -35% |
| PARENT & OTHERS | 185 | 171 | 14 | 8% |
| **CORE NET INCOME** | 9,309 | 10,293 | (984) | -10% |
| NON-RECURRING ITEMS | – | 147 | (147) | -100% |
| **REPORTED NET INCOME** | **P9,309** | **P10,440** | **(P1,131)** | **-11%** |

*[1] Restated to reflect PFRS 15 impact in DMCI Homes and SMPC royalty*

DMCI Holdings, Inc. (the "Company") recorded P9.3 billion in consolidated net income for the first nine months of 2019, an 11% drop from P10.4 billion last year due to the weak contributions of Semirara Mining and Power Corporation (SMPC), D.M. Consunji, Inc. and DMCI Mining. Excluding non-recurring items, core net income slipped 10% to P9.3 billion from P10.3 billion last year.

For the third quarter alone, the Company posted a 47% improvement in consolidated net income from P1.9 billion to P2.8 billion. The double-digit improvement was mainly attributable to the normalized coal operations of SMPC compared to last year when heavy rains in July and August caused a production slowdown. Likewise, core net income for the quarter improved by 24% to P2.6 billion from P2.1 billion last year.

Non-recurring items in 2018 amounted to P147 million which mainly pertains to the one-time gain on sale of land of DMCI Homes and the share in accelerated depreciation of Sem-Calaca Power Corporation (SCPC) due to rehabilitation of Units 1 and 2 power plants. Meanwhile, the 2019 share in the accelerated depreciation of SCPC were offset by the share in one-time income from insurance claims of Southwest Luzon Power Generation Corporation (SLPGC).

For the first nine months, core net income contributions from SMPC dropped 14% from P5.4 billion to P4.7 billion following a 17-percent decline in power generation and a 22-percent drop in coal prices.

DMCI Homes contributed P1.8 billion core income, flat compared to the same period last year due to lower percentage of completion in ongoing projects.

Meanwhile, share in core net income from affiliate Maynilad grew 6% from P1.5 billion to P1.6 billion primarily owing to a 2% growth in billed volume, a 5.7% inflation rate adjustment and a 2.7% increase in basic charge.

Net income contribution from DMCI slipped by 30% from P952 million to P664 million as a result of right-of-way acquisition delays and the absence of variation orders realized from projects nearing completion.

Off-grid energy business DMCI Power Corporation contributed P341 million, nearly unchanged from P337 million last year. This was due to the combined effect of lower electricity dispatch in favor of hydropower plants in Oriental Mindoro during the third quarter and the expiration of the company's supply contract in Sultan Kudarat last December 2018.

DMCI Mining Corporation recorded a 35% decline in net income contributions from P133 million to P87 million as the company shipped more lower-grade nickel at lower average selling price.

Contributions from Parent Company and other investments rose 8% from P171 million to P185 million due to higher interest income.

## SEMIRARA MINING AND POWER CORPORATION

The coal and on-grid power businesses are reported under Semirara Mining and Power Corporation, a 56.65% owned subsidiary of DMCI Holdings, Inc.

### COAL

Mining operations took advantage of the increased capacity and favorable weather condition during the first nine months of 2019. As a result, materials moved increased by 25% year-on-year to 145.7 million bank cubic meter (BCM) from 116.9 million BCM against last year. Quarter-on-quarter, materials moved increased by 12% to 38.7 from 34.6 million BCM. A lower strip ratio was achieved in the 3rd quarter at 10.3 from 20.0 same period last year due to favorable weather which prompted coal production to significantly increase by 106% to 3.5 million tons from 1.7 million tons quarter on quarter. Meanwhile, coal production increased by 35% year-on-year with aggregate strip ratio of 11.4. On the other hand, coal sales volume for the first nine months of 2019 stood at 12.1 million tons, 45% up from 8.3 million tons driven by higher coal production during the year. Of the total sales volume, 68% went to export sales while the remaining are sold to power and cement plant customers. Drop in global coal prices translated to a 22% decrease in coal average selling price from P2,740/ton last year to P2,133/ton this year.

**POWER**
Power generation from 2x300 MW Units 1 and 2 and 2x150MW Units 3 and 4 totaled 2,537 GWh in the first nine months of 2019, 17% down from 3,059 GWh last year. Unit 1 was under maintenance on December 30, 2018 and declared commercial operation on October 17, 2019. Unit 2, however, ran at a de-rated capacity during the period. Meanwhile, higher availability and average capacity of Units 3 and 4 offset the decline as power generation of both plants surged by 96% from 773 GWh to 1,513 GWh this year. Consequently, total volume sold for the first nine months of 2019 slipped by 12% to 2,737 GWh from 3,109 GWh last year. Meanwhile, average price declined by 7% from P4.24/KWh in 2018 to P3.97/KWh in 2019 due to softer global coal prices.

**PROFITABILITY**
Consolidated net income after tax for the first nine months of 2019 dropped 5% to P8.2 billion from P8.7 billion restated earnings last year. The restatement of 2018 comparative figure is to reflect the change in measurement of royalty expense. Net of eliminations, the coal segment generated a net income of P6.0 billion while Sem-Calaca (Units 1 and 2) and Southwest Luzon Power and Generation (Units 3 and 4) generated P0.2 billion net loss and P2.5 billion net income, respectively, for the power segment. As a result, net income contribution to the Parent Company fell by 5% from P4.9 billion to P4.7 billion in the first nine months of 2019. Excluding non-recurring items, SMPC's core income attributable to DMCI Holdings declined 14% from P5.4 billion to P4.7 billion.

*For detailed information – refer to SMPC 17Q filed with SEC and PSE.*

**DMCI HOMES**

Net income contribution of wholly owned subsidiary, DMCI Project Developer's Inc. (PDI) amounted to P1.8 billion during the first nine months of 2019. Excluding the one-time gain on sale of land last year, the Company's posted a flattish figure from P1.8 billion restated earnings.

The Company posted a modest increase of 3% in realized revenues from P14.7 billion to P15.2 billion as lower percentage of completion in ongoing projects offset the increase in the number of accounts that reached the collection threshold for revenue recognition. Total operating costs (under cost of sales and operating expenses) grew at the same pace of 3% from P12.9 billion to P13.2 billion. Meanwhile, other income slipped by 35% due to decrease of income on forfeitures from cancelled sales.

Effective in 2018, DMCI Homes adopted PFRS 15. The new accounting standard resulted in significant changes in the Company's revenue process such as determination of actual costs incurred and recognition of sellers' commission as cost of sales instead of budgeted costs.

Sales and reservations for the first three quarters of 2019 stood at P30.8 billion, 8% down from P33.5 billion last year due mainly to the timing of project launches. From January to September 2019, the Company has launched three projects in Quezon City and Pasig City with estimated sales value of P30 billion.

On the other hand, capex disbursements grew by 47% to P15.1 billion from P10.3 billion last year. Of the amount spent in 2019, 59% went to development cost and the rest to land and asset acquisition.

**MAYNILAD**

Maynilad's water and sewer service revenue for the first nine months of 2019 rose by 10.3% to P17.7 billion from P16.1 billion driven by higher billed volume coupled with inflation rate adjustment of 5.7% in January 2019 and the tariff adjustment of 2.7% in October 2018.

Average non-revenue water at district metered area (DMA) level improved from 30.53% in 2018 to 26.82% in 2019 as a result of the 3.1% decrease in water supply coupled with the 2.0% billed volume growth during the year.

Cash operating expenses grew by 2.4% to P4.7 billion due to higher personnel costs and water treatment chemical cost for the period. Meanwhile, noncash operating expenses rose by 21.2% primarily driven by increases in amortization of intangible assets which grew in line with Maynilad's continuing capital expenditure program.

As a result, Maynilad reported a net income of P6.4 billion in the first nine months of 2019, a 10% improvement from P5.8 billion last year. After adjustments at the consortium company level, the Company's equity in net earnings reported a 10% growth from P1.4 billion in 2018 to P1.6 billion in 2019. Excluding the share in one-time loan refinancing cost in 2018 and other non-recurring items, equity in net earnings rose by 6% from P1.5 billion to P1.6 billion.

In September 2019, Maynilad received a copy of a Supreme Court decision that the water concessionaires and MWSS are jointly and severally liable for violating Section 8 of Clean Water Act. In October 2019, Maynilad filed a Motion for Reconsideration of the decision asking the Supreme Court, among other things, to reverse its Decision. Since its re-privatization in 2007, Maynilad has since built new STPs, and, as of September 2019, it has expanded its sewerage coverage to 20.27% of the now 9,655,248 water-served population. Based on its MWSS approved Business Plan, Maynilad will invest P186.5 billion until 2037 to attain full sewerage coverage. This is being undertaken in phases to manage the impact on traffic, owing to the required excavations, but also on the tariff as consumers will ultimately have to pay for these services.

Following a constructive and professional rate rebasing, Maynilad was awarded a 16.2% tariff increase – excluding inflation – to be implemented on a staggered basis. The Metropolitan Waterworks and Sewerage System ("MWSS") also approved a 5.7% inflation-linked tariff increase in January 2019. Unfortunately, this rebasing did not address Maynilad's corporate income tax recovery issue inherited from the previous Administration.

**D.M. CONSUNJI, INC.**

Earnings from construction business for the first nine months of 2019 amounted to P664 million, 30% down from P952 million last year.

Construction revenue from January to September expanded by 17% from P10.5 billion to P12.3 billion in 2019. Higher accomplishment from ongoing projects mainly accounted for the revenue growth for the first nine months of 2019. However, the growth was eclipsed by right-of-way acquisition delays and the absence of variation orders realized from projects nearing completion. As a result, gross profit dropped by 16% from P1.7 billion to P1.4 billion in 2019. Meanwhile, operating expenses increased by 28% due mainly to the increase in head office manpower costs and maintenance costs of information system.

Order book (balance of work) at the end of September 2019 stood at P27 billion, 3% down from P27.9 billion at the close of 2018. The order book does not include the North-South Commuter Railway (NSCR) Phase 1 as the project has yet to start. Awarded projects during the first three quarters of the year totaled P9.6 billion which includes the Mi'Casa Kaia Phase 1 residential building of Federal Land, Rehabilitation of CAMANA Water Reclamation Facility of Maynilad, Procurement of Trackwork, Electrical and Mechanical systems and Integration with Existing systems for LRT Line 2 - East (Masinag) Extension Project, Presidential Security Group (PSG) Station Hospital and the University of the Philippines College of Medicine Sciences Building.

**DMCI POWER (SPUG)**

DMCI Power Corporation (DPC), a wholly-owned subsidiary, provides off-grid power to missionary areas through long-term power supply agreements with local electric cooperatives.

As of September 30, 2019, installed rated capacity in Masbate, Palawan and Mindoro totaled 122.46MW. Operations in Sultan Kudarat ended in December 2018 following the expiration of the Power Supply Agreement (PSA) with Sultan Kudarat Electric Cooperative, Inc. (SUKELCO).

Sales volume for the first nine months of 2019 in Masbate (91.35 GWh), Palawan (109.46 GWh) and Mindoro (49.11 GWh) totaled 249.92 GWh, a 10% growth from last year. The lower electricity dispatch in favor of hydropower plants in Oriental Mindoro during the third quarter were offset by higher power demand in Masbate and Palawan. On the other hand, average selling prices increased by 4% from P12.84/kWh to P13.31/kWh due to its higher pass-through fuel component. As a result, total off-grid generation revenue rose by 13% to P3.3 billion from P2.9 billion last year. On the other hand, total costs (under cost of sales and operating expenses) went up by 15% to P2.9 billion driven by higher fuel prices, genset rentals and maintenance costs.

Consequently, net income contribution of the off-grid power segment for the first nine months of 2019 amounted to P341 million, nearly unchanged from P337 million last year.

**DMCI MINING**

The nickel and metals mining business is reported under DMCI Mining Corporation, a wholly-owned subsidiary of DMCI Holdings, Inc.

DMCI Mining Corporation delivered a net income contribution of P87 million for the first nine months of 2019, a 35% decline from P133 million last year.

Revenues for the first nine months of 2019 improved by 11% to P1.1 billion due to higher shipment of lower-grade nickel ore. Nickel shipments in 2019 stood at 732 thousand wet metric tons (WMT), 52% up from last year's 483 thousand WMT. All nickel shipments for the period came from Berong Nickel

Corporation following the resumption of its mining operations by virtue of the Department of Environment and Natural Resources (DENR) Resolution lifting its Suspension Order last November 2018. However, average selling price declined from P2,025 per WMT to P1,482 per WMT as a result of selling lower grade nickel during the period. Average ore grade of sold inventories stood at 1.61% in 2019 compared to 1.73% in 2018.

Total company cash cost per WMT (under cost of sales and operating expenses) amounted only to P867 per WMT in 2019 compared from P1,235 per WMT in 2018 following the increase in nickel shipment this year.

The segment's total depletion, depreciation and amortization amounted to P165 million in the first nine months of 2019, a 275% increase from P44 million in 2018 upon the resumption of mining operations in Berong.

Through the Resolution dated 30 September 2019, DENR has ordered to Lift the suspension of ZDMC 's mining operations.

**<u>Explanation of movement in consolidated income statement accounts:</u>**

<u>Revenue</u>
Consolidated revenue for the first nine months of 2019 jumped by 10% from P60.3 billion to P66.4 billion due to higher coal sales volume, increase in energy generation of SLPGC (Units 3 and 4) and higher accomplishment in the construction business.

<u>Cost of Sales and Services</u>
From P37.8 billion in 2018, cost of sales and service increased by 23% to P46.4 billion due mainly to higher coal sales volume, increase in energy generation of SLPGC, replacement power incurred in SCPC and higher construction cost.

<u>Operating Expenses</u>
Government royalties for the period amounted to P3.0 billion, 2% down from P3.1 billion last year due to lower profitability of the coal business. Excluding government royalties, operating expenses incurred during the first nine months of 2019 decreased by 7% to P5.1 billion due mainly to lower accelerated depreciation of SCPC.

<u>Equity in Net Earnings</u>
Equity in net earnings of associates grew by 10% as a result of higher income take up from Maynilad.

<u>Finance Income</u>
Consolidated finance income rose by 41% due to interest received by SCPC from PSALM claims.

<u>Finance Cost</u>
Consolidated finance costs expanded by 54% due to new loan availments during the period.

<u>Other Income-net</u>
Other income slipped by 17% due to absence of the one-time gain on sale of land of DMCI Homes.

Provision for Income Tax
Net operating loss of Sem-Calaca (Units 1 and 2) mainly accounted for the 49% drop in consolidated provision for income tax (both current and deferred) during the period.

## II. CONSOLIDATED FINANCIAL CONDITION

***September 30, 2019 (Unaudited) vs December 31, 2018 (Audited)***

The Company's financial condition for the period improved as consolidated total assets and total equity amounted to P198 billion and P101 billion as of September 30, 2019. This is an improvement of 8% and 4%, respectively.

Consolidated cash rose by 25% from P15.5 billion in December 31, 2018 to P19.4 billion in September 30, 2019. The company generated a healthy cash flow from operations amounting to P14.3 billion which was reduced by capital expenditures and dividend payments during the period.

Receivables contracted by 14% from P16.7 billion to P14.5 billion in 2019 driven mainly by the timing of collections and lower energy sales of SCPC.

Contract assets (current and non-current) grew by 16% due to the excess of progress of work over billed accomplishments in the real estate and construction businesses.

Consolidated inventories jumped by 12% from P44.7 billion to P50.2 billion following the land acquisitions of the real estate business and higher spare parts inventory for the on-grid power businesses.

Other current assets rose by 9% to P11.0 billion due mainly to advances to suppliers for equipment and spare parts.

Investments in associates and joint ventures increased by 6% due to investment in a joint venture by DMCI Homes.

Property, plant and equipment stood at P59.7 billion, 5% up from P57.1 billion last year. The increase was attributed to capital expenditures which were offset by depreciation and depletion during the period.

Investment properties decreased by 7% due to depreciation for the year.

Other noncurrent assets expanded by 25% due to additional deferred input vat and real estate broker's commission capitalized during the period.

Accounts and other payables rose by 9% mainly attributed to accruals of work in progress following the rehabilitation of Sem-Calaca Units 1 and 2 and real estate brokers' commission.

Contract liabilities (current and non-current) grew by 5% to P11.8 billion due mainly to excess of customer's deposit/billed accomplishments over progress of work.

Net operating loss of Sem-Calaca (Units 1 and 2) resulted to the drop in income tax payable by 74% from last year balance.

From P41.5 billion, total debt (under short-term and long-term debt) jumped by 21% to P50.2 billion following net loan availments in the real estate business during the period.

Liabilities for purchased land grew by 15% due to the acquisition of land for real estate development.

Pension assets increased by 2% while pension liabilities decreased by 14% due to additional contributions made to the retirement fund.

Other noncurrent liabilities slipped by 6% due to reclassification of commission payable to current liabilities.

Consolidated retained earnings stood at P63.7 billion at the end of September 2019, 5% up from P60.7 billion at the close of 2018 after generation of P9.3 billion net income and payment of P6.4 billion Parent dividends.

Non-controlling interest rose by 7% as a result of the non-controlling share in net income reduced by dividends to non-controlling interest of SMPC.

## III. KEY PERFORMANCE INDICATORS

The Company and its Subsidiaries (the "Group") use the following key performance indicators to evaluate its performance:

a) Segment Revenues
b) Segment Net Income (after Noncontrolling Interests)
c) Earnings Per Share
d) Return on Common Equity
e) Net Debt to Equity Ratio

**SEGMENT REVENUES**

| | For the Period | | Variance | |
|---|---|---|---|---|
| ***(in Php Millions)*** | 2019 | 2018 | Amount | % |
| SEMIRARA MINING AND POWER CORPORATION | P34,134 | P30,868 | P3,266 | 11% |
| DMCI HOMES | 15,225 | 14,747 | 478 | 3% |
| D.M. CONSUNJI, INC. | 12,278 | 10,491 | 1,787 | 17% |
| DMCI POWER (SPUG) | 3,325 | 2,937 | 388 | 13% |
| DMCI MINING | 1,085 | 978 | 107 | 11% |
| PARENT & OTHERS | 323 | 320 | 3 | 1% |
| **TOTAL REVENUE** | **P66,370** | **P60,341** | **P6,029** | **10%** |

The initial indicator of the Company's gross business results is seen in the movements in the different business segment revenues. As shown above, consolidated revenue grew 10% mainly driven by higher coal sales volume, increase in energy generation of SLPGC (Units 3 and 4) and higher accomplishment in the construction business.

**CONSOLIDATED NET INCOME AFTER NON-CONTROLLING INTERESTS**

| | For the Period | | Variance | |
|---|---|---|---|---|
| ***(in Php Millions)*** | 2019 | 2018[1] | Amount | % |
| SEMIRARA MINING AND POWER CORPORATION | P4,662 | P5,427 | (P765) | -14% |
| DMCI HOMES | 1,801 | 1,797 | 4 | 0% |
| MAYNILAD | 1,569 | 1,476 | 93 | 6% |
| D.M. CONSUNJI, INC. | 664 | 952 | (288) | -30% |
| DMCI POWER (SPUG) | 341 | 337 | 4 | 1% |
| DMCI MINING | 87 | 133 | (46) | -35% |
| PARENT & OTHERS | 185 | 171 | 14 | 8% |
| **CORE NET INCOME** | 9,309 | 10,293 | (984) | -10% |
| NON-RECURRING ITEMS | – | 147 | (147) | -100% |
| **REPORTED NET INCOME** | **P9,309** | **P10,440** | **(P1,131)** | **-11%** |

[1] *Restated to reflect PFRS 15 impact in DMCI Homes and SMPC royalty*

The net income (after non-controlling interest) of the Company have multiple drivers for growth from different business segments. For the first nine months of 2019, the weak contributions from SMPC, D.M. Consunji, Inc. and DMCI Mining resulted to the 11% decline in consolidated net income.

**EARNINGS PER SHARE**

Earnings per share (EPS) pertains to the company's income allocated to each outstanding share of common stock. It serves as an indicator of the company's profitability.

The Company's consolidated basic and diluted EPS was P0.70/share for the first nine months ended September 30, 2019, an 11% drop from P0.79/share EPS year-on-year.

**RETURN ON COMMON EQUITY**

Return on common equity is defined as the amount of net income a company earns per amount of shareholders equity. It is one of the common metrics used by investor to determine how effectively their capital is being reinvested. It is arrived at by dividing the net income share of the parent company over the average parent equity. The Company's return on common equity stood at 12% and 13% for the first nine months of 2019 and 2018, respectively.

**NET DEBT TO EQUITY RATIO**

As a stockholder/investor, financial position and stability would be an important aspect. The Company tests its solvency and leverage exposure through the net debt to equity ratio. This test indicates the Company's ownership of creditors vs. owners/investors. Net debt to equity ratio is computed by dividing the interest-bearing loans net of cash and cash equivalents over total equity.

Total borrowings stood at P50.2 billion from P41.5 billion last year, which resulted to a net debt to equity ratio of 0.30:1 as of September 30, 2019 and 0.27:1 as of December 31, 2018.

***FINANCIAL SOUNDNESS RATIOS***

| | **September 30, 2019** | **December 31, 2018** |
|---|---|---|
| Current Ratio | 2.05 times | 2.12 times |
| Net Debt to Equity Ratio | 0.30 times | 0.27 times |
| Asset to Equity Ratio | 1.95 times | 1.88 times |
| | **September 30, 2019** | **September 30, 2018** |
| Return on Assets | 8% | 9% |
| Return on Common Equity | 12% | 13% |
| Interest Coverage Ratio | 7 times | 12 times |
| Gross Profit Margin | 30% | 37% |
| Net Profit Margin | 20% | 24% |

**PART II--OTHER INFORMATION**

1. The Company's operation is a continuous process. It is not dependent on any cycle or season;
2. Economic and infrastructure developments in the country may affect construction business; Interest rate movements may affect the performance of the real estate industry; Mining activities are generally hinge on the commodities market and affected by weather conditions. Businesses not affected by known cycle, trends or uncertainties are power and water.
3. On April 10, 2019, the BOD of the Parent Company has declared cash dividends amounting P0.28 regular dividends and P0.20 special cash dividends for a total of P6.37 billion in favor of the stockholders of record as of April 29, 2019 and was paid on May 10, 2019.
4. There were no undisclosed material subsequent events and transferring of assets not in the normal course of business that have not been disclosed for the period that the company have knowledge of;
5. There are no material contingencies during the interim period; events that will trigger direct or contingent financial obligation that is material to the company, including any default or acceleration of an obligation has been disclosed in the notes to financial statements.
6. There are no material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the company with unconsolidated entities or other persons created during the reporting period.
7. Except for interest payments on loans, which the Company can fully service, the only significant commitment that would have a material impact on liquidity are construction guarantees. These are usually required from contractors in case of any damage / destruction to a completed project.
8. Any known trends or any known demands, commitments, events or uncertainties that will result in or that will have a material impact on the registrant's liquidity. - None
9. The Group does not have any offering of rights, granting of stock options and corresponding plans therefore.
10. All necessary disclosures were made under SEC Form 17-C.

**SIGNATURES**

Pursuant to the requirements of the Securities Regulation Code, the issuer has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

| | |
|---|---|
| Issuer | DMCI Holdings, Inc. |
| Signature and Title | **Herbert M. Consunji**<br>Executive Vice President & Chief Finance Officer |
| Signature and Title | **Brian T. Lim**<br>Vice President & Senior Finance Officer |
| Date | November 14, 2019 |

## DMCI HOLDINGS, INC. AND SUBSIDIARIES

## UNAUDITED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

**(Amounts in Thousands)**

| | **September 30, 2019 (Unaudited)** | December 31, 2018 (Audited) |
|---|---|---|
| **ASSETS** | | |
| **Current Assets** | | |
| Cash and cash equivalents | **₱19,390,548** | ₱15,481,964 |
| Receivables - net (Note 9) | **14,480,386** | 16,745,426 |
| Current portion of contract assets | **16,525,402** | 8,868,598 |
| Inventories | **50,226,687** | 44,691,520 |
| Other current assets | **11,029,374** | 10,102,689 |
| Total Current Assets | **111,652,397** | 95,890,197 |
| **Noncurrent Assets** | | |
| Contract asset - net of current portion | **2,562,548** | 7,583,336 |
| Investments in associates and joint ventures (Note 6) | **15,061,129** | 14,230,651 |
| Investment properties | **145,618** | 156,721 |
| Property, plant and equipment | **59,681,217** | 57,086,944 |
| Exploration and evaluation asset | **228,621** | 226,319 |
| Goodwill | **1,637,430** | 1,637,430 |
| Deferred tax assets - net | **609,599** | 606,877 |
| Pension assets - net | **931,656** | 915,400 |
| Other noncurrent assets | **5,086,886** | 4,070,840 |
| Total Noncurrent Assets | **85,944,704** | 86,514,518 |
| | **₱197,597,101** | ₱182,404,715 |

| | | |
|---|---|---|
| **LIABILITIES AND EQUITY** | | |
| **Current Liabilities** | | |
| Short-term debt | **₱11,395,645** | ₱7,015,276 |
| Current portion of liabilities for purchased land | **964,699** | 502,591 |
| Accounts and other payables | **23,964,196** | 22,040,880 |
| Current portion of contract liabilities and other customers' advances and deposits | **7,880,024** | 8,954,356 |
| Current portion of long-term debt | **10,242,334** | 6,342,766 |
| Income tax payable | **119,107** | 456,730 |
| Total Current Liabilities | **54,566,005** | 45,312,599 |

(Forward)

| | **September 30, 2019 (Unaudited)** | December 31, 2018 (Audited) |
|---|---|---|
| **Noncurrent Liabilities** | | |
| Contract liabilities - net of current portion | **₱3,929,198** | ₱2,298,983 |
| Long-term debt - net of current portion | **28,538,224** | 28,163,290 |
| Liabilities for purchased land - net of current portion | **1,343,971** | 1,499,552 |
| Deferred tax liabilities - net | **5,251,085** | 5,279,000 |
| Pension liabilities - net | **229,447** | 268,046 |
| Other noncurrent liabilities | **2,353,617** | 2,503,786 |
| Total Noncurrent Liabilities | **41,645,542** | 40,012,657 |
| Total Liabilities | **96,211,547** | 85,325,256 |
| **Equity** (Note 3) | | |
| Equity attributable to equity holders of the Parent Company: | | |
| Paid-in capital | **17,949,868** | 17,949,868 |
| Treasury shares - Preferred | **(7,069)** | (7,069) |
| Retained earnings | **63,681,543** | 60,746,125 |
| Premium on acquisition of non-controlling interests | **(817,958)** | (817,958) |
| Remeasurements on retirement plans - net of tax | **636,260** | 636,260 |
| Net accumulated unrealized gains on equity investments designated at FVOCI | **76,688** | 76,688 |
| Other equity | **(41,391)** | (41,391) |
| | **81,477,941** | 78,542,523 |
| Non-controlling interests | **19,907,613** | 18,536,936 |
| Total Equity | **101,385,554** | 97,079,459 |
| | **₱197,597,101** | ₱182,404,715 |

# DMCI HOLDINGS, INC. AND SUBSIDIARIES

## UNAUDITED CONSOLIDATED STATEMENTS OF INCOME

**For the Period and Quarter Ended September 30, 2019 and 2018**
**(Amounts in Thousands, except for Earnings Per Share figures)**

| | For the period | | For the quarter | |
|---|---|---|---|---|
| | **Jan to Sep 2019** | Jan to Sep 2018 (Restated- Note 2) | **Jul to Sep 2019** | Jul to Sep 2018 (Restated- Note 2) |
| **REVENUE** (Notes 4 and 8) | | | | |
| Coal mining | **₱23,279,422** | ₱17,673,777 | **₱7,601,230** | ₱1,836,126 |
| Real estate sales | **15,224,559** | 14,747,054 | **5,756,123** | 4,221,435 |
| Electricity sales | **14,180,183** | 16,131,935 | **4,231,973** | 6,221,434 |
| Construction contracts | **12,278,056** | 10,491,036 | **4,496,797** | 3,732,287 |
| Nickel mining | **1,084,507** | 977,711 | **99,592** | – |
| Merchandise sales and others | **323,263** | 319,910 | **120,506** | 125,783 |
| | **66,369,990** | 60,341,423 | **22,306,221** | 16,137,065 |
| **COSTS OF SALES AND SERVICES** | | | | |
| Coal mining | **13,624,413** | 8,863,072 | **4,939,624** | 2,267,431 |
| Real estate sales | **11,355,652** | 11,210,770 | **4,735,043** | 3,134,055 |
| Electricity sales | **9,886,595** | 8,404,409 | **3,007,301** | 3,343,006 |
| Construction contracts | **10,883,552** | 8,830,342 | **4,035,814** | 3,277,536 |
| Nickel mining | **406,849** | 250,154 | **36,603** | – |
| Merchandise sales and others | **228,770** | 237,135 | **84,154** | 90,018 |
| | **46,385,831** | 37,795,882 | **16,838,539** | 12,112,046 |
| **GROSS PROFIT** | **19,984,159** | 22,545,541 | **5,467,682** | 4,025,019 |
| **OPERATING EXPENSES** (Note 5) | **8,173,286** | 8,642,730 | **2,280,833** | 1,850,697 |
| | **11,810,873** | 13,902,811 | **3,186,849** | 2,174,322 |
| **OTHER INCOME (EXPENSES)** | | | | |
| Equity in net earnings of associates (Note 6) | **1,601,439** | 1,452,879 | **463,373** | 472,706 |
| Finance income | **784,113** | 555,174 | **181,292** | 198,172 |
| Finance costs | **(1,177,145)** | (763,936) | **(353,843)** | (76,970) |
| Other income - net | **1,006,063** | 1,206,747 | **859,171** | 107,331 |
| **INCOME BEFORE INCOME TAX** | **14,025,343** | 16,353,675 | **4,336,842** | 2,875,561 |
| **PROVISION FOR INCOME TAX** | **1,031,418** | 2,040,105 | **374,687** | 655,028 |
| **NET INCOME** | **₱12,993,925** | ₱14,313,570 | **₱3,962,155** | ₱2,220,533 |
| **NET INCOME ATTRIBUTABLE TO** | | | | |
| Equity holders of the Parent Company (Note 4) | **₱9,308,604** | ₱10,440,055 | **₱2,829,916** | ₱1,920,880 |
| Non-controlling interests | **3,685,321** | 3,873,515 | **1,132,239** | 299,653 |
| | **₱12,993,925** | ₱14,313,570 | **₱3,962,155** | ₱2,220,533 |
| **EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY-BASIC AND DILUTED** (Note 7) | **₱0.70** | ₱0.79 | **₱0.21** | ₱0.14 |

## DMCI HOLDINGS, INC. AND SUBSIDIARIES

## UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

**For the Period and Quarter Ended September 30, 2019 and 2018**
**(Amounts in Thousands)**

| | For the period | | For the quarter | |
|---|---|---|---|---|
| | **Jan to Sep 2019** | Jan to Sep 2018 (Restated- Note 2) | **Jul to Sep 2019** | Jul to Sep 2018 (Restated- Note 2) |
| **NET INCOME** | **₱12,993,925** | ₱14,313,570 | **₱3,962,155** | ₱2,220,533 |
| **OTHER COMPREHENSIVE INCOME (LOSS)** | | | | |
| **Items to be reclassified subsequently to profit or loss** | | | | |
| Changes in fair values of investments in equity instruments designated at FVOCI | **–** | – | **–** | – |
| | **–** | – | **–** | – |
| **Items not to be reclassified to profit or loss in subsequent periods** | | | | |
| Remeasurement gains on retirement plans | **–** | – | **–** | – |
| Income tax effect | **–** | – | **–** | – |
| | **–** | – | **–** | – |
| **OTHER COMPREHENSIVE INCOME** | **–** | – | **–** | – |
| **TOTAL COMPREHENSIVE INCOME** | **₱12,993,925** | ₱14,313,570 | **₱3,962,155** | ₱2,220,533 |
| **TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:** | | | | |
| Equity holders of the Parent Company (Note 4) | **₱9,308,604** | ₱10,440,055 | **₱2,829,916** | ₱1,920,880 |
| Non-controlling interests | **3,685,321** | 3,873,515 | **1,132,239** | 299,653 |
| | **₱12,993,925** | ₱14,313,570 | **₱3,962,155** | ₱2,220,533 |

# DMCI HOLDINGS, INC. AND SUBSIDIARIES

# UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

## For the Period Ended September 30, 2019 and 2018

## (Amounts in Thousands)

| | Attributable to Equity Holders of the Parent Company | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **Capital Stock** | **Additional Paid-in Capital** | **Total Paid-in Capital** | **Treasury Shares - Preferred** | **Unppropriated Retained Earnings** | **Premium on Acquisition of Non-controlling Interest** | **Remeasurements on Retirement Plans** | **Net Accumulated Unrealized Gain (Loss) on equity investments designated at FVOCI** | **Other Equity** | **Parent Equity** | **Non controlling Interests** | **Total Equity** |
| | | | | | | **For the Period Ended September 30, 2019** | | | | | | |
| **Balances as of January 1, 2019** | **₱13,277,474** | **₱4,672,394** | **₱17,949,868** | **(₱7,069)** | **₱60,746,125** | **(₱817,958)** | **₱636,260** | **₱76,688** | **(₱41,391)** | **₱78,542,523** | **₱18,536,936** | **₱97,079,459** |
| **Comprehensive income** | | | | | | | | | | | | |
| Net income | – | – | – | – | **9,308,604** | – | – | – | – | **9,308,604** | **3,685,321** | **12,993,925** |
| Other comprehensive income | – | – | – | – | – | – | – | – | – | – | – | – |
| **Total comprehensive income** | – | – | – | – | **9,308,604** | – | – | – | – | **9,308,604** | **3,685,321** | **12,993,925** |
| Cash dividends declared | – | – | – | – | **(6,373,186)** | – | – | – | – | **(6,373,186)** | **(2,314,644)** | **(8,687,830)** |
| **Balances at September 30, 2019** | **₱13,277,474** | **₱4,672,394** | **₱17,949,868** | **(₱7,069)** | **₱63,681,543** | **(₱817,958)** | **₱636,260** | **₱76,688** | **(₱41,391)** | **₱81,477,941** | **₱19,907,613** | **₱101,385,554** |
| | | | | | | For the Period Ended September 30, 2018 | | | | | | |
| Balances as of January 1, 2018, as previously reported | ₱13,277,474 | ₱4,672,394 | ₱17,949,868 | ₱– | ₱58,308,942 | (₱599,082) | ₱708,374 | ₱35,699 | (₱41,391) | ₱76,362,410 | ₱17,244,144 | ₱93,606,554 |
| Effect of adoption of PFRS 15 | – | – | – | – | 670,616 | – | – | – | – | 670,616 | – | 670,616 |
| Balances as of January 1, 2018, as restated | 13,277,474 | 4,672,394 | 17,949,868 | – | 58,979,558 | (599,082) | 708,374 | 35,699 | (41,391) | 77,033,026 | 17,244,144 | 94,277,170 |
| Comprehensive income | | | | | | | | | | | | |
| Net income, as restated | – | – | – | – | 10,440,055 | – | – | – | – | 10,440,055 | 3,873,515 | 14,313,570 |
| Other comprehensive income | – | – | – | – | – | – | – | – | – | – | – | – |
| Total comprehensive income | – | – | – | – | 10,440,055 | – | – | – | – | 10,440,055 | 3,873,515 | 14,313,570 |
| Acquisition of noncontrolling interest | – | – | – | – | – | (218,876) | – | – | – | (218,876) | (32,731) | (251,607) |
| Cash dividends declared | – | – | – | – | (6,373,186) | – | – | – | – | (6,373,186) | (2,318,682) | (8,691,868) |
| Balances at September 30, 2018 | ₱13,277,474 | ₱4,672,394 | ₱17,949,868 | ₱– | ₱63,046,427 | (₱817,958) | ₱708,374 | ₱35,699 | (₱41,391) | ₱80,881,019 | ₱18,766,246 | ₱99,647,265 |

## DMCI HOLDINGS, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

**For the Period Ended September 30, 2019 and 2018**
**(Amounts in Thousands)**

| | September 30 | |
|---|---|---|
| | **2019** | 2018 |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Income before income tax | **₱14,025,343** | ₱16,353,675 |
| Adjustments for: | | |
| Depreciation, depletion and amortization | **6,909,499** | 6,673,189 |
| Finance cost | **1,177,145** | 763,936 |
| Equity in net earnings of associates and joint ventures | **(1,601,439)** | (1,452,879) |
| Finance income | **(784,113)** | (555,174) |
| Movement in net retirement asset | **(54,854)** | 15,245 |
| Net unrealized foreign exchange loss (gain) | **(35,997)** | 225,676 |
| Gain on sale of property, plant and equipment | **–** | (1,976) |
| Operating income before changes in working capital | **19,635,584** | 22,021,692 |
| Increase in: | | |
| Receivables and contract assets | **(370,976)** | (482,348) |
| Inventories | **(4,350,873)** | (4,458,924) |
| Other current assets | **(926,685)** | (648,993) |
| Increase (decrease) in: | | |
| Accounts and other payables | **961,646** | 120,771 |
| Contract liabilities and other customer advances and deposits | **555,883** | (864,653) |
| Liabilities for purchased land | **306,526** | (17,254) |
| Cash generated from operations | **15,811,105** | 15,670,291 |
| Interest received | **784,113** | 555,174 |
| Income taxes paid | **(1,399,678)** | (1,693,244) |
| Interest paid and capitalized as cost of inventory | **(925,605)** | (675,481) |
| Net cash provided by operating activities | **14,269,935** | 13,856,740 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Additions to: | | |
| Property, plant and equipment | **(9,452,101)** | (8,326,494) |
| Investments in associates and joint ventures | **(500,000)** | – |
| Proceeds from disposal of property, plant and equipment | **–** | 17,931 |
| Dividends received | **1,260,586** | 773,472 |
| Interest paid and capitalized as part of property, plant and equipment | **(64,283)** | (4,960) |
| Increase in other noncurrent assets | **(438,499)** | (635,027) |
| Net cash used in investing activities | **(9,194,297)** | (8,175,078) |

(Forward)

| | September 30 | |
|---|---|---|
| | **2019** | 2018 |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Proceeds from: | | |
| Short-term debt | **₱17,866,837** | ₱4,845,553 |
| Long-term debt | **9,785,468** | 128,700 |
| Payments of: | | |
| Short-term debt | **(13,486,468)** | (2,307,492) |
| Dividends paid to equity holders of DMCI Holdings, Inc. | **(6,373,186)** | (6,373,186) |
| Long-term debt | **(5,520,730)** | (4,078,091) |
| Dividends to non-controlling interests | **(2,314,645)** | (2,318,682) |
| Interest | **(1,177,145)** | (763,936) |
| Repurchase of noncontrolling shares of a subsidiary | **–** | (251,607) |
| Increase (decrease) in other noncurrent liabilities | **39,436** | (888,613) |
| Net cash used in financing activities | **(1,180,433)** | (12,007,354) |
| **EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS** | **13,379** | 17,224 |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | **3,908,584** | (6,308,468) |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD** | **15,481,964** | 25,323,774 |
| **CASH AND CASH EQUIVALENTS AT END OF PERIOD** | **₱19,390,548** | ₱19,015,306 |

# DMCI HOLDINGS, INC. AND SUBSIDIARIES
# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 1. Corporate Information

DMCI Holdings, Inc. (the Parent Company) was incorporated on March 8, 1995 with a corporate life of 50 years from and after the date of incorporation and is domiciled in the Philippines. The Parent Company's registered office address and principal place of business is at 3rd Floor, Dacon Building, 2281 Don Chino Roces Avenue, Makati City.

The Parent Company and its subsidiaries (collectively referred to herein as the Group) is primarily engaged in general construction, coal and power generation, real estate development, water concession, nickel mining and manufacturing.

The Parent Company's shares of stock are listed and are currently traded at the Philippine Stock Exchange (PSE).

The accompanying consolidated financial statements were approved and authorized for issue by the Board of Directors (BOD) on November 12, 2019.

## 2. Summary of Significant Accounting Policies

Basis of Preparation

The interim unaudited condensed consolidated financial statements of the Group have been prepared in accordance with Philippine Accounting Standards (PAS) 34, *Interim Financial Reporting*. Accordingly, the unaudited condensed consolidated financial statements do not include all of the information and disclosures required in the annual audited financial statements, and should be read in conjunction with the Group's annual consolidated financial statements as at December 31, 2018.

The interim financial statements have been prepared using the historical cost basis, except for financial assets at fair value through profit or loss (FVPL) and at fair value through comprehensive income (FVOCI) financial assets that have been measured at fair value. The Group's functional and presentation currency is the Philippine Peso (₱). All amounts are rounded to the nearest thousand (₱000), unless otherwise indicated.

Statement of Compliance

The interim unaudited condensed consolidated financial statements of the Group have been prepared in compliance with Philippine Financial Reporting Standards (PFRSs), which include availment of the relief granted by the Securities and Exchange Commission (SEC) under Memorandum Circular No. 14-2018 and 3-2019 as discussed in the section below on Adoption of New and Amended Accounting Standards and Interpretations. PFRS include Philippine Financial Reporting Standards, Philippine Accounting Standards and Interpretations issued by Philippine Interpretations Committee (PIC).

Basis of Consolidation

The interim unaudited condensed consolidated financial statements comprise the financial statements of the Group as of September 30, 2019 and December 31, 2018.

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns

Generally, there is a presumption that a majority of voting rights result in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included or excluded in the consolidated financial statements from the date the Group gains control or until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the Parent Company and to the noncontrolling interests (NCI), even if this results in the NCI having a deficit balance. The consolidated financial statements are prepared using uniform accounting policies for like transactions and other similar events. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it derecognizes the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognized in profit or loss. Any investment retained is recognized at fair value.

The consolidated financial statements include the financial statements of the Parent Company and the following subsidiaries (which are all incorporated in the Philippines). The voting rights held by the Group in these subsidiaries are in proportion of their ownership interest.

| | | **2019** | | | 2018 | | |
|---|---|---|---|---|---|---|---|
| | **Nature of Business** | **Direct** | **Indirect** | **Effective Interest** | Direct | Indirect | Effective Interest |
| | | | | (In percentage) | | | |
| General Construction: | | | | | | | |
| **D.M. Consunji, Inc. (DMCI)** | General Construction | **100.00** | **–** | **100.00** | 100.00 | – | 100.00 |
| Beta Electromechanical Corporation (Beta Electric) [1] | General Construction | **–** | **53.95** | **53.95** | – | 53.95 | 53.95 |
| Raco Haven Automation Philippines, Inc. (Raco) [1] | Non- operational | **–** | **50.14** | **50.14** | – | 50.14 | 50.14 |

(Forward)

| | | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|---|
| | **Nature of Business** | **Direct** | **Indirect** | **Effective Interest** | Direct | Indirect | Effective Interest |
| | | | | (In percentage) | | | |
| Oriken Dynamix Company, Inc. (Oriken) [1] | Non- operational | – | **89.00** | **89.00** | – | 89.00 | 89.00 |
| DMCI Technical Training Center (DMCI Training) [1] | Services | – | **100.00** | **100.00** | – | 100.00 | 100.00 |
| Real Estate: | | | | | | | |
| **DMCI Project Developers, Inc. (PDI)** | Real Estate Developer | **100.00** | – | **100.00** | 100.00 | – | 100.00 |
| Riviera Land Corporation (Riviera) [2] | Real Estate Developer | – | **100.00** | **100.00** | – | 100.00 | 100.00 |
| DMCI-PDI Hotels, Inc. (PDI Hotels) [2] | Hotel Operator | – | **100.00** | **100.00** | – | 100.00 | 100.00 |
| DMCI Homes Property Management Corporation (DPMC) [2] | Property Management | – | **100.00** | **100.00** | – | 100.00 | 100.00 |
| Zenith Mobility Solutions Services, Inc.[2] | Services | – | **51.00** | **51.00** | – | 51.00 | 51.00 |
| Hampstead Gardens Corporation (Hampstead) [2*] | Real Estate Developer | – | **100.00** | **100.00** | – | 100.00 | 100.00 |
| DMCI Homes, Inc. (DMCI Homes) [2*] | Marketing Arm | – | **100.00** | **100.00** | – | 100.00 | 100.00 |
| Coal Mining: | | | | | | | |
| **Semirara Mining and Power Corporation (SMPC)** | Mining | **56.65** | – | **56.65** | 56.65 | – | 56.65 |
| On-Grid Power: | | | | | | | |
| Sem-Calaca Power Corporation (SCPC) [3] | Power Generation | – | **56.65** | **56.65** | – | 56.65 | 56.65 |
| Southwest Luzon Power Generation Corporation (SLPGC) [3] | Power Generation | – | **56.65** | **56.65** | – | 56.65 | 56.65 |
| Sem-Calaca RES Corporation (SCRC) [3] | Retail | – | **56.65** | **56.65** | – | 56.65 | 56.65 |
| SEM-Cal Industrial Park Developers, Inc. (SIPDI) [3] | Non-operational | – | **56.65** | **56.65** | – | 56.65 | 56.65 |
| Semirara Energy Utilities, Inc. (SEUI) [3] | Non-operational | – | **56.65** | **56.65** | – | 56.65 | 56.65 |
| Southeast Luzon Power Generation Corporation (SeLPGC) [3] | Non-operational | – | **56.65** | **56.65** | – | 56.65 | 56.65 |
| Semirara Claystone, Inc. (SCI) [3] | Non-operational | – | **56.65** | **56.65** | – | 56.65 | 56.65 |
| Off-Grid Power: | | | | | | | |
| **DMCI Power Corporation (DPC)** | Power Generation | **100.00** | – | **100.00** | 100.00 | – | 100.00 |
| DMCI Masbate Power Corporation (DMCI Masbate) [4] | Power Generation | – | **100.00** | **100.00** | – | 100.00 | 100.00 |
| Nickel Mining: | | | | | | | |
| **DMCI Mining Corporation (DMC)** | Mining | **100.00** | – | **100.00** | 100.00 | – | 100.00 |
| Berong Nickel Corporation (BNC) [5] | Mining | – | **74.80** | **74.80** | – | 74.80 | 74.80 |
| Ulugan Resouces Holdings, Inc. (URHI) [5] | Holding Company | – | **30.00** | **30.00** | – | 30.00 | 30.00 |
| Ulugan Nickel Corporation (UNC) [5] | Holding Company | – | **58.00** | **58.00** | – | 58.00 | 58.00 |
| Nickeline Resources Holdings, Inc. (NRHI) [5] | Holding Company | – | **58.00** | **58.00** | – | 58.00 | 58.00 |
| TMM Management, Inc. (TMM) [5] | Services | – | **40.00** | **40.00** | – | 40.00 | 40.00 |
| Zambales Diversified Metals Corporation (ZDMC) [5] | Mining | – | **100.00** | **100.00** | – | 100.00 | 100.00 |
| Zambales Chromite Mining Company Inc. (ZCMC) [5] | Non-operational | – | **100.00** | **100.00** | – | 100.00 | 100.00 |
| Fil-Asian Strategic Resources & Properties Corporation (FASRPC) [5] | Non-operational | – | **100.00** | **100.00** | – | 100.00 | 100.00 |
| Montague Resources Philippines Corporation (MRPC) [5] | Non-operational | – | **100.00** | **100.00** | – | 100.00 | 100.00 |
| Montemina Resources Corporation (MRC) [5] | Non-operational | – | **100.00** | **100.00** | – | 100.00 | 100.00 |
| Mt. Lanat Metals Corporation (MLMC) [5] | Non-operational | – | **100.00** | **100.00** | – | 100.00 | 100.00 |
| Fil-Euro Asia Nickel Corporation (FEANC) [5] | Non-operational | – | **100.00** | **100.00** | – | 100.00 | 100.00 |
| Heraan Holdings, Inc. (HHI) [5] | Holding Company | – | **100.00** | **100.00** | – | 100.00 | 100.00 |
| Zambales Nickel Processing Corporation (ZNPC) [5] | Non-operational | – | **100.00** | **100.00** | – | 100.00 | 100.00 |
| Zamnorth Holdings Corporation (ZHC) [5] | Holding Company | – | **100.00** | **100.00** | – | 100.00 | 100.00 |
| ZDMC Holdings Corporation (ZDMCHC) [5] | Holding Company | – | **100.00** | **100.00** | – | 100.00 | 100.00 |

(Forward)

| | | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|---|
| | **Nature of Business** | **Direct** | **Indirect** | **Effective Interest** | Direct | Indirect | Effective Interest |
| | | | | (In percentage) | | | |
| **Semirara Cement Corporation (SemCem)** | Non-operational | **100.00** | **–** | **100.00** | 100.00 | – | 100.00 |
| **Wire Rope Corporation of the Philippines (Wire Rope)** | Manufacturing | **45.68** | **16.02** | **61.70** | 45.68 | 16.02 | 61.70 |

*Liquidating as of December 31, 2018
[1] DMCI's subsidiaries
[2] PDI's subsidiaries
[3] SMPC's subsidiaries
[4] DPC's subsidiaries
[5] DMC's subsidiaries
[5] DMC's subsidiaries

Noncontrolling Interests

Noncontrolling interests represent the portion of profit or loss and net assets not owned, directly or indirectly, by the Group.

Noncontrolling interests are presented separately in the consolidated statement of income, consolidated statement of comprehensive income, and within equity in the consolidated statement of financial position, separately from parent shareholder's equity. Any losses applicable to the noncontrolling interests are allocated against the interests of the noncontrolling interest even if this results to the noncontrolling interest having a deficit balance. The acquisition of an additional ownership interest in a subsidiary without a change of control is accounted for as an equity transaction. Any excess or deficit of consideration paid over the carrying amount of the noncontrolling interest is recognized in equity of the parent in transactions where the noncontrolling interest are acquired or sold without loss of control.

The proportion of ownership interest held by noncontrolling interests on the consolidated subsidiaries are presented below. The voting rights held by the Group in these subsidiaries are in proportion of their ownership interest.

| | Percentage | |
|---|---|---|
| | **2019** | 2018 |
| Beta Electromechanical Corporation (Beta Electromechanical) | **46.05** | 46.05 |
| Raco Haven Automation Philippines, Inc. (Raco) | **49.86** | 49.86 |
| Oriken Dynamix Company, Inc. (Oriken) | **11.00** | 11.00 |
| Zenith Mobility Solutions Services, Inc. | **49.00** | 49.00 |
| Semirara Mining and Power Corporation (SMPC) | **43.35** | 43.35 |
| Sem-Calaca Power Corporation (SCPC) | **43.35** | 43.35 |
| Southwest Luzon Power Generation Corporation (SLPGC) | **43.35** | 43.35 |
| Sem-Calaca RES Corporation (SCRC) | **43.35** | 43.35 |
| SEM-Cal Industrial Park Developers, Inc. (SIPDI) | **43.35** | 43.35 |
| Semirara Energy Utilities, Inc. (SEUI) | **43.35** | 43.35 |
| Southeast Luzon Power Generation Corporation (SeLPGC) | **43.35** | 43.35 |
| Semirara Claystone, Inc. (SCI) | **43.35** | 43.35 |
| Berong Nickel Corporation (BNC) | **25.20** | 25.20 |
| Ulugan Resouces Holdings, Inc. (URHI) | **70.00** | 70.00 |
| Ulugan Nickel Corporation (UNC) | **42.00** | 42.00 |
| Nickeline Resources Holdings, Inc. (NRHI) | **42.00** | 42.00 |
| TMM Management, Inc. (TMM) | **60.00** | 60.00 |
| Wire Rope Corporation of the Philippines (Wire Rope) | **38.30** | 38.30 |

In 2018, the SEC approved the change in name of Beta Electric Corporation to Beta Electromechanical Corporation.

Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year, except that the Group has adopted the following new accounting pronouncements starting January 1, 2018:

- PFRS 9, *Financial Instruments*

  PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. Retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

  The adoption of PFRS 9 only impacts the classification and measurement of financial assets and did not have material impact on the Group's financial performance and operating, investing and financing cash flows and the basic and diluted earnings per share.

  ***(a) Classification and measurement***

  Under PFRS 9, there is a change in the classification and measurement requirements relating to financial assets. Previously, there were four categories of financial assets: loans and receivables, financial assets at fair value through profit or loss (FVPL), held to maturity (HTM) financial assets and available for sale (AFS) financial assets. Under PFRS 9, financial assets are either classified as financial assets at amortized cost, financial assets at fair value through profit or loss (FVPL) or fair value through other comprehensive income (FVOCI).

  For debt instruments, these are subsequently measured at fair value through profit or loss, at amortized cost, or at fair value through OCI. The classification is based on two criteria: the Group's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest'(SPPI) on the principal amount outstanding.

  A financial asset can only be measured at amortized cost if both of the following are satisfied:

  - *Business model:* the objective of the business model is to hold the financial asset for the collection of the contractual cash flows
  - *Contractual cash flows:* the contractual cash flows under the instrument relate solely to payments of principal and interest

  The assessment of the Group's business model was made as of the date of initial application, January 1, 2018. The assessment of whether contractual cash flows on debt instruments are SPPI was made based on the facts and circumstances as at the initial recognition of the assets.

  The Group has not designated any financial liabilities as at FVPL. There are no changes in classification and measurement for the Group's financial liabilities.

***(b) Impairment***

The adoption of PFRS 9 has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing PAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. PFRS 9 requires the Group to recognize an allowance for ECLs for all debt instruments not held at FVPL in the scope of PFRS 15.

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all cash flows that the Group expects to receive. The shortfall is then discounted at an appromixation to the asset's original effective interest rate. The expected cashflows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual term.

The Group applied the simplified approach, except for receivables from related parties where the Group applied general approach, and recorded lifetime expected losses on all financial assets, which consist of cash and cash equivalents and receivables. For the Group's debt securities and other receivables measured at amortized cost, the simplified approach for measuring expected credit losses was applied.

For real estate installment contract receivables (ICR) and contract assets, the Group has applied PFRS 9's simplified approach and has calculated ECLs based on lifetime expected credit losses. Therefore, the Group does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date.

The Group used vintage analysis accounts for expected credit losses by calculating the cumulative loss rates of a given installment contract receivables and contract assets pool. It derives the probability of default from the historical date of a homogenous portfolio that share the same origination period. The information on the number of defaults during the fixed time intervals of the accounts is utilized to create the probability of default (PD) model. It allows the evaluation of the loan activity from its origination period until the end of the contract period.

In addition to life of loan loss data, primary drivers like macroeconomic indicators of qualitative factors such as forward-looking data on interest rates and bank lending rates were added to the expected loss calculation to reach a forecast supported by both quantitative and qualitative data points.

The key inputs in the model include the Group's definition of default and historical data of three years for the origination, maturity date and default date. The Group considers an installment contract receivable in default upon cancellation of the CTS.

The probability of default is applied to the estimate of the loss arising on the default which is based on the difference between the contractual cash flows due and those that the Group would expect to receive, including from the repossession of the subject real estate property, net of cash outflows. For purposes of calculating loss given default, accounts are segmented based on facility/collateral type and completion. In calculating recovery rates, the Group considered collections of cash and/or cash from resale of real estate properties after foreclosure, net of direct costs of obtaining and selling the real estate properties after the default event such as commission, rehabilitation costs, payment required under Maceda Law and cost to complete (for incomplete units).

As these are future cash flows, these are discounted back to the reporting date using the appropriate effective interest rate, usually being the original effective interest rate or an approximation thereof.

For other financial assets such as receivable from related parties, other receivables and recoverable deposits, ECLs are recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for expected credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over remaining life of the exposure, irrespective of the timing of default (a lifetime ECL).

For cash and cash equivalents, the Group applies the low credit risk simplification. The probability of default and loss given defaults are publicly available and are considered to be low credit risk investments. It is the Group's policy to measure ECLs on such instruments on a 12-month basis. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL. The Group uses the ratings from Philippines Ratings Services Corporation (PhilRatings), Standard & Poor's (S&P), Moody's and Fitch to determine whether the debt instrument has significantly increased in credit risk and to estimate ECLs.

- PFRS 15, *Revenue from Contracts with Customers*

  PFRS 15 and its related amendments supersede PAS 11, *Construction Contracts*, PAS 18 *Revenue* and related Interpretations. It applies to all revenue arising from contracts with its customers and became effective for annual periods beginning on or after January 1, 2018. PFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Under PFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

  PFRS 15 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires enhanced and extensive disclosures about revenue to help investors better understand the nature, amount, timing and uncertainty of revenue and cash flows from contracts with customers.

  On February 14, 2018, the Philippines Interpretation Committee (PIC) issued PIC Q&A 2018-12 (PIC Q&A) which provides guidance on some implementation issues of PFRS 15 affecting real estate industry. On October 25, 2018 and February 8, 2019, the SEC issued SEC Memorandum Circular No. 14 Series of 2018 and SEC Memorandum Circular No. 3 Series of 2019, respectively, providing relief to the real estate industry by deferring the application of the following provisions of the above PIC Q&A for a period of three (3) years:

  a. Exclusion of land and uninstalled materials in the determination of percentage of completion (POC) discussed in PIC Q&A No. 2018-12-E;
  b. Accounting for significant financing component discussed in PIC Q&A No. 2018-12-D; and,
  c. Accounting to Common Usage Service Area (CUSA) Charges discussed in PIC Q&A No. 2018-12-H.

  Under the same SEC Memorandum Circular No. 3 Series of 2019, the adoption of PIC Q&A No. 2018-14: PFRS 15 - Accounting for Cancellation of Real Estate Sales was also deferred.

  The SEC Memorandum Circulars also provided certain mandatory disclosure requirements should an entity decide to avail of any relief.

  Except for the CUSA charges discussed under PIC Q&A No. 2018-12-H which applies to leasing transactions, the above deferral is only be applicable for real estate sales transactions.

Effective January 1, 2021, real estate companies will adopt PIC Q&A No. 2018-12 and PIC Q&A No. 2018-14 and any subsequent amendments thereof retrospectively or as the SEC will later prescribe.

The Group availed of the deferral of adoption of the accounting for significant financing component and accounting for cancellation of real estate sales. Had these provisions been adopted, it would have impacted retained earnings as at January 1, 2018, real estate sales, cost of real estate sold, other income and real estate inventories for 2018.

The 2018 comparative figures were restated to reflect the impact of the adoption of PFRS 15 on real estate's cost of sales, operating expenses and provision for income tax as well as the coal's royalty expense. Set out below are the amounts by which each of these financial statement line item is affected as of and for the period ended September 30, 2018. The adoption of PFRS 15 did not have a material impact on OCI or the Group's operating, investing and financing cash flows.

| | Amounts prepared under | | Increase/ |
|---|---|---|---|
| | PFRS 15 | Previous PFRS | (Decrease) |
| Cost of Sales-Real estate | ₱11,210,770 | ₱9,054,632 | ₱2,156,138 |
| Operating Expenses | 8,642,730 | 9,256,120 | (613,390) |
| Provision for Income Tax | 2,040,105 | 2,431,423 | (391,318) |
| Net Income | 14,313,570 | 15,465,000 | (1,151,430) |
| Net Income attributable to equity holders of the parent company | 10,440,055 | 11,485,598 | (1,045,543) |
| Earnings Per Share | | | |
| Basic/ Diluted earnings per share | ₱0.79 | ₱0.87 | (₱0.08) |

The adoption of PFRS 15 resulted to the ₱1,151.43 million adjustment on the related receivables, payables and real estate inventories and the recognition of contract assets, contract liabilities and costs to obtain contract as of September 30, 2018.

***Contract balances***

The Group records any excess of progress of work over the right to an amount of consideration that is unconditional, recognized ICR, as contract asset while the excess of collection/receivable over progress of work is recorded as contract liability.

Before the adoption of PFRS 15, for real estate segment, contract asset is not presented separately from ICR while contract liabilities are presented as customer deposit. For those receivables with interest rate explicit in the contract, the Group records interest income based on the principal amount multiplied by the applicable interest rate. Receivables without explicit interest rate stated in the contract were recorded at fair value at initial recognition and the related interest is accreted using the effective interest rate method. For the construction segment operations, the costs, estimated earnings and billings on uncompleted contracts are recognized as contract assets and liabilities. These are presented as "Contract asset" and "Contract liability" in the consolidated statement of financial position.

***Cost recognition***

Before the adoption of PFRS 15, for real estate segment, cost of real estate sales was determined on the basis of the acquisition cost of the land, plus its full development costs, which includes estimated costs for future development works, allocated to saleable area based on relative size and takes into account the percentage of completion (POC) used for revenue recognition purposes.

Under PFRS 15, real esate cost of sales recognized by the Group includes the following costs allocated to sold units: actual development costs incurred during the year; and fulfillment costs (i.e., land costs and connection fees) applied with the incremental POC of the project. Uninstalled materials are capitalized as asset and only form part of expense when consumed to satisfy the performance obligation.

***Cost to obtain contract***
The Group pays commission to sales agents for each contract that they obtain for the sale of pre-completed real estate units. Before the adoption of PFRS 15, these are deferred and are charged to expense in the period in which the related revenue is recognized as earned. Commission expense was presented under "Operating expense" account in the consolidated statement of comprehensive income, determined with reference to the commission paid to sales agents based on relative payout schedule and takes into account the POC used for revenue recognition purposes.

PFRS 15 requires incremental costs of obtaining a contract with a customer recognized as an asset if these are expected to be recovered. The incremental costs of obtaining a contract are those costs that an entity incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained (i.e., a sales commission).

Costs to obtain a contract that would have been incurred regardless of whether the contract was obtained shall be recognized as an expense when incurred, unless those costs are explicitly chargeable to the customer regardless of whether the contract is obtained.

PIC Q&A 2018-15, *Classification of Advances to Contractors in the Nature of Prepayments*: *Current vs. Non-current*, aims to classify the prepayment based on the actual realization of suchadvances determined with reference to usage/realization of the asset to which it is intended for (e.g., inventory, investment property, property plant and equipment). The Group's policy on the classification of prepayments is consistent with the interpretation.

- Amendments to PAS 28, *Measuring an Associate or Joint Venture at Fair Value* (Part of *Annual Improvements to PFRSs* 2014 - 2017 Cycle)
  The amendments clarify that an entity that is a venture capital organization, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. They also clarify that if an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries.

  This election is made separately for each investment entity associate or joint venture, at the later of the date on which (a) the investment entity associate or joint venture is initially recognized; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent. The amendments should be applied retrospectively, with earlier application permitted.

  The amendments are not applicable to the Group as the Group does not measure those investments at FVPL.

- Amendments to PAS 40, *Investment Property, Transfers of Investment Property*
  The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a

change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use.  A mere change in management's intentions for the use of a property does not provide evidence of a change in use.  The amendments should be applied prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments.  Retrospective application is only permitted if this is possible without the use of hindsight.

- Philippine Interpretation IFRIC 22, *Foreign Currency Transactions and Advance Consideration*
  The interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the advance consideration.  If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration.  If there are multiple payments or receipts in advance, then the entity must determine the date of the transaction for each payment or receipt of advance consideration.  Retrospective application of this interpretation is not required.

  Since the Group's current practice is in line with the clarifications issued, hence adoption of the interpretation did not have significant impact to the consolidated financial statements.

<u>Standards Issued But Not Yet Effective</u>
Pronouncements issued but not yet effective are listed below.  Unless otherwise indicated, the Group does not expect that the future adoption of the said pronouncements will have a significant impact on its consolidated financial statements.  The Group intends to adopt the following pronouncements when they become effective.

*Effective beginning on or after January 1, 2019*

- Amendments to PFRS 9, *Prepayment Features with Negative Compensation*
  Under PFRS 9, a debt instrument can be measured at amortized cost or FVOCI, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification.  The amendments to PFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.  The amendments should be applied retrospectively and are effective from January 1, 2019, with earlier application permitted.

- PFRS 16, *Leases*
  PFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under PAS 17, *Leases*.  The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less).  At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset).  Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under PFRS 16 is substantially unchanged from today's accounting under PAS 17. Lessors will continue to classify all leases using the same classification principle as in PAS 17 and distinguish between two types of leases: operating and finance leases.

PFRS 16 also requires lessees and lessors to make more extensive disclosures than under PAS 17.

Early application is permitted, but not before an entity applies PFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs. The Group expects the standard to impact its operating lease arrangements for land, buildings and mining and construction equipments which will require recognition of right of use asset in the books and its related lease liability. The Group does not expect significant impact of the standards to its lease arrangements as a lessor.

- Amendments to PAS 19, *Employee Benefits, Plan Amendment, Curtailment or Settlement*
  The amendments to PAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

  - Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event.

  - Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

  The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognized in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognized in other comprehensive income.

  The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after January 1, 2019, with early application permitted. These amendments will apply only to any future plan amendments, curtailments, or settlements of the Group.

- Amendments to PAS 28, *Long-term Interests in Associates and Joint Ventures*
  The amendments clarify that an entity applies PFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant

because it implies that the expected credit loss model in PFRS 9 applies to such long-term interests.
The amendments also clarified that, in applying PFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognized as adjustments to the net investment in the associate or joint venture that arise from applying PAS 28, *Investments in Associates and Joint Ventures*.

The amendments should be applied retrospectively and are effective from January 1, 2019, with early application permitted. Since the Group currently does not have such long-term interests in its associate and joint venture, the amendments is not expected to have an impact on its consolidated financial statements.

- Philippine Interpretation IFRIC 23, *Uncertainty over Income Tax Treatments*
  The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of PAS 12 and does not apply to taxes or levies outside the scope of PAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

  The interpretation specifically addresses the following:

  - Whether an entity considers uncertain tax treatments separately;
  - The assumptions an entity makes about the examination of tax treatments by taxation authorities;
  - How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and
  - How an entity considers changes in facts and circumstances.

  An entity must determine whether to consider each uncertain tax treatment separately or together with one or more uncertain tax treatments. The approach that better predicts the resolution of uncertainty should be followed.

  The Group is currently assessing the impact of adopting this interpretation.

- *Annual Improvements to PFRSs* 2015-2017 Cycle

  - Amendments to PFRS 3, *Business Combinations*, and PFRS 11, *Joint Arrangements*, *Previously Held Interest in a Joint Operation*
    The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

    A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in PFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.

    An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2019 and to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after January 1, 2019, with early application permitted. These amendments are currently not applicable to the Group but may apply to future transactions.

- Amendments to PAS 12, *Income Tax Consequences of Payments on Financial Instruments Classified as Equity*

  The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognizes the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events.

  An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application is permitted. These amendments are not relevant to the Group because dividends declared by the Group do not give rise to tax obligations under the current tax laws.

- Amendments to PAS 23, *Borrowing Costs, Borrowing Costs Eligible for Capitalization*

  The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

  An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application permitted.

  The Group has yet to evaluate the impact on its consolidated financial statements of the adoption of these amendements.

*Effective beginning on or after January 1, 2020*

- Amendments to PFRS 3, *Definition of a Business*

  The amendments to PFRS 3 clarify the minimum requirements to be a business, remove the assessment of a market participant's ability to replace missing elements, and narrow the definition of outputs. The amendments also add guidance to assess whether an acquired process is substantive and add illustrative examples. An optional fair value concentration test is introduced which permits a simplified assessment of whether an acquired set of activities and assets is not a business.

  An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted. These amendments will apply on future business combinations of the Group.

- Amendments to PAS 1, *Presentation of Financial Statements*, and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, *Definition of Material*

  The amendments refine the definition of material in PAS 1 and align the definitions used across PFRSs and other pronouncements. They are intended to improve the understanding of the existing requirements rather than to significantly impact an entity's materiality judgements.

An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

*Effective beginning on or after January 1, 2021*

- PFRS 17, *Insurance Contracts*
  PFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, PFRS 17 will replace PFRS 4, *Insurance Contracts*. This new standard on insurance contracts applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply.

  The overall objective of PFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in PFRS 4, which are largely based on grandfathering previous local accounting policies, PFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of PFRS 17 is the general model, supplemented by:

  - A specific adaptation for contracts with direct participation features (the variable fee approach)
  - A simplified approach (the premium allocation approach) mainly for short-duration contracts
    PFRS 17 is effective for reporting periods beginning on or after January 1, 2021, with comparative figures required. Early application is permitted.

*Deferred effectivity*

- Amendments to PFRS 10, *Consolidated Financial Statements* and PAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*
  The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3, *Business Combinations.* Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors’ interests in the associate or joint venture.

  On January 13, 2016, the Financial Reporting Standards Council deferred the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board (IASB) completes its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

## 3. **Equity**

Capital Stock

As of September 30, 2019 and December 31, 2018, the Parent Company's capital stock consists of:

*Authorized capital stock*

| | No. of shares |
|---|---|
| Common stock, ₱1 par value | 19,900,000,000 |
| Preferred stock - ₱1 par value | 100,000,000 |

*Outstanding capital stock*

| | No. of shares |
|---|---|
| Common shares | 13,277,470,000 |
| | |
| Preferred shares | 3,780 |
| Less: treasury shares | 2,820 |
| | 960 |

On December 18, 1995, the Parent Company launched its Initial Public Offering where a total of ₱1.13 billion common shares were offered at an offering price of ₱9.12 per share.

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

On October 1, 2018, the Board authorized the Parent Company to make an offer (the "Redemption Offer") to the outstanding preferred shareholders for the Parent Company to acquire the remaining outstanding 3,780 preferred shares at the purchase price of ₱2,500 per preferred share from October 8 to November 29, 2018. The Redemption Offer is intended to provide the preferred shareholders a final chance to divest of their preferred shares in view of their previous inability to avail of the Exchange Offer in 2002. On November 29, 2018, the Parent Company has redeemed a total of 2,820 preferred shares for a total cost of ₱7.07 million.

On May 21, 2019, the Stockholders approved the amendment of Articles of Incorporation to increase the Par Value of Preferred Shares from ₱1.00 to ₱1,000 per Preferred Share.

Retained Earnings

On April 10, 2019, the BOD approved the declaration of (1) *regular cash dividends* in the amount of ₱0.28 per common share or a total of ₱3,717.69 million; and (2) *special cash dividends* of ₱0.20 per common share or a total of ₱2,655.49 million, or a grand total of ₱6,373.19 million out of the unrestricted retained earnings of the Parent Company as of March 5, 2019, in favor of the common stockholders of record as of April 29, 2019, and was paid on May 10, 2019.

On November 19, 2018, the BOD approved the declaration of special cash dividends of ₱0.48 per common share or a total of ₱6,373.19 million out of the unrestricted retained earnings of the Parent Company as of September 30, 2018, in favor of the common stockholders of record as of December 5, 2018, and was paid on December 18, 2018.

On March 8, 2018, the BOD approved the declaration of (1) *regular cash dividends* in the amount of ₱0.28 per common share or a total of ₱3,717.69 million; and (2) *special cash dividends* of ₱0.20 per common share or a total of ₱2,655.49 million, or a grand total of ₱6,373.19 million out of the unrestricted retained earnings of the Parent Company as of December 31, 2017, in favor of the common stockholders of record as of March 23, 2018, and was paid on April 6, 2018.

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. There were no changes made in the Group's capital management objectives, policies or processes. The Group considers total equity attributable to equity holders of the Parent Company less net accumulated unrealized gain or loss on equity investments designated at FVOCI as capital.

The Group is not subject to any externally imposed capital requirements.

## 4. Business Segments

The following tables present the net income of the specific business segments for the period ended September 30, 2019 and 2018:

Segment Revenues

| | For the period | | Variance | |
|---|---|---|---|---|
| (in PHP Millions) | **September 2019** | September 2018 | Amount | % |
| Semirara Mining and Power Corporation | **₱34,134** | ₱30,868 | ₱3,266 | 11% |
| DMCI Homes | **15,225** | 14,747 | 478 | 3% |
| D.M. Consunji, Inc. | **12,278** | 10,491 | 1,787 | 17% |
| DMCI Power (SPUG) | **3,325** | 2,937 | 388 | 13% |
| DMCI Mining | **1,085** | 978 | 107 | 11% |
| Parent and others | **323** | 320 | 3 | 1% |
| | **₱66,370** | ₱60,341 | ₱6,029 | 10% |

Net income after non-controlling interests

| (in PHP Millions) | For the period September 2019 | September 2018[1] | Variance Amount | % |
|---|---|---|---|---|
| Semirara Mining and Power Corporation | **₱4,662** | ₱5,427 | (₱765) | -14% |
| DMCI Homes | **1,801** | 1,797 | 4 | 0% |
| Maynilad | **1,569** | 1,476 | 93 | 6% |
| D.M. Consunji, Inc. | **664** | 952 | (288) | -30% |
| DMCI Power (SPUG) | **341** | 337 | 4 | 1% |
| DMCI Mining | **87** | 133 | (46) | -35% |
| Parent and others | **185** | 171 | 14 | 8% |
| Core net income | **9,309** | 10,293 | (984) | -10% |
| Non-recurring items | **–** | 147 | (147) | -100% |
| | **₱9,309** | ₱10,440 | (₱1,131) | -11% |

[1] *Restated to reflect PFRS 15 impact in DMCI Homes and SMPC royalty*

## 5. Operating Expenses

The following tables present the consolidated operating expenses for the period ended September 30, 2019 and 2018:

| | **2019** | 2018 |
|---|---|---|
| Government share | **₱3,026,954** | ₱3,086,299 |
| Salaries, wages and employee benefits | **1,175,004** | 1,038,439 |
| Taxes and licenses | **908,037** | 907,186 |
| Depreciation, depletion and amortization | **705,182** | 1,152,209 |
| Outside services | **602,736** | 596,160 |
| Repairs and maintenance | **495,714** | 515,832 |
| Advertising and marketing | **270,080** | 287,061 |
| Insurance | **267,990** | 103,663 |
| Communication, light and water | **107,289** | 112,066 |
| Transportation and travel | **96,558** | 120,300 |
| Entertainment, amusement and recreation | **95,305** | 73,369 |
| Rent | **68,964** | 22,937 |
| Supplies | **64,433** | 111,009 |
| Association dues | **42,072** | 58,906 |
| Miscellaneous expense | **246,968** | 457,294 |
| | **₱8,173,286** | ₱8,642,730 |

## 6. Summarized Financial Information of Interests in Related Entities

Financial information as of and for the period ended September 30, 2019 and December 31, 2018 on the Group's subsidiary with material non-controlling interest (NCI) follows:

Semirara Mining and Power Corporation and Subsidiaries (SMPC)

| (in millions) | **September 30, 2019** | December 31, 2018 |
|---|---|---|
| **Statements of Financial Position** | | |
| Current assets | **₱27,685** | ₱25,739 |
| Noncurrent assets | **45,803** | 45,310 |
| Current liabilities | **21,880** | 20,372 |
| Noncurrent liabilities | **8,817** | 10,744 |
| Equity | **42,791** | 39,933 |

| (in millions) | **September 30, 2019** | September 30, 2018 |
|---|---|---|
| **Statements of Comprehensive Income** | | |
| Revenue | **₱34,134** | ₱30,868 |
| Net income | **8,248** | 8,664 |
| Other comprehensive income | **–** | – |
| Total comprehensive income | **8,248** | 8,664 |

Financial information as of and for the period ended September 30, 2019 and December 31, 2018 on the Group's material interest in associate follows:

Maynilad Water Holdings Company, Inc. and Subsidiaries

| (in millions) | **September 30, 2019** | December 31, 2018 |
|---|---|---|
| **Statements of Financial Position** | | |
| Current assets | **₱12,854** | ₱17,421 |
| Noncurrent assets | **110,714** | 101,751 |
| Current liabilities | **19,046** | 17,913 |
| Noncurrent liabilities | **46,079** | 43,949 |
| Equity | **58,443** | 57,310 |

| (in millions) | **September 30, 2019** | September 30, 2018 |
|---|---|---|
| **Statements of Comprehensive Income** | | |
| Revenue | **₱18,035** | ₱16,553 |
| Net income | **5,704** | 5,183 |
| Other comprehensive income | **–** | – |
| Total comprehensive income | **5,704** | 5,183 |

Investment in Maynilad Water Holdings Company, Inc. (MWHCI) is accounted for using the equity method. For the period ended September 30, 2019 and 2018, the Company received dividends from MWHCI amounting to ₱1,260.59 million and ₱758.47 million, respectively. Equity in net earnings in the nine months ended amounted to ₱1,550.80 million in 2019 and ₱1,409.37 million in 2018.

Financial information as of and for the period ended September 30, 2019 and December 31, 2018 on the Group's immaterial interest in associate follows:

Subic Water

On January 22, 1997, PDI subscribed to 3.26 million shares at the par value of ₱10 per share for an aggregate value of ₱32.62 million in Subic Water, a joint venture company among Subic Bay

Metropolitan Authority (SBMA), a government-owned corporation, Olongapo City Water District, and Cascal Services Limited (a company organized under the laws of England).

The Group owns a total of 30% of Subic Water's outstanding capital stock after the sale of 10% share to the City of Olongapo on March 23, 2016.

The investment in Subic Water is accounted for as an investment in an associate using the equity method. The carrying amount of the investment in associate amounted to ₱326.25 million and ₱275.69 million as of September 30, 2019 and December 31, 2018, respectively. The unaudited share in net earnings amounted to ₱50.64 million and ₱43.51 million for the period ended September 30, 2019 and 2018, respectively.

RLC DMCI Property Ventures Inc.
In March 2019, the RLC DMCI Property Ventures Inc., a joint venture agreement with Robinsons Land Corporation, was incorporated to purchase, acquire and develop into a residential condominium project a portion of the parcels of land situated in Las Pinas City with an area of fourteen thousand four hundred ninety-two (14,492) square meters or less. Initial capitalization to the joint venture from DMCI PDI amounted to ₱500 million as of September 30, 2019.

## 7. Earnings Per Share

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

Basic/diluted earnings per share

| | **For the period (2019)** | For the period (2018) | **For 3rd Quarter (2019)** | For 3rd Quarter (2018) |
|---|---|---|---|---|
| Net income attributable to equity holders of Parent Company | **₱9,308,604** | ₱10,440,055 | **₱2,829,916** | ₱1,920,880 |
| Divided by weighted average number of common shares | **13,277,470** | 13,277,470 | **13,277,470** | 13,277,470 |
| Basic and diluted earnings per share | **₱0.70** | ₱0.79 | **₱0.21** | ₱0.14 |

## 8. Related Party Transactions

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

Transactions entered into by the Group with related parties are at arm's length and have terms similar to the transactions entered into with third parties. In the regular course of business, the Group's significant transactions with related parties include the following:

a. Comprehensive surety, corporate and letters of guarantee issued by the Group for various credit facilities granted to and for full performance of certain obligations by certain related parties.

b. Certain assets of the Group, associates and other related parties were placed under accommodation mortgages to secure the indebtedness of the Group, its associates and other related parties.

c. Engineering and construction works of the water business is contracted to the construction segment of the Group. These projects are bid out to various contractors and are awarded on arm's length transactions. Booked revenues from these contracts amounted to ₱398 million and ₱656 million for the period ended September 30, 2019 and 2018, respectively.

d. An affiliate had transactions with the Group for services rendered relating to the Group's coal operations. These include services for the confirmatory drilling for coal reserve and evaluation of identified potential areas, exploratory drilling of other minerals within the Island, dewatering well drilling along the mine and fresh water well drilling for industrial and domestic supply under an agreement.

   The affiliate also provides to the group marine vessels for use in the delivery of coal to its various customers. The coal freight billing is on a per metric ton basis plus demurrage charges when delay will be incurred in the loading and unloading of coal cargoes.

e. An affiliate of the Group transports visitors and employees from point to point in relation to the Group's ordinary course of business and vice versa and bills the related party for the utilization costs of the aircrafts.

## 9. 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 liquidity risk, market risk and credit risk. The Group's BOD reviews and approves policies for managing each of these risks and they are summarized below.

*a. Liquidity Risk*

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Group seeks to manage its liquidity profile to be able to service its maturing debts and to finance capital requirements. The Group maintains a level of cash and cash equivalents deemed sufficient to finance operations.

A significant part of the Group's financial assets that are held to meet the cash outflows include cash equivalents and accounts receivables. Although accounts receivables are contractually collectible on a short-term basis, the Group expects continuous cash inflows. In addition, although the Group's short-term deposits are collectible at a short notice, the deposit base is stable over the long term as deposit rollovers and new deposits can offset cash outflows.

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

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

b. *Market Risk*

Market risk is the risk of loss to future earnings, to fair values or to future cash flows that may result from changes in the price of a financial instrument. The value of a financial instrument may change as a result of changes in equity prices, market prices, interest rates and foreign currency exchange rates.

The sensitivity analyses have been prepared on the following bases:

- Equity price risk - movements in equity indices
- Market price risk - movements in one-year historical coal and nickel prices
- Interest rate risk - market interest rate on unsecured bank loans
- Foreign currency risk - yearly movement in the foreign exchange rates

The assumption used in calculating the sensitivity analyses of the relevant income statement item is the effect of the assumed changes in respective market risks. This is based on the financial assets and financial liabilities held at September 30, 2019 and December 31, 2018.

*Equity Price Risk*

The Group's equity price risk exposure at year-end relates to financial assets whose values will fluctuate as a result of changes in market prices, principally, equity securities classified as Equity investment designated at FVOCI.

Quoted securities are subject to price risk due to changes in market values of instruments arising either from factors specific to individual instruments or their issuers or factors affecting all instruments traded in the market. The Group's market risk policy requires it to manage such risks by setting and monitoring objectives and constraints on investments; diversification plan; and limits on investment in each industry or sector.

*Commodity Price Risk*

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

*Coal*
The price that the Group can charge for its coal is directly and indirectly related to the price of coal in the world coal market. In addition, as the Group is not subject to domestic competition in the Philippines, the pricing of all of its coal sales is linked to the price of imported coal. World thermal coal prices are affected by numerous factors outside the Group's control, including the demand from customers which is influenced by their overall performance and demand for electricity. Prices are also affected by changes in the world supply of coal and may be affected by the price of alternative fuel supplies, availability of shipping vessels as well as shipping costs.

As the coal price is reset on a periodic basis under coal supply agreements, this may increase its exposure to short-term coal price volatility.

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

To mitigate this risk, the Group continues to improve the quality of its coal and diversify its market from power industry, cement industry, other local industries and export market. This will allow flexibility in the distribution of coal to its target customers in such manner that minimum target average price of its coal sales across all its customers will still be achieved. Also, in order to mitigate any negative impact resulting from price changes, it is the Group's policy to set minimum contracted volume for customers with long term supply contracts for each given period (within the duration of the contract) and pricing is negotiated on a monthly basis to even out the impact of any fluctuation in coal prices, thus, protecting its target margin. The excess volumes are allocated to spot sales which may command different price than those contracted already since the latter shall follow pricing formula per contract.

Nevertheless, on certain cases temporary adjustments on coal prices with reference to customers following a certain pricing formula are requested in order to recover at least the cost of coal if the resulting price is abnormally low vis-à-vis cost of production (i.e., abnormal rise in cost of fuel, foreign exchange).

Below are the details of the Group's coal sales to the domestic market and to the export market (as a percentage of total coal sales volume):

| | **September 30, 2019** | December 31, 2018 |
|---|---|---|
| Domestic market | **68.14%** | 43.67% |
| Export market | **31.86%** | 56.33% |

The following table shows the effect on income before income tax should the change in the prices of coal occur based on the inventory of the Group as of September 30, 2019 and December 31, 2018 with all other variables held constant. The change in coal prices used in the simulation assumes fluctuation from the lowest and highest price based on one-year historical price movements in 2019 and 2018.

| Change in coal price (in thousands) | Effect on income before income tax<br>**September 30, 2019** | <br>December 31, 2018 |
|---|---|---|
| *Based on ending coal inventory* | | |
| Increase by 60% in 2019 and 21% in 2018 | **₱3,956,255** | ₱394,955 |
| Decrease by 60% in 2019 and 21% in 2018 | **(3,956,255)** | (394,955) |
| *Based on coal sales volume* | | |
| Increase by 60% in 2019 and 21% in 2018 | **17,955,332** | 1,835,205 |
| Decrease by 60% in 2019 and 21% in 2018 | **(17,955,332)** | (1,835,205) |

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

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

| Basis points (in thousands) | Effect on income before income tax<br>**September 30, 2019** | <br>December 31, 2018 |
|---|---|---|
| +100 | **(₱197,365)** | (₱7,287) |
| -100 | **197,365** | 7,287 |

The sensitivity analyses shown above are based on the assumption that the interest movements will be more likely be limited to hundred basis points upward or downward fluctuation in both 2019 and 2018. The forecasted movements in percentages of interest rates used were derived based on the Group's historical changes in the market interest rates on unsecured bank loans.

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

*Foreign Currency Risk*
Foreign currency risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Group does not have any foreign currency hedging arrangements.

Information on the Group's foreign currency-denominated monetary assets and liabilities and their Philippine peso equivalents follows (amounts in thousands):

| | September 30, 2019 | | | | |
|---|---|---|---|---|---|
| | U.S. Dollar | Japanese Yen | UK Pounds | Euro | Equivalent in PHP |
| **Financial assets** | | | | | |
| Cash and cash equivalents | **$35,032** | **¥713** | **£108** | **€291** | **₱1,840,264** |
| Receivables | **21,795** | **–** | **–** | **–** | **1,129,654** |
| | **56,827** | **713** | **108** | **291** | **2,969,918** |
| **Financial liabilities** | | | | | |
| Accounts payable and accrued expenses | **(7,821)** | **–** | **–** | **–** | **(405,382)** |
| Long-term loans | **(4,514)** | **–** | **–** | **–** | **(233,953)** |
| | **(12,335)** | **–** | **–** | **–** | **(639,335)** |
| | **$44,492** | **¥713** | **£108** | **€291** | **₱2,330,583** |

The following tables 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) as of September 30, 2019 (amounts in thousands):

| | Exchange rate movement | Effect on profit before tax |
|---|---|---|
| In Peso per US Dollar | | |
| Increase | **₱2** | **₱88,983** |
| Decrease | **(2)** | **(88,983)** |
| In Peso per Japanese Yen | | |
| Increase | **2** | **1,425** |
| Decrease | **(2)** | **(1,425)** |
| In Peso per UK Pound | | |
| Increase | **2** | **217** |
| Decrease | **(2)** | **(217)** |
| In Peso per Euro | | |
| Increase | **2** | **582** |
| Decrease | **(2)** | **(582)** |

There is no impact on the Group's equity other than those already affecting profit or loss. The movement in sensitivity analysis is derived from current observations on movement in dollar average exchange rates.

c. *Credit Risk*

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Group's maximum exposure to credit risk for the components of the statement of financial position at September 30, 2019 and December 31, 2018 is the carrying amounts except for real estate receivables. The Group's exposure to credit risk arises from default of the counterparties which include certain financial institutions, real estate buyers, subcontractors, suppliers and various electric companies. Credit risk management involves dealing only with recognized, creditworthy third parties. It is the Group's policy that all counterparties who wish to trade on credit terms are subject to credit verification procedures. The Treasury Department's policy sets a credit limit for each counterparty. In addition, receivable balances are monitored on an ongoing basis. The Group's financial assets are not subject to collateral and other credit enhancement except for real estate receivables. As of September 30, 2019 and December 31, 2018, the Group's exposure to bad debts is not significant.

*Real estate contracts*
Customer credit risk is managed by each business unit subject to the Group's established policy, procedures and control relating to customer credit risk management. Credit quality of a customer is assessed based on an extensive credit rating scorecard and individual credit limits are defined in accordance with this assessment.  Outstanding customer receivables and contract assets are regularly monitored.

An impairment analysis starting 2018 is performed at each reporting date using a provision matrix to measure expected credit losses (using incurred loss model prior to adoption of PFRS 9).  The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by geographical region, product type, customer type and rating, and coverage by letters of credit or other forms of credit insurance).  The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets.  Title of the real estate property is only transferred to the customer if the consideration had been fully paid.  In case of default, after enforcement activities, the Group has the right to cancel the sale and enter into another CTS to another customer after certain proceedings (e.g. grace period, referral to legal, cancellation process, reimbursement of previous payments) had been completed.  Given this, based on the experience of the Group, the maximum exposure to credit risk at the reporting date is nil considering that fair value less cost to repossess of the real estate projects is higher than the exposure at default (i.e., recovery rate is more than 100%).  The Group evaluates the concentration of risk with respect to trade receivables and contract assets as low, as its customers are located in several jurisdictions and industries and operate in largely independent markets.

*Electricity sales*
The Group earns substantially all of its revenue from bilateral contracts, WESM and from various electric companies.  WESM and the various electric companies are committed to pay for the energy generated by the power plant facilities.

Under the current regulatory regime, the generation rate charged by the Group to WESM is determined in accordance with the WESM Price Determination Methodology (PDM) approved by the ERC and are complete pass-through charges to WESM.  PDM is intended to provide the specific computational formula that will enable the market participants to verify the correctness of the charges being imposed.  Likewise, the generation rate charged by the Group to various electric companies is not subject to regulations and are complete pass-through charges to various electric companies.

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

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

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

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information.

Generally, trade receivables are writtenoff when deemed unrecoverable and are not subject to enforcement activity. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets.

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.

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

*Equity investment designated at FVOCI*
The Group's Equity investment designated at FVOCI are classified as Grade B because these assets are susceptible to untoward consequences due to the current financial positions of counterparties.

*Receivables*
Included under Grade A are accounts considered to be of high value and are covered with coal supply, power supply, and construction contracts. The counterparties have a very remote likelihood of default and have consistently exhibited good paying habits. Grade B accounts are active accounts with minimal to regular instances of payment default, due to collection issues or due to government actions or regulations. These accounts are typically not impaired as the counterparties generally respond to credit actions and update their payments accordingly. The Group determines financial assets as impaired when probability of recoverability is remote and in consideration of lapse in period which the asset is expected to be recovered.

For real estate receivables, and other receivables, Grade A are classified as financial assets with high credit worthiness and probability of default is minimal. While receivables under Grade B and C have favorable and acceptable risk attributes, respectively, with average credit worthiness.

Receivable from related parties are considered Grade A due to the Group's positive collection experience.

Starting 2018, an impairment analysis (using incurred loss model prior to adoption of PFRS 9) is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of customer segments with similar loss patterns (i.e., by geographical region, payment scheme, type of customers, etc.). The calculation reflects the probability-weighted outcome and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

*Security and Refundable Deposits*
Security and refundable deposits are classified as Grade A since these are to be refunded by the lessor and utility companies at the end of lease term and holding period, respectively, as stipulated in the agreements.

As of September 30, 2019, the aging analysis of the Group's receivables presented per class follows:

| | September 30, 2019 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Neither past nor impaired | Past due but not impaired <30 days | 30-60 days | 61-90 days | 91-120 days | >120 days | Impaired assets | Total |
| Receivables | | | | | | | | |
| Trade | | | | | | | | |
| General construction | **₱4,328,143** | **₱309,145** | **₱81,278** | **₱293,018** | **₱–** | **₱–** | **₱29,943** | **₱5,041,527** |
| Electricity sales | **1,938,646** | **191,261** | **114,114** | **100,734** | **71,819** | **933,063** | **1,544,130** | **4,893,767** |
| Real estate | **–** | **1,520,942** | **90,606** | **41,381** | **59,858** | **243,398** | **–** | **1,956,185** |
| Coal mining | **1,563,786** | **41,722** | **–** | **–** | **–** | **–** | **236,159** | **1,841,667** |
| Nickel mining | **42,842** | **–** | **–** | **–** | **–** | **–** | **67,009** | **109,851** |
| Merchandising and others | **45,037** | **19,477** | **10,845** | **7,904** | **4,452** | **11,431** | **2,921** | **102,067** |
| Receivables from related parties | **800,233** | **–** | **–** | **–** | **–** | **–** | **–** | **800,233** |
| Other receivables | **1,579,186** | **–** | **–** | **–** | **36,065** | **–** | **7,867** | **1,623,118** |
| | **₱10,297,873** | **₱2,082,547** | **₱296,843** | **₱443,037** | **₱172,194** | **₱1,187,892** | **₱1,888,029** | **₱16,368,415** |

*Financial assets*
The fair values of cash and cash equivalents and receivables (except installment contract receivables) approximate their carrying amounts as of reporting dates due to the short-term nature of the transactions.

The fair values of installment contracts receivables are based on the discounted value of future cash flows using the applicable rates for similar types of loans and receivables.

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.

In the absence of a reliable basis of determining fair values due to the unpredictable nature of future cash flows and the lack of suitable methods in arriving at a reliable fair value, security deposits other than those pertaining to operating leases and unquoted equity investment designated at FVOCI are carried at cost less impairment allowance, if any.

*Financial liabilities*
The fair values of accounts and other payables and accrued expenses and payables to related parties approximate their carrying amounts as of reporting dates due to the short-term nature of the transactions.

Estimated fair value of long-term fixed rate loans and liabilities for purchased land are based on the discounted value of future cash flows using the applicable rates for similar types of loans with maturities consistent with those remaining for the liability being valued. For floating rate loans, the carrying value approximates the fair value because of recent and regular repricing (quarterly) based on market conditions.

Fair values of receivables, long-term debt, liabilities for purchased land and investment properties are based on level 3 inputs while that of quoted Equity investment designated at FVOCI and financial assets at FVTPL are from level 1 inputs.

There has been no reclassification from Level 1 to Level 2 or 3 category as of September 30, 2019 and December 31, 2018.

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

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

Level 2: valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable

Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

Fair values of receivables, long-term debt, liabilities for purchased land and investment properties are based on level 3 inputs while that of quoted AFS financial assets and financial assets at FVPL are from level 1 inputs.